ANNUAL REPORT 2017

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.

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

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Summary Financial Information

Summary Consolidated Income Statement	Year ended 31 December 2017 €m	Year ended 31 December 2016 €m
Total operating income	**443**	461
Total operating expenses (before exceptional items and impairment charges)	**(329)**	(341)
Operating profit before impairment (charge)/write-back and exceptional items	**114**	120
Impairment (charge)/write-back on loans and advances to customers	**(48)**	65
(Charge) on collateral in possession	**(1)**	3
Operating profit before exceptional items	**65**	188
Exceptional items (net)	**(13)**	(414)
Profit/(loss) before taxation	**52**	(226)
Taxation	**(12)**	(40)
Profit/(loss) for the year	**40**	(266)
Performance metrics		
Net interest margin (1)	**1.80%**	1.48%
Adjusted cost income ratio (2)	**64%**	65%
Return on equity (3)	**2%**	(11%)
Impairment (charge)/write-back by portfolio		
Residential mortgages	**(49)**	52
Commercial mortgages	**2**	4
Consumer finance	**(1)**	9
Impairment (charge)/write-back on loans and advances to customers	**(48)**	65

Key Consolidated Balance Sheet and Funding Metrics	31 December 2017 €m	31 December 2016 €m
Total shareholders' funds	**2,111**	2,100
Total assets	**22,773**	23,601
Total net loans and advances to customers	**18,370**	18,886
Total customer accounts	**16,995**	16,984
Loan to deposit ratio (LDR) (4)	**108%**	111%
Liquidity coverage ratio (LCR) (5)	**165%**	166%
Regulatory capital		
Available regulatory capital (transitional basis)	**1,954**	2,003
Risk weighted assets (6)	**10,593**	10,593
Common equity tier 1 ratio (transitional basis)	**17.1%**	17.2%
Total capital ratio (transitional basis) (7)	**18.4%**	18.9%

(1) Defined as net interest income (excluding ELC fees) 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 excluding Visa Europe share sale gain.
(3) Defined as profit/(loss) for the period after tax 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. The Group's expectation is that the ECB's Targeted Review of Internal Models (TRIM) is likely to result in an increase to the Group's RWAs.
(7) The total capital ratio is the ratio of a bank's total capital (Tier 1 and Tier 2 capital) to its risk-weighted assets.

Permanent TSB at a Glance

Permanent TSB is a full service retail and SME bank which serves personal and small and medium-sized enterprise customers in the Republic of Ireland via a multi-channel distribution network.

Customers

Personal

SME

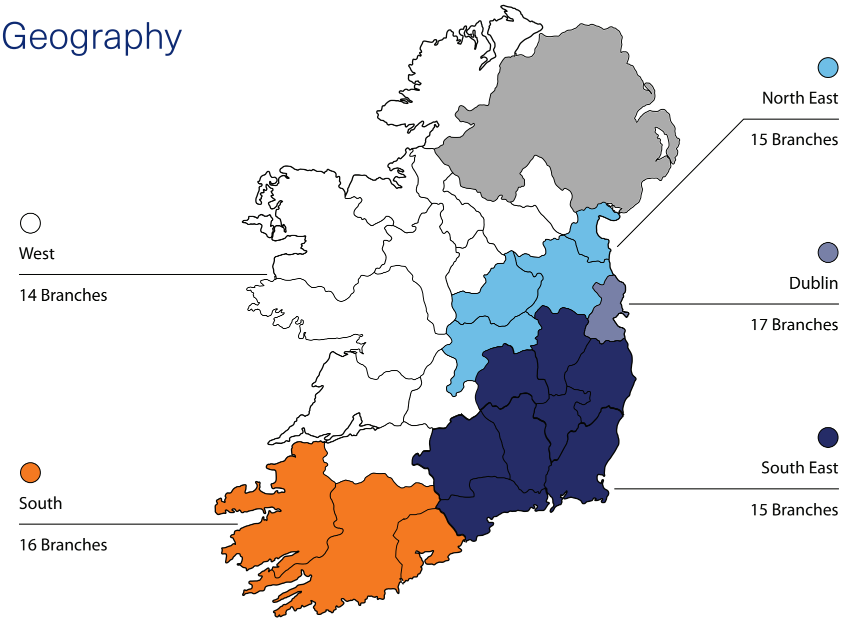
Profile

c. 1.1 million customers served

c. 2,400 employees

77 Branches

Geography



Financial Highlights

Net Interest Margin*

2017	1.80%
2016	1.48%

Gross New Lending

2017	€1,029m
2016	€591m

Adjusted Cost Income Ratio**

2017	64%
2016	65%

NPLs***

2017	€5.3bn
2016	€5.9bn

Profit/(Loss) For The Year

2017	€40m
2016	(€266m)

Customer Accounts

2017	€17.0bn
2016	€17.0bn

Return on assets****

2017	0.2%
2016	(1.1%)

CET1 Ratio Transitional (fully loaded)

2017	15.0%
2016	14.9%

* 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 greater than 90 days in arrears, loans deemed unlikely to pay and loans captured as NPLs under mandatory regulatory guidance.
****Return on assets are defined as profit/loss for the year divided by the total assets

Chairman's Statement

Introduction

In this Annual Report, my first as Chairman, I am pleased to report a very positive outcome for 2017. After a period of 10 years Permanent TSB ('the Bank') has returned to profitability, recording a profit for the year of €40 million. This represents an important milestone for the Bank, and all its stakeholders, as it seeks to generate capital and build a sustainable business for the future.

The performance of the business has been strongly supported by a buoyant Irish economy with GDP growth of over 4% 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. A continuation of these trends will underpin the recovery in the Irish residential property lending market, the Bank's core business.

Restructured and Focused Business

Permanent TSB today is a restructured and reorganised business focused exclusively on the personal and SME banking markets in Ireland. I believe that focus is a tremendous competitive strength and, as the Bank rebuilds its capabilities, will enable it to grow and win profitable market share without compromising its credit and conduct standards. We made good progress in 2017 by opening over 42,000 current accounts and increasing new lending by over 70% driven by a strong increase in mortgage market share.

I am also pleased to report that significant further progress was made by the Bank in 2017 in the resolution of its remaining legacy issues, including the Tracker issue. By end 2017, all customers who, sadly, were impacted by the Bank's errors were offered redress and compensation, which the majority have accepted. Clearly the failures which led to this issue arising should not have occurred and, again, I apologise on behalf of the Bank to those of our customers impacted.

Sustainability

While tremendous progress has been made in bringing the Bank back to stability and profitability, the Board is very conscious of the fact that there is further road to travel and issues to be dealt with before we can be satisfied that we have created a sustainable business meeting the expectations of our shareholders and other stakeholders.

Our key challenge is to grow the business profitably and to a sufficient scale such that it can sustain the total costs – including the significant cost of regulation and the minimum return expected by shareholders – of operating in the Irish banking market. Achieving the scale required though organic growth is demanding but possible and stretching targets have been set for Management to reach that goal.

The other imperative for the Bank, is to continue to de-risk its balance sheet. The significant remaining issue is the level of non-performing loans (NPLs) which stood at 26% of the loan book at the end of 2017. This is unacceptably high for the Board and Management, having regard to the business' risk appetite and capital management requirements, and is an impediment on profitable growth. The pace of remediation must be accelerated, and the Board has targeted a reduction of NPLs to <10% of the loan book by 2021 or sooner. This can be achieved given the recovery in employment and house prices and the low interest rate environment. However, it will require a range of strategies to address the different dimensions of the problem and, inevitably, difficult decisions will have to be made. In taking the necessary actions and decisions, we are committed to being open and straightforward with our customers in what we do and how we do it.

The Bank of Choice

With the greater part of the business now forward looking, focused on growing profitably and building the business to scale, it was timely in 2017 for the organisation to review and refresh its vision and, critically, to ensure that our values and behaviours were consistent with that vision. An extensive engagement programme was undertaken involving the Board, Management and Staff throughout 2017 which was well received, and from which emerged a clear articulation of the type of banking relationships we want to offer our customers and of the high standards underpinning those relationships. We want to be 'the Bank of Choice'.

Of course, this vision and the associated values are not new to the Bank – with its deep roots in community banking – but a refresh was a clear statement of intent for how we want to rebuild the trust and reputation of the Bank in the coming years.

Arising from the review, steps have been, and are being, taken to ensure that the organisation and behaviours of Management and Staff are aligned with the vision and values. Practices have been changed, organisational barriers removed, approach to risk management strengthened and performance management aligned to encourage and support a genuine relationship banking approach. The legacy of the financial crisis means that there is a challenge for the Bank to re-establish trust with many of its customers. However, I observe, and am proud of, the clear organisational intent to restore trust and put it back at the heart of a successful banking business.

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.

Eamonn Crowley, the Chief Financial Officer, was appointed to the Board as an Executive Director on 10 May 2017 at the Bank's 2017 Annual General Meeting.

As announced last year, Ciarán Long retired from his position as Company Secretary and Conor Ryan was appointed as his replacement.

Emer Daly, having completed her second three-year term of office, intends to retire from the Board in the coming months. Emer, who joined the Board in September 2011, is the Chair of the Board Audit Committee and has indicated that she will remain in that role for an interim period until a new Chair has been appointed. I would like to thank Emer for her outstanding contribution over the years and wish her well in her future endeavours. The Board has commenced the recruitment process for a replacement.

Management and Staff

On behalf of the Board, I would like to thank Jeremy Masding, his leadership team and everyone in the Bank for their commitment and dedication to helping to realise Permanent TSB's vision of being the Bank of Choice.

I also would like to extend my thanks to my fellow Board members for their valuable counsel and support throughout the year. I also acknowledge the assistance that the Department of Finance, the Central Bank of Ireland and the European Central Bank continued to give the Bank throughout 2017.

I sense that everyone in the Bank is fully supportive of the refreshed vision and this is critical to making it a reality.

Outlook

The Irish economic outlook continues to provide a positive backdrop for our business. We have made significant progress in 2017 but we cannot be complacent. There is more to do and we will have further challenges as we continue to transform the Bank. We are committed to our strategy and believe that it will continue to provide the competitive advantage required for future success.

Robert J. Elliott

Robert Elliott
Chairman

Introduction

2017 has, once again, been a year of good progress for the Bank. A lot has been achieved, our capabilities have been enhanced and we have a clear and shared vision of the type of Bank we want Permanent TSB to be. However, there is further change required and significant challenges to be overcome.

The financial result for the year was a profit before tax of €52million (2016: loss €226 million). The return to profitability is positive for the Bank's capital position with the Transitional Common Equity Tier 1 Ratio at 17.1% at end 2017, well above the minimum regulatory requirement of 9.825%. The funding position is also strong with the loan to deposit ratio at 108%.

New lending for 2017 was over €1 billion, an increase of 74% on the prior year. The excellent performance in the residential mortgage market reflected both strong product offerings and the benefit of initiatives taken to enhance capabilities and, broaden and deepen the distribution base. We need to sustain and build on this performance both to grow the balance sheet profitably and to obtain the benefits of greater scale. I am confident we can do this.

The review by the Bank of its Tracker Mortgages was completed in 2017. The Bank has offered redress and compensation to all of customers who had been identified as impacted by the Tracker Mortgage issue with the majority having accepted.

Mortgage arrears cases continue to decline with arrears down approximately 50% from their peak in 2013 assisted by the range of forbearance measures applied by the Bank. However, NPLs, which due to regulatory definitions include many accounts with long-term treatments, comprise 26% of the loan book. The high NPL ratio, in particular those accounts defined as 'Untreated', represent a significant on-going cost and risk to the business. The resolution of this NPL issue is a priority for Management and a number of strategies are being deployed to accelerate remediation and resolution. We launched a sale process of €3.7 billion NPLs in February 2018, project named Glas. Project Glas consists of €2.8 billion of home loans and €0.9 billion of buy-to-let loans. Of the €2.8 billion in home loans, just under €2 billion is accounted for by loans which are typically owned by customers who have not engaged with the Bank, whose mortgages are unsustainable or who have been unable to meet the terms of restructure. Of this portion of Project Glas, some account holders have not engaged with the Bank for over 7 years and, on average, the loans are over 3.5 years in arrears. Many have made no payments at all for many years. Project Glas also includes some loans which are currently subject to agreed forbearance measures, but which remain categorised as NPLs and which, therefore, we are required to address.

Financial Performance

Operating Profit

The Bank recorded a profit for the year of €40 million in 2017 which compares to a loss of €266 million in 2016. This movement reflects the absence of exceptional losses on the sale of the Bank's UK and IOM loan portfolios which were disposed of in 2016.

Net Interest Margin

The Net Interest Margin (NIM) for 2017 improved by 32 basis points to 1.80%. This increase in margin is reflective of the on-going reduction in the cost of retail and corporate deposits to align with the market in conjunction with an increase in asset margins arising from deleveraging the lower yielding UK and IOM loan portfolios in 2016.

Net Other Income

Net other income decreased by €33 million to €38 million in 2017. This decrease is due to the absence of a €29 million one-off gain on the sale of the share held by the Bank in Visa Europe Ltd, which occurred during 2016.

Total Operating Expenses

Excluding Exceptional Items, Bank Levy and Regulatory Charges, Total Operating Expenses for 2017 increased by €5 million when compared with 2016. This increase is attributable to increased staff costs, driven by a pay and modernisation programme.

The adjusted Cost Income Ratio (excluding Exceptional Items, Bank Levy and Regulatory Charges and Visa Europe share sale gain) decreased by 1% to 64%.

Bank Levy and Other Regulatory Charges

Bank Levy and Other Regulatory Charges decreased by €17 million (from €61 million in 2016 to €44 million in 2017). This decrease is primarily driven by a reduction in Deposit Guarantee Scheme fees and the Bank Levy paid by the Bank in 2017.

Impairment Charge/Write-Back

The Total Impairment Charge for 2017 was €49 million for 2017 compared with a Write-Back of €68 million in 2016, primarily reflecting the model changes associated with non-performing loans.

IFRS 9

One of the key developments in accounting policy was the adoption of IFRS 9 'Financial Instruments' by the Group on 1 January 2018. The estimated impact of initial adoption of IFRS 9 is a reduction of shareholders' equity of c. €100 million after tax. The expected fully-loaded CET1 capital impact, excluding any transitional relief will be a reduction of 107 basis points, after taking account of any offset against regulatory expected losses and tax, mainly as a result of additional impairment provisions. The Bank has availed of the transitional provisions in the regulatory capital regulation which allows the estimated impact of €100 million to be phased in over five years. Therefore, the estimated day 1 impact to regulatory capital is €7 million or 6 basis points. These estimates are based on assumptions, judgements and estimation techniques that remain subject to change until the Group finalises its financial statements for the year ending 31 December 2018. The Group will continue to refine and validate the impairment models and related processes and controls during 2018. We discuss the impact of transitioning to IFRS 9 further in Note 1 'Corporate information, basis of preparation and significant accounting policies" on pages 120 to 125.

Exceptional Items

Exceptional items for 2017 amounted to €13 million, consisting of a €12 million charge relating to the restructure of the Bank's distribution model and other operational functions, in addition to other net costs of €1 million in respect of previously deleveraged portfolios.

Capital

The Bank's capital ratios were at 15.0% Fully Loaded CET1 and 17.1% Transitional CET1 (against which the Bank's regulatory minimum of 9.825% is measured). The implementation of IFRS 9 resulted in a day 1 transitional reduction of €100 million to the Bank's accounting equity (107 basis points).

The Bank's capital base remains stable both in terms of quantum and mix. It is pleasing to be able to enhance the capital base through 2017's retained earnings.

However, there are challenges on the horizon primarily in the form of the impact of the Targeted Review of Internal Models (TRIM) and any impact from the execution of the NPL strategy. All will require careful management so as to optimise the capital position of the Bank.

Management remains confident that, in the present Irish and global economic landscape, it has the capability and optionality to manage these challenges to a satisfactory conclusion.

Financial Resources

Current Accounts

The Explore Current Account, launched in 2016 and well received, has continued to perform strongly through 2017. New current account openings were 14% higher and customer balances increased by 10% compared to 2016. We are very proud to have introduced the Explore Account to the market, a best in class bank account and the only one of its kind. The account has all the main features of a standard current account with the added ability to receive cash back and rewards on routine transactions. To date, we have paid approximately €1 million in cash back to our customers.

Retail Deposits

The Irish retail deposit market continued to grow steadily in 2017 exceeding €100 billion for the first time.

The Bank saw its retail deposit balances (excluding current account balances) grow by 4% to €10.6 billion, in line with market growth. This was achieved through successful retention of maturing fixed rate deposits supported by competitive pricing and strong service levels.

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

We will continue to offer customers competitive and sustainable rates. This approach continues to deliver fair margins and strong retention.

Corporate and Institutional Deposits
Corporate and institutional deposits balances reduced by 12% year-on-year to €2.7 billion. This reflects our intention to manage these resources carefully in line with the reduction of the Bank's funding requirements and its requirement 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 picked up strongly in 2017, with gross new lending of €7.3 billion, 29% higher than in 2016, nearing net loan growth after more than a decade of market contraction. First time buyers continue to dominate the market accounting for approximately 50% of total new lending. Re-mortgage activity, comprising 11% of new lending, recorded a year-on-year increase of over 60%. 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 2017 amounted to 19,000 units, an increase of 29% on 2016, which is 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 €921 million, a 77% year-on-year increase. When compared against a market increase of 29%, the resultant market share of 12.6% (up from 9.1% in 2016) represented an excellent performance. The outturn was driven by our focus on developing and improving our mortgage proposition, by the strength of our intermediary relationships and by the changes made during 2017 to strengthen the distribution capability of our branch network.

We offer mortgage products directly through our branches, online, by phone and through intermediaries. As a responsible lender, we apply strict affordability criteria combined with prudent and consistent underwriting – across all distribution channels – to deliver growth and returns without compromising the quality of our book.

The residential mortgage portfolio is comprised of 75% home loans and 25% buy-to-let mortgages. The average loan-to-value (LTV) of the performing mortgage book at end 2017 was 74%, down from 80% in 2016 reflecting the significant house price growth experienced in 2017. The average LTV of new home loans lending was 71% while the LTV of new buy-to-let lending was 61% reflecting appropriate underwriting standards.

The arrears level of loans originated since 2012 remains low due to a strong focus on maintaining asset quality. Our mortgage expertise and dynamic commercial management give us confidence that we can continue to optimise our lending mix, within our risk appetite, and drive strong risk adjusted returns in what are very competitive market conditions.

Personal Term Lending
The bank recorded gross new lending of €90 million in 2017. This is an increase of 48% compared to the previous year. The majority of our Personal Loan applications now originate through digital and voice channels. In particular, our online product – where a Permanent TSB customer can apply, be approved and drawdown a personal loan in 15 minutes – accounted for 27% of the total lending in 2017.

The market for personal consumer lending is growing at approximately 4% on the back of growing consumer spending, retail sales and employment levels. This trend is expected to continue in 2018 which provides a favourable backdrop for our aspirations to grow our personal term lending levels.

SME Lending
Demand for SME lending in Ireland continued to be strong in 2017 with new lending increasing by 14% year on year (for the first 9 months), and the majority of sectors participating in this growth. Notwithstanding the potential negative impact from Brexit and Sterling depreciation, we believe the sector will continue to grow at a steady pace.

The Bank's SME new lending for 2017 almost doubled over the prior year, albeit from a very low base. We currently serve over 20,000 SME customers and we continue to invest in people and processes, to build our capabilities and expertise, and to be better equipped to capture the opportunity in the market. I believe we are well placed to provide small business customers with easy access to simple and efficient banking services at a reasonable cost.

Bringing Our Vision To Life – The Bank Of Choice

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. The Board and Management have a vital role to play in shaping and embedding a healthy culture, and this was a major focus in 2017 when a broad based engagement of Management and Staff was undertaken to refresh our vision and reaffirm the values important to the Bank.

Permanent TSB has a clear vision: to be 'The Bank of Choice'. This simple statement unites the Board, Management Team and dedicated employees as we focus on maximising sustainable shareholder value through delivering positive outcomes for all other stakeholders.

Trust is at the front and centre of our vision. For Permanent TSB to be truly 'The Bank Of Choice', we need deep customer relationships for both day to day transactional activity and, more importantly, at times of key financial decisions.

There are signs that we are making progress. The Bank is successfully attracting significant numbers of new current account and residential mortgage customers – key accounts around which to build long term customer relationships. The number of customers actively banking with us has been consistently increasing over the last number of years. Permanent TSB's Net Promoter Score, a measure that shows how likely the Bank would be recommended to their friends and families by customers, has increased in 2017 and puts the Bank in second place in the market.

For our staff, our goal is to nurture a high performing, diverse and committed workforce. This is the foundation for delivering the trusted and valued relationship banking experience which we want for our customers. The Bank's latest colleague survey results showed that we have maintained our excellent staff engagement with a top quartile score which compares strongly against industry standards.

Preparing For A Digital Future

The impact of digital technology on banking around the world continues to accelerate. Our customer needs and expectations are changing fundamentally as they experience the power of digital technology in all aspects of their day-to-day life. For example, an increasing number of customers now use an app on their mobile phone as their main payment device and many of the biggest payment applications are operated by companies that aren't even banks. Advances in technology provide companies with the opportunity to meet their customer needs in new and different ways. These advances also provide the tools to improve efficiency and reduce overall operational costs in comparison with companies tied to legacy technology and process.

If we are to survive and thrive in this new era of banking, we have to adapt, and quickly, to changes in the economy, in society, and in technology. So, we are very much embracing change in adapting both our customer experience and our underlying technology to make sure we stay nimble and competitive. As we transform our current digital offering, we are making advancements towards creating a truly customer-connected bank.

Our Digital vision extends across all of our channels, including the physical branch. We are committed to our branches and we will ensure they are focused on the critical financial events in our customers' lives. Indeed, digital transformation will aid the move towards an efficient and value creating branch network that complements our overall customer proposition. The launch of our new distribution model 'Network 2020' in May 2017 was about reinventing the role of the branch, creating a hub with a wider customer reach outside the immediate branch location and with greater business development and distribution capacity. We continue to invest in our branches with more than 50% of the network refurbished to date.

We are committed to providing a high quality, consistent banking experience to our customers however they choose to engage with Permanent TSB.

Management Team and Staff

To support the continued development of the business, there have been a number of changes in the Executive Team during 2017.

Eamonn Crowley joined the Bank as the Chief Financial Officer in March last year. Eamonn has over 25 years of deep experience in banking and has been involved in a number of Initial Public Offerings (IPOs) and Merger and Acquisition (M&A) transactions.

Tom Hayes joined the Bank as the Chief Technology Officer in October. Tom is a career banker and brings a wealth of knowledge and experience in Customer Engagement, Digital and IT Infrastructure.

Ger Mitchell, whose career has been in Permanent TSB, assumed the position of HR Director following the retirement of Tony Hession.

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

Equally, I wish to thank all our staff for their enthusiasm, commitment and hard work which has been critical in getting us to where we are today. I have no doubt that together we will make a reality of the Bank's vision and values.

Outlook

As a retail and SME bank focused on serving domestic customers in Ireland, our performance is intrinsically linked to the Irish economy, the outlook of which continues to remain positive. This augurs well for our future. Our strategy of sustainable, profitable growth by becoming the 'Bank Of Choice' is simple and, at the same time, clear and aspirational. To deliver on the vision, we will continue to focus on maximising shareholder returns sustainably by providing outstanding service to our customers and growing our balance sheet within our risk appetite.

Jeremy Md

Jeremy Masding
Chief Executive

Market And Regulatory Context

Irish Economic Outlook

Ireland has moved into a 'post-recovery'[1] phase with strong, sustainable growth underpinned by business investment and consumer spending. GDP growth of 3.9% in 2018[2] is expected to follow 4.9% growth in 2017. Per-capita income in working households now exceeds its pre-crisis peak.

House prices returned to 2005 levels as house price inflation increased to over 11% in 2017 compared to 9% in 2016[3], driven by a shortage of supply against the backdrop of a strengthening economy. The Central Bank's macro-prudential rules have limited scope to curtail house price increases since approximately 50% of purchases are made with cash.

Despite the price increases, houses are not overvalued according to the Economic and Social Research Institute. Indeed, the agency expects prices to continue to rise for the next few years as less than half the estimated 30,000 required houses are currently being built.

Total employment has increased to over 2.2 million, a net gain of 50,000 jobs in the year. Employment has now returned to pre-crisis levels and the unemployment rate has fallen to 6.2%, with 18% fewer people unemployed than a year earlier[3]. Despite near-full employment, wage inflation remains muted to date; wages are expected to rise by 3% in 2018[2].

Consumer price inflation was a modest 0.3% in 2017. This was well below the inflation rate in the rest of the Eurozone, primarily because of the higher proportion of UK imports and the decline in Sterling post-Brexit. With wages growing faster than prices, consumers feel confident to start spending once more.

€7.3bn of mortgages were drawn down in the year to end Q3 2017[4], an increase of 29% over the corresponding period a year earlier. However, the Central Bank's loan-to-income limits are expected to restrict lending in 2018[5]. The total amount of mortgage credit outstanding continues to decline despite the growth in new mortgage lending, driven largely by the repayment of tracker mortgages. The decline in mortgage credit was more than offset by growth in personal debt however[2]. Meanwhile, Irish household deposits continue to grow strongly, leaving the Irish banking sector with a loan-to-deposit ratio of less than 100%.

Brexit continues to cast a cloud over Ireland's economic prospects. While the risk of a 'hard' Brexit has receded for now, there is still much uncertainty about the likely final outcome. The dependence of Ireland's SME sector, and particularly the agri-food sector, on the UK market remains a worry.

Regulatory Developments

All banks must report their 2018 results under IFRS 9 for the first time. The new accounting standard replaces the incurred loss approach of its predecessor, IAS 39, with an expected loss approach. As it will result in earlier recognition of impairment losses on loans, it will lead to a reduction in reported capital. It is also likely to result in more income volatility in the benign part of the credit cycle but, it is hoped, a reduction in the probability of bank distress. Banks have expended significant resources in preparing for the new standard.

The General Data Protection Regulation (GDPR) will replace the EU Data Protection Directive from the 25th May 2018. As major processors of data, banks have faced a major challenge in ensuring they meet the new requirements for data security and privacy. The Payment Services Directive 2 (PSD2) became law on 13th January 2018. It requires banks to allow customers to choose to share their banking data with regulated Third Party Providers. This will enable Fintech firms to compete directly with banks in the provision of payment services.

Once again in 2017, the ECB emphasised the importance of bank business models in their supervisory role. They note the weak profitability of banks in the Euro area and emphasise the need to reduce costs. They exhort banks to improve their risk management and embrace the potential which Fintech offers in order to overcome the profitability challenge[6].

1 Irish Business and Employers Confederation (IBEC)
2 Central Bank of Ireland (CBI)
3 Central Statistics Office Ireland (CSO)
4 Banking & Payments Federation Ireland (BPFI)
5 Davy
6 ECB's head of banking supervision, Danièle Nouy

Retail Banking Trends

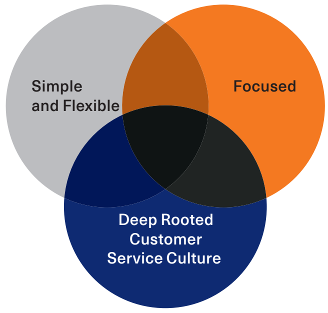
A number of trends are currently evident in Retail Banking, driven largely by technological shifts and evolving customer expectations. First, customers' increased usage of digital and online channels is changing the way that banks interact with their customers on a day-to-day basis. The growing importance of digital platforms for advertising and servicing has also facilitated the emergence of many non-traditional market participants; however, despite the dramatic and rapid change within the industry, branches still remain an important channel.

Secondly, customers are increasingly availing of multiple financial services providers – both traditional banks and non-traditional financial services providers – for their banking needs. In doing so, consumers are increasingly comfortable sharing data and are seeking additional benefit in return, primarily in the form of rewards. On the other side of the relationship, financial services providers are using customer data to improve their products and services, as well as enhance overall customer experience. As the volume of customer data increases, mainly driven by the continued growth in digital and non-cash transactions, data handling capabilities continue to improve. FinTech start-ups and established technology firms have demonstrated a level of sophistication in this area, which traditional financial services companies are seeking to replicate or improve, to the benefit of consumers and the industry as a whole.

In summary, the transformation of financial services, across the whole value chain, continues at pace. It is still unclear, and too early, as to identify the 'winners and losers'; however what is clear is that the ability to embrace technology, mine and use data, and be in a position to deliver services at the time and location of a customer's choice, are a minimum requirement to compete effectively.

A number of trends are currently evident in Retail Banking, driven largely by technological shifts and evolving customer expectations.

Business Model & Strategy



Following the State's recapitalisation of the Bank in 2011, Permanent TSB began a new and critical phase in its history where the strategic imperative for the Board and Management was to stabilise and secure the business and then go on to rebuild its capabilities for profitable growth.

The past six years have involved the implementation of a new funding model, deleveraging and disposal of non-core business, investment in risk management capabilities and major changes to the organisational structure.

In 2017, the Bank continued to be profitable, has significantly improved its mortgage market share and continued to acquire new customers. Also in 2017, the Bank undertook to review and refresh its Vision and Values. Following an extensive broad based engagement programme becoming 'the Bank Of Choice' was chosen as the vision for Permanent TSB.

The Bank's Business Model today is a full-service Retail and SME Bank which:

- Operates exclusively in the Republic of Ireland with 77 branches;
- Serves over 1 million personal and business customers;
- Operates with a low risk appetite;
- Offers mainstream banking products such as transaction banking, saving and deposit-taking services and lending;
- Offers ancillary products such as personal investment, pension and insurance products and services; and
- Delivers to customers through a multi-channel distribution model

Competitive Strengths

- We **Focus** on Irish Retail and SME customers which allows us to understand and meet the particular needs of these segments;
- We are a **Simple and Flexible** organisation that can respond to market opportunities and threats with speed and agility; and
- We have a strong **Culture of Customer Service** which enables us to build and maintain enduring personal relationships with our customers

Strategy

Our Strategy is focused on developing deeper banking relationships with our existing and new customers. Our strategic direction sets out the markets that we participate in and how we compete in these markets.

We translate our Strategy into Medium Term Objectives, Financial Targets and Strategic Performance Priorities which, in turn, inform resource allocation throughout the organisation.

We review and refresh our Strategy every year as part of our Integrated Planning Process. The Bank's Strategy evolves over time to address changing opportunities and risks in our operating environment, evolving consumer preferences and needs, technological changes and innovation, regulatory requirements, market developments and the economic environment.

Operating Model

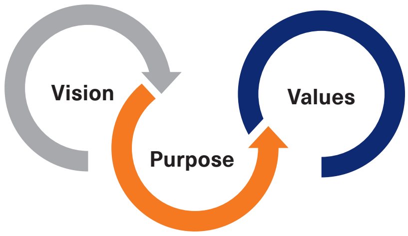
Our Business Model and Strategy has a direct bearing on how we maximise value for our shareholders over time by being the Bank of Choice. Through integrated strategic, financial, organisational and management processes, we aspire to generate sustainable shareholder returns over time based on delivering right outcomes for our customers.

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**	

Purpose, Vision and Values

The Purpose, Vision & Values acts as a compass, in the sense that they guide the organisation on our journey. They represent the enduring core beliefs and aspirations that we share as an organisation.



Purpose

Our Purpose is to maximise shareholder value over time operating within the boundaries of our risk appetite. We strive to invest, manage and protect the shareholders' capital in a responsible manner which is consistent with their best interests.

Vision

Our Vision is to be the Bank of Choice. This simple statement unites us all to focus on delivering the right outcomes for our customers. We are focused on deep, sustainable, long term customer relationships. We aim to connect with customers in a personal way through all of our channels.

Trust is at the front and centre of our vision. For Permanent TSB to be truly 'The Bank of Choice', we need to develop deep profitable customer relationships based on trust. We believe we are best placed to truly become the Bank of Choice for our customers as:

- We have a strong history of customer service and connecting with our customers in local communities;
- We are a simple and focused Retail Bank that serves Personal and SME customers thereby enabling us to deliver a consistent customer-centric experience; and
- We will deliver our strategy in a distinct way, with a personal touch, across all channels.

Values

We believe Values are principles that guide organisational behaviours. We, as an organisation, live our Values through our behaviours.

Values	What it means
Commercial	Being committed to satisfying customer needs profitably
United	Being aligned as One Group to deliver our shared Purpose and Vision
Straightforward	Being straightforward in everything we say and do with the highest levels of integrity and authenticity
Courageous	Being ambitious with a strong desire for our business to succeed
Open	Being inquisitive and open to new approaches and ways of doing things and welcoming others to do the same

Our Medium Term Strategic Objectives

We have identified the key areas of organisational focus which are critical to the delivery of our Strategy over the medium term. These objectives are executed primarily through initiatives undertaken across the business, and success is measured by tracking and monitoring the performance of relevant KPIs. As with the overarching Strategy, the objectives are refreshed annually to ensure they focus on the most relevant point-in-time business needs.

Stakeholders Segment	Company / Shareholders	Customers	Colleagues	Communities
Medium Term Objectives	• Achieve a Focused and Low Risk Business Model • Deliver Sustainable Profitability and Capital Generation	• Become the Bank of Choice • Build a digital-first Omni-Channel Experience	• Develop High Performance Teams • Improve engagement through living the PTSB Values	• Support communities through lasting relationships • Build a responsible and sustainable business

Corporate Social Responsibility

At Permanent TSB, we are united in our efforts to build a sustainable business underpinned by a culture where the highest standards of integrity, accountability and compliance with regulatory standards are lived.

To support this ambition, a Vision and associated Values were created with input from our Board of Directors, Executive Committee, Management and Staff throughout the organisation.

Our Vision is to be the Bank of Choice for what we do, and how we do it – trusted, valued and principled.

This Vision is supported by five Values: Commercial, United, Straightforward, Courageous and Open. Our Values offer a set of guidelines on the behaviour and mind set needed to achieve our Vision. These are reinforced by our organisational policies, such as our Code of Conduct and our Code of Ethics and are integrated into the everyday operations of the Bank.

Our Commitment to Social Responsibility

Corporate Social Responsibility (CSR) is about an organisation holding itself accountable for acting responsibly through a commitment to business practices that are socially responsible while having a positive impact on the communities in which it operates.

Permanent TSB has a long history, and traces its origins back more than 200 years to community based savings groups. Through this history, the Bank has developed deep roots in Ireland by building trusted relationships with customers and by playing an active role in the communities in which it serves.

Permanent TSB will continue this long tradition through its 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 and that meet their financial needs, while delivering customer service experiences built on trust;
- Making Permanent TSB a great place to work for our colleagues by creating a diverse, inclusive and supportive working environment where our colleagues feel engaged and valued and are given the tools they require to succeed in their careers;
- Having a positive impact on the communities in which we work and live; and,
- Minimising the impact of our business on the natural environment and reducing our environmental footprint.

Achieving these objectives will be transformational and will support our governing objective of maximising value creation for our shareholders on a sustainable basis.

The Bank will deliver 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 2017, this phase is now complete. Actions taken included:

- The appointment of a dedicated CSR resource within the Bank to provide leadership and to coordinate activities.
- The establishment of a new community partnership that complements and supports our business strategy while providing a platform to play an active role in local communities; namely, Social Entrepreneurs Ireland.
- The capturing of employee views across all areas of the organisation to gather input into CSR Strategy.
- The consolidation of existing CSR activities across the Bank.
- The building of frameworks for gathering data and relevant information has been implemented, allowing us to manage our CSR agenda.
- The development of metrics have been established to measure impact across the four pillars, allowing us to compare performance year to year, and develop methods for continuous improvement.
- The completion of an external baseline review of our programme.

Build and Grow

The overall objective of this phase – from 2018 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.
- 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 recognising best in class sustainability programmes.

At the end of 2017, Permanent TSB undertook a comprehensive external review of our CSR programme, with a large focus placed on analysis of current initiatives and processes under each of the four pillars. This review was facilitated by BITCI and marked an important milestone in our journey, as it recognised the things we are doing well across the organisation, while highlighting opportunities for continuous improvement for future.

We will continue to work with BITCI to develop our CSR programme with the aim of achieving accreditation to 'The Mark' by 2021.

Materiality Assessment

In 2018, we will engage with stakeholders to complete a 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 the Bank's sustainability agenda from 2018 onwards.

A summary of progress under each of the four pillars in 2017 follows over the next few pages.

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. We will provide products that meet a Customer's financial needs in a way which is which is accessible, transparent, and offers value for money.

Highlights:

42,000 new current accounts opened in the year

c.1.1 million customers served

Preferred Bank of choice for 3 out of 4 customers *

A customer satisfaction survey carried out in Quarter 4, 2017 indicated a Net Promoter Score ** (NPS) of 15, placing Permanent TSB one point behind the market leader, and 19 points ahead of our next nearest competitor.

* Source: Red C Ad & Brand Tracker, a monthly online survey and the data is based on 3 month rolling information.

**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 range for the scoring is -100 to +100.

Products and Services

The Bank is focused on developing deep banking relationships with customers through delivering a great customer service experience, whether that is online, in our network of branches or through our customer service centres. This is underpinned by a relentless drive towards reducing complexity, waste, and costs across the company.

Examples of our customer strategy in action include the launch of 'Network 2020' into our Distribution network in 2017, the success of our newest mortgage proposition – the '2&2 Mortgage' – and our innovative 'Explore' Current Account.

Network 2020 is a customer centric approach that allows the Bank to move from a traditional branch structure to an Integrated Territory Network, including the creation of 42 new Territories. This new structure sets us up for future success by developing and growing our business within both our branches and in local communities, meaning we can better serve our customers' financial needs at a time and place that is convenient to them.

The 2&2 Mortgage, launched in 2017, is 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 mortgage 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. Putting customers at the centre of the product, 2&2 helps to reduce the significant financial sacrifices that buyers can face when purchasing a home.

The '**Explore**' current account delivers a compelling current account offering which meets our customers' financial needs and fits their lifestyle, while being cost effective for the Bank to deliver. 'Explore' rewards customers for using their bank card by giving 10c cashback on the first fifty transactions each month, providing cashback on a range of bills with our exclusive 'Explore' partners, and giving customers access to card linked offers through GoRewards.

Complaints

An important part of customer service is looking after customers when things go wrong. In order to manage our complaints processes in an efficient way, we have in place a Customer Complaints Policy and a Customer Complaints Charter which is available online.

In 2017, Permanent TSB employees received Customer Complaints training. This covered the Bank's Customer Complaint Policy and Procedures and our current regulatory obligations, including the new requirements for Complaints in relation to the Payment Services Directive 2 (PSD2).

Mortgage Customers

Redress

As outlined in the Chairman's Statement on page 4, by the end of 2017 the Bank offered redress and compensation to all customers who had been identified as impacted by the tracker mortgage issue. The Bank has apologised to all those customers which were impacted.

Colleagues

Overview

At Permanent TSB, we understand that great customer experiences are built upon delivering constant quality service with the customer at the front and centre. Our 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 they require to succeed in their career.

Highlights:

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

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

3.9 training days delivered per employee in 2017

76 Employees received full QFA accreditation, 277 employees received a University Award from the Institute of Banking (IOB)

Having an Employee Voice

A 'Pulse Check' survey of employees was completed in 2017. The 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:

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

For the year ahead, the Bank is committed to building on the progress made in 2017. A programme of work entitled 'Our People, Our Bank' has launched which aims to further build on our People Strategy. It comprises seven work streams including Engagement, Diversity and Inclusion, Investing In Leadership and Talent, and Workforce System Upgrades.

The 'Our People, Our Bank' programme includes representation from all areas of our business and endeavours to enable our people to deliver on our organisational strategic priorities, whilst also building the capabilities and talent needed to deliver on future commitments.

Supporting Career Development

In 2017, the Bank launched the Career Development Framework (CDF), an integrated online system to support our colleagues' learning and development on the job. The framework offers the tools and techniques to support our employees in developing their careers within Permanent TSB and enable them to achieve their full potential.

The framework includes COMPASS, our new online career development and learning platform, and Career Families, a new way of grouping roles from across the organisation that share common activities and have similar competencies, supporting employees in planning and managing their careers within the Permanent TSB.

The CDF creates a career partnership whereby our people can own their career development but are proactively guided by the Bank, allowing us to build the capability of our workforce for the future, ensuring that we stay agile and competitive in the continually changing financial services marketplace.

Investing in Our People

Permanent TSB is committed to the training and development of our workforce. Our people are supported financially and with study leave in order to pursue professional qualifications and to assist in their career development.

In 2017,

- 6,608 online courses were delivered via Learning Compass;
- Average training days delivered per employee were 3.9, up from 3 days per employee in 2016;
- 76 Permanent TSB employees graduated with a QFA Diploma; and,
- A total of 277 employees received a University Award from the Institute of Banking (IOB), with a total of 592 employees studying with the IOB.

Maximising People Performance

In 2017, we reviewed how we conduct performance management in the Bank.

Our 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 is evaluated consistently against three key headings:

- What You Do
- How You Do It
- How Your Role links in with Permanent TSB's Strategy and Vision

To complement the above, the Bank launched a new set of core competencies for all levels across the organisation. These competencies are directly aligned to the Bank's Strategy, as well as our recently launched Values.

These changes resulted in a year-end review and ratings completion rate of more than 99%.

To oversee the quality of the implementation of the performance management process, a performance management quality assurance committee was established in 2017, with an external Chairperson.

Hell and Back Challenge in Support of the Permanent TSB Staff Charities Fund Pictured are colleagues from Group Treasury and Group Secretariat, Paul Purcell, Leo Curtin, Samantha O'Keeffe, Barry Hammond, James Linehan and Conor Ryan

Permanent TSB Rugby Match in Support of the Staff Charities Fund

Values in Practice (VIP) Awards

In 2017, Permanent TSB introduced the first Bank wide employee recognition programme called the 'Values in Practice' or VIP Awards. The VIPs recognise employees from across the organisation that are living the Bank's Values and are positively impacting the business.

Nominations for the awards were open to all staff from across the organisation, and allowed employees to nominate their peers from across the Bank.

Overall, 230 nominations were received, with representation from each corner of the business.

All finalists were invited to a finalists' night, at which the winners in each category were recognised for outstanding achievement in each Value category.

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.

Our support of this year's Dublin Pride Parade is an example of how we support diversity and inclusivity in our workplace.

In 2017, with the support of EY, a review of policy and practice across the Bank was undertaken with a view to developing a comprehensive diversity and inclusion strategy. This exercise involved staff from all areas of the Bank drawing on their experiences of diversity and inclusion within the organisation and inviting new ideas and new ways of thinking.

The recommendations put forward by EY following this process will be built into the Bank's Diversity and Inclusion strategy, and will guide a key programme of work in 2018.

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

	2017
Total Number of Employees At Year End	2,519 *

*excluding non-executive directors and subsidiaries

Analysis By Type Of Contract	2017
Permanent	93%
Fixed Contract	7%

Gender Analysis	Male	Female
Total	43%	57%
Senior Management	76%	24%
Part-Time/Job Sharers	8%	92%

Health, Safety and Wellbeing

As part of Permanent TSB's investment in employee well-being, we offer a range of programmes and benefits to assist and support our people including professional counselling services, health screening, a cycle to work scheme and a holiday savings fund.

The Bank has a safety statement in place, which documents current policies and procedures and sets out the safety policy of Permanent TSB. It has been prepared in accordance with section 20 of the Safety, Health and Welfare at Work Act, 2005 (the Act). This is reviewed on a regular basis and is revised as necessary.

Staff Charity Fund Cheque Presentation
Margaret Cotter, Chair, Permanent TSB Staff Charities with Matt English, CEO, 'Ireland Special Olympics Fund', Susan Clancy, Corporate Fundraising Manager, 'Laura Lynn House' and Glen Reid, CEO 'Cycle Against Suicide'

Employee Volunteering Programme Pilot - Commercial Team 'Cooking for Families' at Ronald McDonald House in Crumlin Children's Hospital
AJ Fitzsimons, Claire Walsh, Avril Robinson Eimer Lyons, Jean Scally, Eamonn Leamy, Lorraine Peters , Sandra Neilan,

Community

Overview

Community involvement and a commitment to positively impacting the communities in which we operate, supports the Bank's strategy of building a sustainable business through developing trusted, principled and valued relationships with those where we live and work.

Highlights:

2 Community Partnerships

6 New Charities Nominated by Staff

Nearly a quarter of a million euro in charitable giving in 2017 through Permanent TSB Staff Charities, which included matched funding by the Bank

A Partnership with Social Entrepreneurs Ireland

At the beginning of 2017, Permanent TSB entered into a five-year partnership with Social Entrepreneurs Ireland (SEI). Social Entrepreneurs take an entrepreneurial approach to solving social issues such as poverty alleviation, improved mental health and well-being and environmental sustainability. Over the past 12 years, SEI has supported more than 200 Social Entrepreneurs and their programmes, invested €6.7 million in social projects, and positively impacted 1.7 million people across the country. Permanent TSB will contribute both financial support - €375,000 over five years – and will also implement an extensive employee engagement programme between SEI and employees of the Bank.

During 2017, the Bank worked closely with SEI in order to kick-start the partnership through running various employee engagement events across the country. Post event feedback forms indicated out of the employees in attendance, 93% of individuals would 'highly recommend' the events to a colleague and would like to be a part of future partnership events.

Permanent TSB look forward to developing this partnership in 2018 by getting our colleagues involved in SEI's Awards review and selection process, establishing volunteering and mentorship opportunities within the SEI Alumni Network, and launching a pro bono support system between SEI and the Bank, whereby we match the skills of our people with the organisations that need them most.

Permanent TSB Staff Charities Fund

In 2017, Permanent TSB Staff Charities donated €192,200 to local charity, supporting the work of Laura Lynn Children's Hospice, Ireland Special Olympics Fund, Cycle Against Suicide, Enable Ireland, The Glen Group, and Friends of the Rotunda.

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 with a special call out to the Permanent TSB Charity Rugby Match, Annual Table Quiz, Hell and Back Challenge, Cork City Marathon, together with various 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.

Employee Volunteering Programme Pilot - Strategy and Planning at the St. Vincent De Paul Warehouse in Dublin
John Barry, Matthew Gavenda, Orla McElhone, Rahul Jindal and Tim Long

Social Entrepreneurs Ireland Partnership Launch
Sean Love, Executive Director, Fighting Words; Darren Ryan, CEO, Social Entrepreneurs Ireland; Jeremy Masding, Group CEO; Social Entrepreneur Aoibheann O'Brien, Managing Director, FoodCloud; Robert Elliott, Chairman, Permanent TSB and Ger Mitchell, Group HR Director

Corporate Social Responsibility
(continued)

A Partnership with Trinity Centre for People with Intellectual Disabilities

In 2017, Permanent TSB began working alongside the Trinity Centre for People with Intellectual Disabilities (TCPID), supporting diversity and inclusion within our workplace.

TCPID'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 will be providing graduates of TCPID with work placement opportunities across the organisation.

Employee Volunteering Programme

In 2018, Permanent TSB will launch a Bank wide Employee Volunteering Programme. In preparation, a pilot project was completed in Q4 2017 and took place within two organisations that are part of the 2018 Permanent TSB Staff Charities.

The pilot was driven by the Corporate Social Responsibility (CSR) Steering Committee, with over 100 employees taking part in the 'Cooking for Families' Programme at Ronald McDonald House in Crumlin Children's Hospital and in volunteering initiatives within St. Vincent De Paul.

Feedback from both volunteer streams was positive with 98% of participants saying that they would recommend the Volunteering Programme to a colleague.

We look forward to the rollout of the Employee Volunteering Programme in 2018.

Environment

Permanent TSB undertook a comprehensive external review on our Corporate Social Responsibility programme towards the end of 2017, with a large focus on the Bank's environmental positioning. The Bank is committed to environmental sustainability and minimising the impact of our business activities on the natural environment, and recognises that there is work to be done in this area.

Permanent TSB's Procurement Policy imposes sustainability criteria in selecting suppliers of goods and services and as such, the Bank adheres to our suppliers policies on environmental management.

Actions taken in 2017 to reduce our environmental footprint are outlined below.

Energy Usage

In 2017, Permanent TSB switched energy provider. As of June 2017, we have been using 100% renewable energy for our electricity supply for the Bank.

As part of the branch refurbishment process in our Distribution Network, we have introduced 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 PIR movement sensors. The refurbishment process is on-going.

2017 Energy Consumption	Gwh
Electricity - total (Gwh)	8.4
Gas (Gwh)	2.5
Oil (Gwh)	0.1
Total Energy Consumption	**11.0**

Trinity Centre for People with Intellectual Disabilities Graduation Ceremony

As a Public Sector Organisation, Permanent TSB is committed to contributing to energy efficiency. The Government's 'National Energy Efficiency Action Plan' (NEEAP) and the European Communities 'Energy End-Use Efficiency and Energy Services' regulations 2009 place obligations on public sector bodies regarding their 'exemplary role' in relation to energy efficiency, including the target of achieving 33% energy savings by 2020.

The Bank complies with all of its obligations under these regulations and reports annually to the Sustainable Energy Authority of Ireland (SEAI) in May of each year, and has done so since 2009.

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 and customer services centres, as well as recycling bins in our branch network.

2017 Waste Generation	Tonnes
General Waste	105.72
Recycling Waste	173.52
Recycled Confidential Shred Waste	293
Recycled Used Cooking Oil	1.8
Recycled Grease	2.8
Recycled Lamps	1.5*

* Estimated usage

Use of Resources

Paper

Centralised printing was launched in 2016 to control print production and minimise use of paper by encouraging staff to forego excess printing. As a result, consumption of plain paper reduced by 3% in 2017. We expect this downward trend to continue into 2018.

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 2017, fewer than 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.

Since 2013, new current accounts opened have electronic statements as a default setting, allowing customers to view their account statements securely online instead of having a paper copy issued.

In 2018, the Bank will undergo a programme of work 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 will allow our customers to conveniently access their statements online through Open24 and will be delivered under a project managed by Group Operations.

Water

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

Carbon Impact

Permanent TSB will be disclosing our carbon emissions in 2018.

The Bank is committed to environmental sustainability, and will continue to develop and invest in this area.

Governance

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

In 2016, the Bank set up a Corporate Social Responsibility Steering Committee which is chaired by Ger Mitchell, HR Director. The Committee has 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 has been appointed within the Bank to provide leadership and to coordinate activities, with the support of the Steering Committee.

For more on Governance, please refer to the Directors' Report on page 49.

As we look to build our CSR Programme through 2018 and into the future, we are conscious of the legislative changes in a 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.

Summary Consolidated Income Statement

	Year ended 31 December 2017 €m	Year ended 31 December 2016 €m
Net interest income (Pre ELG)	**407**	394
ELG fees	**(2)**	(4)
Net other income	**38**	71
Total operating income	**443**	461
Total operating expenses (excl. exceptional items and bank levy and other regulatory charges)	**(285)**	(280)
Bank Levy and other regulatory charges	**(44)**	(61)
Operating profit before impairment (charge)/write-back and exceptional items	**114**	120
Impairment (charge)/write-back on loans and advances to customers	**(48)**	65
(Charge)/Write-back on collateral in possession	**(1)**	3
Operating profit before exceptional items	**65**	188
Exceptional items (net) comprises:	**(13)**	(414)
Restructuring and other costs	**(12)**	(15)
Loss on deleveraging	**(1)**	(399)
Profit/(loss) before taxation	**52**	(226)
Taxation	**(12)**	(40)
Profit/(loss) for the year	**40**	(266)

Financial Performance Headlines

- **Net interest income** (pre-Eligible Liabilities Guarantee "ELG") increased by 3% during 2017 to €407m. This growth represents a 32 basis point increase in net interest margin from 1.48% at 31 December 2016 to 1.80% at 31 December 2017. This is largely due to a reduction in retail funding costs and favourable rates achieved on the issuance of a new mortgage backed security in the second half of the year. This growth more than offsets the impact of the 15.6% decrease in average interest earning assets, which reduced primarily due to the deleveraging of the Lansdowne 199 and Isle of Man (IOM) loan portfolios during the second half of 2016.
- **Net other income** decreased by 46% to €38m during the year which is largely due to a one-off gain in 2016 from the sale of the Group's share in Visa Europe Ltd. This income comprises €39m net fees and commissions on credit cards and insurance contracts, income of €1m on swap terminations previously in hedge accounting relationships and other operating income of €1m, offset by trading expenses of €3m.
- **Total operating expenses (excluding exceptional items, bank levy and other regulatory charges)** increased by 2% since 31 December 2016 to €285m, primarily as a result of increased staff costs, driven by a pay and modernisation programme which commenced during the second half of 2016.
- **Bank levy and other regulatory charges** decreased by 28% to €44m during the year. This is primarily due to a reduction in Deposit Guarantee Scheme fees paid, in addition to decreases in the bank levy applied to the Group.
- **Impairment charge** of €49m for the year ended 31 December 2017 represents an increase of €117m since 31 December 2016. The impairment of €49m is primarily driven by model changes associated with non-performing loans offset by general improvements in portfolio and underlying collateral performance.
- **Operating profit before exceptional items** for the year ended 31 December 2017 has decreased by €123m to €65m. This is largely due to the absence of a one off gain arising from the sale of the Group's share in Visa Inc. during 2016 together with a higher impairment charge in 2017.
- **Exceptional items** are €13m for the year ended 31 December 2017. This comprises a €12m charge in relation to the restructure of the Group's distribution model and back office operations function, and other net costs of €1m relating to previously deleveraged portfolios.
- **Profit before tax** for the year has increased by €278m to €52m. This is principally due to the absence of an exceptional loss on the sale of the Group's UK and IOM loan portfolios, which occurred in 2016.

Summary Consolidated Statement of Financial Position

	31 December 2017 €m	31 December 2016 €m
Assets		
Home loans	**13,657**	13,939
Buy-to-let	**4,264**	4,519
Total residential mortgages	**17,921**	18,458
Commercial mortgages	**153**	162
Consumer finance	**296**	266
Total loans and advances to customers	**18,370**	18,886
Loans and advances to banks	**1,518**	1,185
Debt securities	**1,978**	2,682
Equity securities	**12**	9
Other assets	**734**	838
Assets held for sale	**161**	1
Total assets	**22,773**	23,601
Liabilities and equity		
Current accounts	**3,697**	3,355
Retail deposits	**10,612**	10,587
Corporate & institutional deposits	**2,686**	3,042
Total customer accounts	**16,995**	16,984
Deposits by ECB	**230**	1,380
Deposits by banks and other financial institutions	**1,612**	1,523
Total deposits by banks	**1,842**	2,903
Debt securities in issue	**1,633**	1,324
Subordinated liabilities	**23**	22
Other liabilities	**169**	268
Total liabilities	**20,662**	21,501
Total equity	**2,111**	2,100
Total equity and liabilities	**22,773**	23,601

Total assets decreased by €828m or 4% to €22,773m during the year ended 31 December 2017. This is primarily due to: 1) a reduction in residential mortgages of €537m as a result of the successful completion of the Groups Buy-to-let (BTL) voluntary surrender scheme and the natural reduction in the loan book due to repayments exceeding new lending; and 2) a reduction in debt securities of €704m as a result of maturities of government bonds and the redemption of the Group's remaining NAMA bond during 2017. This is offset by an increase in loans and advances to banks, which represents cash held as a result of the maturities and redemption of the debt securities.

Total liabilities decreased by €839m or 4% to €20,662m during the year ended 31 December 2017. This is driven by a reduction in the Group's funding requirement-ECB funding, which decreased by 83% to €230m. This reduction is offset by an increase in debt securities in issue as a result of the issuance of a new mortgage backed security in the second half of 2017.

Net Interest Income

	Year ended 31 December 2017 €m	Year ended 31 December 2016 €m
Interest income	**504**	568
Interest expense (excluding ELG)	**(97)**	(174)
Net interest income (excluding ELG)	**407**	394
ELG fees	**(2)**	(4)
Net interest income	**405**	390

Interest income has decreased by €64m or 11% to €504m for the year ended 31 December 2017. Interest income primarily comprises income on loans and advances to customers, debt securities, other fixed-income securities and derivative assets.

- Interest income on loans and advances to customers has decreased by €42m or 9% to €450m. This is due to both reducing loan volumes arising from the sales of the UK and IOM loan portfolios in 2016 and the continued effect of managed variable rates.
- Interest income on debt securities and derivative assets have decreased by €22m or 29% to €54m for the year ended 31 December 2017. This is primarily due to a 26% reduction in debt securities held as a result of the maturity of Irish Government bonds and redemption of the NAMA bond.

Interest expense (excluding ELG fees) has decreased by €77m or 44% to €97m for the year ended 31 December 2017. Interest expense primarily comprises interest expense on customer accounts, deposits by banks, debt securities in issue and derivative liabilities.

- Interest expense on deposits by banks reduced by €32m or 86% to €5m for the year ended 31 December 2017. This is principally due to lower bank deposits in 2017 as a result of the Group deleveraging its UK and IOM portfolios in 2016 and a change in the funding mix which reduced the banks use of ECB funding.
- Interest expense on customer accounts have decreased by €38m or 34% to €73m for the year ended 31 December 2017. This is principally due to the reduction in average market interest rates during the year of 28 basis points and the reduction in the average balance on customer accounts by €304m or 2% as the Group continues to actively manage down its cost of funds.

ELG fees reduced by €2m or 50% to €2m. Liabilities covered under the scheme have reduced from €273m for the prior year to €133m for the year ended 31 December 2017. Liabilities covered under the ELG scheme will mature in March 2018.

	Year ended 31 December 2017 €m	Year ended 31 December 2016 €m
Total average interest-earning assets	**22,531**	26,701
Total average interest-bearing liabilities	**20,960**	24,816
Average yield on average interest-earning assets	**2.24%**	2.13%
Average rate on average interest-bearing liabilities (excluding ELG fees)	**0.46%**	0.70%
Net interest margin (Excluding ELG fees)*	**1.80%**	1.48%

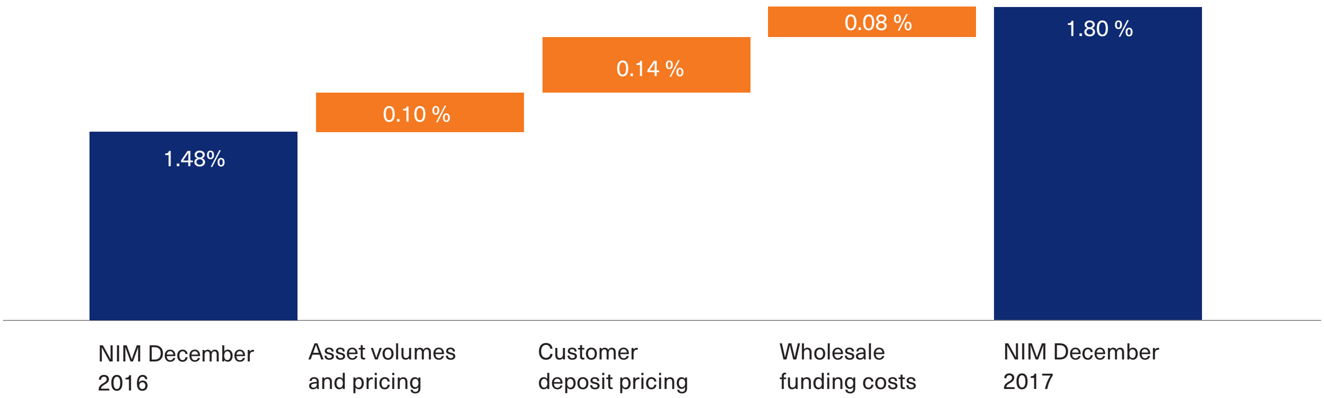
* Measured as net interest income (excluding ELG fees), divided by average interest earning assets.

- Average yield on average interest-earning assets increased by 11 basis points to 2.24% for the year ending 31 December 2017. This is primarily due to the deleveraging of lower yielding UK and IOM portfolios in late 2016.
- Average rate on average interest bearing liabilities reduced by 24 basis points to 0.46% for the year ended 31 December 2017. This reduction is primarily driven by the reduction of interest rates offered on both retail and corporate deposits.

NIM movement since December 2016

The Group's net interest margin (excluding ELG fees) increased from 1.48% for the year ended 31 December 2016 to 1.80% for the year ended 31 December 2017.

The key drivers of the NIM movement in 2017 were as follows:



Asset volumes and pricing: Changes in asset pricing contributed to a 10 basis point increase in net interest margin, primarily as a result of deleveraging lower yielding UK and IOM loan portfolios in the second half of 2016.

Customer deposit pricing: The on-going reduction in the cost of retail and corporate deposits, which reflected reductions of the Group's deposit rates to align with the market, contributed 14 basis points to net interest margin improvement.

Wholesale funding costs: Reduced wholesale funding costs contributed 8 basis points to the net interest margin improvement, due to a reduction in more expensive liabilities which funded non-core portfolios during 2016 and favourable rates achieved on the issuance of a new mortgage backed security during 2017.

Key NIM Drivers: Average Balance Sheet and Interest Rate Data

The following table sets out the average balances of interest-earning assets and interest-bearing liabilities for the years ended 31 December 2017 and 31 December 2016. The table also outlines the amount of interest income earned and interest expense (excluding ELG fees) incurred by the Group in the years ended 31 December 2017 and 31 December 2016, 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 2016 to 31 December 2017 and are similar for the comparative period.

For the purpose of the table below, interest expense excludes ELG fees, therefore interest expense is €2m lower than it would otherwise be.

	Year ended 31 December 2017			Year ended 31 December 2016		
	Average Balance €m	Interest €m	Average Yield/ Rate %	Average Balance €m	Interest €m	Average Yield/ Rate %
Interest-earning assets						
Loans and advances to banks	**1,366**	**-**	**-**	1,606	-	-
Loans and advances to customers	**18,635**	**450**	**2.41%**	21,881	492	2.25%
Debt securities and derivative assets	**2,530**	**54**	**2.13%**	3,214	76	2.36%
Total average interest-earning assets	**22,531**	**504**	**2.24%**	26,701	568	2.13%
Interest-bearing liabilities						
Customer accounts	**16,977**	**73**	**0.43%**	17,281	122	0.71%
Deposits by banks	**2,539**	**5**	**0.20%**	6,212	37	0.60%
Loans and advances to banks	**-**	**3**	**-**	-	-	-
Debt securities in issue, derivative liabilities and loan and advances to banks	**1,421**	**16**	**1.13%**	1,301	15	1.15%
Subordinated liabilities	**23**	**-**	**-**	22	-	-
Total average interest-bearing liabilities	**20,960**	**97**	**0.46%**	24,816	174	0.70%
Total average equity attributable to owners	**2,117**			2,382		

Net average balance of loans and advances to customers decreased to €18,635m for the year ended 31 December 2017 from €21,881m for the prior year (a 15% decrease). This was primarily due to the sale of both the UK and IOM loan portfolios during 2016, the natural reduction of the loan book due to loan repayments exceeding new lending and the implementation of the Group's BTL voluntary surrender scheme in the second half of 2017. The average interest rate on loans and advances to customers increased to 2.41% for the year ended 31 December 2017 from 2.25% for the prior year. This was predominately driven by the deleveraging of the lower yielding UK and IOM portfolios in 2016.

Average balance of debt securities and derivative assets decreased by €684m for the year ended 31 December 2017 to €2,530m from €3,214m for the prior year (a 21% decrease) primarily as a result of NAMA bond redemptions and maturity of government bonds. The average interest rate on debt securities and derivative assets decreased to 2.13% for the year ended 31 December 2017 from 2.36% for the prior year, principally as a result of the maturity of certain high yielding government bonds during 2016.

Average balance of customer accounts reduced by €304m for the year ended 31 December 2017 to €16,977m from €17,281m for the prior year, primarily due to the closure of the Group's IOM deposit taking business during 2017 and a continued drive by the Group to manage its cost of funds. The average interest rate on customer accounts decreased to 0.43% for the year ended 31 December 2017 from 0.71% for the year ended 31 December 2016, reflecting rate reductions implemented on both retail and corporate deposits during 2016 and 2017.

Average balance of deposits by banks decreased to €2,539m for the year ended 31 December 2017 from €6,212m for the prior year (a 59% decrease) primarily driven by a reduction in ECB funding during 2016. The average interest rate on deposits by banks reduced to 0.20% for the year ended 31 December 2017 from 0.60% for the year ended 31 December 2016, due to a reduction in such funding.

Average balance of debt securities in issue, derivative liabilities and loans and advances to banks increased to €1,421m for the year ended 31 December 2017 from €1,301m for the prior year (a 9% increase). This is due to the issuance of a new asset backed security, offset by maturities and early redemptions of certain medium-term notes. The average interest rate on debt securities in issue and derivative liabilities decreased to 1.13% for the year ended 31 December 2017 from 1.15% for the year ended 31 December 2016, reflecting favourable rates achieved on the issuance of a new asset backed security. Negative interest on loans and advances to banks amounted to €3m for the year ended 31 December 2017.

Net Other Income

The following table sets out the components of the Group's net other income in the years ended 31 December 2017 and 2016.

	Year ended	
	31 December 2017 €m	31 December 2016 €m
Fees and commission income	**58**	57
Fees and commission expenses	**(19)**	(18)
Net fees and commission income	**39**	39
Net trading (expense)/income	**(3)**	3
Other operating Income	**2**	29
Total net other income	**38**	71

Net fees and commission income of €39m for the year ended 31 December 2017 remained in line with the prior year.

Net trading expense of €3m for the year ended 31 December 2017 decreased by €6m from the prior period. This movement is due to €3m mark-to-market losses on certain trading derivatives during 2017 and the absence of volatility due to the sale of Lansdowne 199 during 2016.

Other operating income decreased by €27m for the year ended 31 December 2017. This is largely due to a one-off gain in 2016 from the sale of the Group's share in Visa Europe Ltd.

Total Operating Expenses (excluding exceptional items)

Total operating expenses (excluding exceptional items) consist of administrative, staff, bank levy and regulatory charges, depreciation on property and equipment and amortisation of intangible assets.

The following table sets out the components of the Group's total operating expenses (excluding exceptional items) in the years ended 31 December 2017 and 2016.

	Year ended	
	31 December 2017 €m	31 December 2016 €m
Staff costs:		
Wages and salaries including commission paid to sales staff	**118**	111
Staff redundancy costs*	**2**	-
Social insurance	**13**	13
Pension costs	**13**	11
Total staff costs	**146**	135
Other general and administrative expenses	**118**	127
Depreciation of property and equipment	**12**	12
Write-back of impairments on revaluation of property	**(1)**	(2)
Amortisation of intangible assets	**10**	8
Total operating expenses (excluding exceptional items, bank levy and other regulatory charges)	**285**	280
Bank levy	**23**	27
Regulatory costs	**21**	34
Total operating expenses (excluding exceptional items)	**329**	341
Headline cost income ratio**	**74%**	74%
Adjusted cost income ratio***	**64%**	65%

* Excludes staff redundancy costs associated with exceptional items.
** Defined as total operating expenses (excluding exceptional items) divided by total operating income (including Visa Europe share sale gain).
***Defined as total operating expenses (excluding exceptional items, bank levy and other regulatory charges) divided by total operating income (excluding Visa Europe share sale gain).

Total operating expenses excluding exceptional items decreased by €12m, or 4%, to €329m for the year ended 31 December 2017 primarily due to lower regulatory charges along with a reduction in professional costs on one-off projects, which are partially offset by an increase in staff costs.

Staff costs increased by €11m or 8% to €146m for the year ended 31 December 2017, primarily as a result of both a pay and modernisation programme which commenced during the second half of 2016 and an increase in average staff numbers by 43 during 2017.

The adjusted cost income ratio fell by 1 percentage point to 64% as result of an increase in operating income, while operating expenses, excluding exceptional items, gains of the sale of Visa Europe shares, bank levy and other regulatory charges increased by €5m to €285m.

Impairment Charges

The following table sets out the components of the Group's impairment (charge)/write-back in the years ended 31 December 2017 and 2016.

	Year ended	
	31/12/2017 €m	31/12/2016 €m
Residential mortgages		
- Home loans	**(83)**	66
- Buy-to-let	**34**	(14)
Total residential mortgages	**(49)**	52
Commercial	**2**	4
Consumer finance	**(1)**	9
Total impairment (charge)/write-back on loans and advances to customers	**(48)**	65
(Charge)/write-back on collateral in possession	**(1)**	3
Total impairment (charge)/write-back	**(49)**	68

During the year ended 31 December 2017, the total impairment charge increased by €117m to a charge of €49m from a write-back of €68m for the prior year.

The total impairment charge on Home loan and BTL mortgages for the year increased by €101m to a charge of €49m from a write-back of €52m in 2016.

The impairment of €49m is primarily driven by model changes associated with non-performing loans offset by general improvements in portfolio and underlying collateral performance.

Total impairment write-backs on commercial mortgages amounted to €2m, compared to €4m for the prior year.

Consumer finance portfolios resulted in an impairment charge of €1m for the year compared to a write-back of €9m for the prior year. This movement is largely due to lower new default volumes and higher recoveries in 2016.

A charge of €1m was incurred in respect of collateral in possession assets for the year ended 31 December 2017, this compared to a write-back of €3m for the prior year.

Exceptional Items

The following table sets out the components of the Group's exceptional items in the years ended 31 December 2017 and 2016.

	Year ended	
	31 December 2017 €m	31 December 2016 €m
Restructuring and other charges	**(12)**	(15)
Loss on deleveraging	**(1)**	(399)
Exceptional items (net)	**(13)**	(414)

Exceptional items are €13m for the year ended 31 December 2017. This comprises a €12m charge in relation to the restructure of the Group's distribution model and back office operations function, and other net costs of €1m relating to previously deleveraged portfolios.

Assets

Asset Quality

The Group uses the Basel II 25 point scale for the internal ratings based (IRB) approach for credit risk. Loans which are neither past due nor impaired are analysed as excellent, satisfactory or fair according to their IRB rating as described below.

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

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

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

The tables below outline total loans and advances to customers for the Group's residential mortgages analysed by home loans, BTL, commercial and consumer finance. The analysis is based on excellent, satisfactory, fair risk in line with the IRB rating system and, neither past due nor impaired, past due but not impaired and impaired in line with IFRS 7.

31 December 2017	**Residential mortgages**				
	Home loan €m	**Buy-to-let €m**	**Commercial €m**	**Consumer finance €m**	**Total €m**
Excellent	**9,287**	**1,098**	**15**	**185**	**10,585**
Satisfactory	**1,379**	**2,436**	**100**	**63**	**3,978**
Fair risk	**752**	**250**	**36**	**28**	**1,066**
Neither past due nor impaired	**11,418**	**3,784**	**151**	**276**	**15,629**
Past due but not impaired	**360**	**86**	**5**	**16**	**467**
Impaired	**3,259**	**1,083**	**68**	**53**	**4,463**
	15,037	**4,953**	**224**	**345**	**20,559**
Provision for impairment losses	**(1,437)**	**(689)**	**(71)**	**(49)**	**(2,246)**
	13,600	**4,264**	**153**	**296**	**18,313**
Deferred fees, discounts and fair value adjustments	**57**	**-**	**-**	**-**	**57**
	13,657	**4,264**	**153**	**296**	**18,370**

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

Total loan balances have decreased by €750m. This is due to repayments of €811m, redemptions of €505m and loans derecognised as a result of the Group's BTL voluntary surrender scheme of €463m, offset by new lending of €1,029m.

Impairment Provisions

During the year ended 31 December 2017, provision for impairment losses decreased by €236m or 10% to a €2,246m. This is reflective of the Group's approach to its NPL strategy. Provision for impairment losses represent 11% of total gross loans and advances to customers as at 31 December 2017, compared to 12% for the prior year.

Non-Performing Loans

The following tables provide details of non-performing loans, non-performing loans as a percentage of loans and advances to customers and the provision coverage ratio by type of loan as at 31 December 2017 and 2016.

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

31 December 2017	**Residential mortgages**				
	Home loan €m	**Buy-to-let €m**	**Commercial €m**	**Consumer finance €m**	**Total €m**
Non-performing loans 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%**
Provision coverage ratio*	**43%**	**63%**	**104%**	**92%**	**49%**
NPL provision coverage ratio**	**36%**	**56%**	**100%**	**92%**	**42%**

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

31 December 2016	**Residential mortgages**				
	Home loan €m	**Buy-to-let €m**	**Commercial €m**	**Consumer finance €m**	**Total €m**
Non-performing loans no arrears	569	180	3	-	752
Not impaired < 90 days in arrears	53	9	-	-	62
Not impaired > 90 days in arrears	118	6	-	-	124
Impaired loans	3,406	1,360	72	74	4,912
Non-performing loans	4,146	1,555	75	74	5,850
Foreclosed assets	38	32	-	-	70
Non-performing assets	4,184	1,587	75	74	5,920
NPLs as % of gross loans	27%	29%	31%	22%	27%
Provision coverage ratio*	40%	68%	113%	88%	49%
NPL provision coverage ratio**	34%	60%	108%	88%	42%

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

NPLs reduced by €565m, or 10% to €5,285m for the year ended 31 December 2017. This comprises a reduction of €540m in the home loans and BTL portfolio mainly resulting from loan cures arising from better arrears treatment outcomes and the Group's BTL voluntary surrender campaign during 2017. There was also a reduction of €25m within consumer and commercial loan portfolios.

Weighted Average LTVs of Residential Mortgage Portfolio

The tables below outline the level of loans with an LTV up to 100% and greater than 100% for neither past due nor impaired loans and loans which are 90 days past due or impaired in the residential portfolio. This is weighted based on the loan balance as a factor of the overall residential loan portfolio.

As at 31 December 2017	Neither past due nor impaired		Loans which are 90 days past due or impaired		Total residential loan portfolio
	Home loan	Buy-to-let	Home loan	Buy-to-let	
	%	%	%	%	%
Up to 100%	**88%**	**55%**	**49%**	**27%**	**71%**
> 100%	**12%**	**45%**	**51%**	**73%**	**29%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**

As at 31 December 2016	Neither past due nor impaired		Loans which are 90 days past due or impaired		Total residential loan portfolio
	Home loan	Buy-to-let	Home loan	Buy-to-let	
	%	%	%	%	%
Up to 100%	77%	51%	41%	17%	61%
> 100%	23%	49%	59%	83%	39%
Total	100%	100%	100%	100%	100%

Total Weighted average LTV of residential portfolio	31 December 2017	31 December 2016
	%	%
Home loan	**76%**	84%
Buy-to-let	**108%**	121%
Total	**84%**	93%

In general, property prices have shown an increasing trend in ROI (as reflected in the CSO Residential Property Price Index). Weighted average home loan LTV improved from 84% to 76%. This improvement is reflective of house price inflation, which was approximately 11% for 2017. Weighted average BTL LTV improved from 121% to 108% during 2017, this is reflective of house price inflation and the completion of the BTL voluntary surrender scheme in the second half of 2017.

Forbearance Arrangements – Residential mortgages

The Group operates a number of mechanisms which are designed to assist borrowers experiencing credit and loan repayment difficulties, which have been developed in accordance with the current Code of Conduct on 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 2017 and 2016. The number and balances of loans in forbearance arrangements for residential home loan mortgages and BTL residential mortgages are analysed below.

	All loans		Loans >90 days in arrears and/ or impaired	
	Number	Balances €m	Number	Balances €m
Residential home loan mortgages				
As at 31 December 2017	**25,533**	**4,006**	**15,919**	**2,787**
As at 31 December 2016	28,128	4,376	16,859	2,953
Residential buy-to-let mortgages				
As at 31 December 2017	**3,543**	**1,250**	**1,589**	**553**
As at 31 December 2016	4,008	1,413	1,944	687

The tables above reflect a decrease of €370m as at 31 December 2017 in the balance of residential Home loans in forbearance arrangements, a decrease of 8% compared to the prior year.

It also reflects a decrease of €163m as at 31 December 2017 in the balance of residential BTL in forbearance arrangements, a decrease of 12% compared to the prior year.

As at 31 December 2017, 60% of the number of loans in forbearance are greater than 90 days in arrears and/or impaired compared to 59% for the prior year.

More details on forborne loans are provided in the appendix on page 200.

Loans and Advances to Banks

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

	31 December 2017 €m	31 December 2016 €m
Cash balances at central banks	**805**	228
Placements with other banks	**713**	957
Total loans and advances to banks	**1,518**	1,185

During the year ended 31 December 2017, loans and advances to banks increased by €333m or 28% to €1,518m. This increase is primarily due to the maturity and redemption of certain debt securities during the year ended 31 December 2017, which is offset by a decrease in restricted cash held by the Group's securitisation entities.

Placements with other banks includes restricted cash of €578m (31 December 2016: €668m) of which €485m (31 December 2016: €466m) is held by the Group's securitisation entities and €93m (31 December 2016: €202m) relates to cash collateral placed with counterparties in relation to derivative positions and repurchase agreements.

Placements with central banks increased by €577m or 253% to €805m, primarily due to cash held as a result of the maturity of the debt securities in the second half of the year.

Debt Securities

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

	31 December 2017 €m	31 December 2016 €m
Government bonds	**1,978**	2,436
NAMA bonds	**-**	246
Gross debt securities	**1,978**	2,682

The Group's debt securities comprise Irish Government bonds (€1,862m) and Spanish Government bonds (€116m).

During the year ended 31 December 2017, the debt securities portfolio decreased by €704m or 26% to €1,978m. This reduction is mainly as a result of maturities of both Irish Government bonds and the redemption of the remaining NAMA bond.

Liabilities

Customer Accounts

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

	31 December 2017 €m	31 December 2016 €m
Term deposits	**8,050**	8,790
Demand deposits	**3,568**	2,938
Current accounts	**3,697**	3,355
Notice and other accounts	**1,680**	1,901
Total customer accounts	**16,995**	16,984

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

	31 December 2017 €m	31 December 2016 €m
Current accounts	**3,697**	3,355
Retail deposits	**10,612**	10,213
Irish retail deposits (including current accounts)	**14,309**	13,568
Isle of Man	**-**	374
Total retail deposits (including current accounts)	**14,309**	13,942
Corporate deposits	**2,667**	2,638
Institutional deposits	**19**	404
Total customer accounts	**16,995**	16,984

During the year ended 31 December 2017, customer accounts increased by €11m to €16,995m.

Retail deposits have increased by €399m or 4% to €10,612m. Current accounts increased by €342m or 10% to €3,697m, while corporate deposits increased by €29m or 1% to €2,667m, in line with the Group's strategy to increase customer deposits.

Isle of Man customer accounts decreased by €374m due to a decision made to wind down the Group's Isle of Man deposit business which was completed during the second half of 2017.

Deposits by Banks (including Central Banks)

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

	31 December 2017 €m	31 December 2016 €m
Placed by the ECB	**230**	1,380
Placed by other banks and institutions on repurchase agreements	**1,610**	1,522
Other	**2**	1
Deposits by banks	**1,842**	2,903

During the year ended 31 December 2017, deposits by banks decreased by €1,061m or 37% to €1,842m. Deposits placed by the ECB reduced by €1,150m or 83% to €230m. The portion of the Group's funding now being sourced from the ECB stands at €230m, which comprises Targeted Longer-Term Refinancing Operations (TLTRO) funding only. This reduction was partly offset by a €88m or 6% increase in deposits placed by other banks and institutions on repurchase agreements compared to the prior year.

Debt Securities in Issue

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

	31 December 2017 €m	31 December 2016 €m
Bonds and medium-term notes	**321**	374
Non-recourse funding	**1,312**	950
Debt securities in issue	**1,633**	1,324

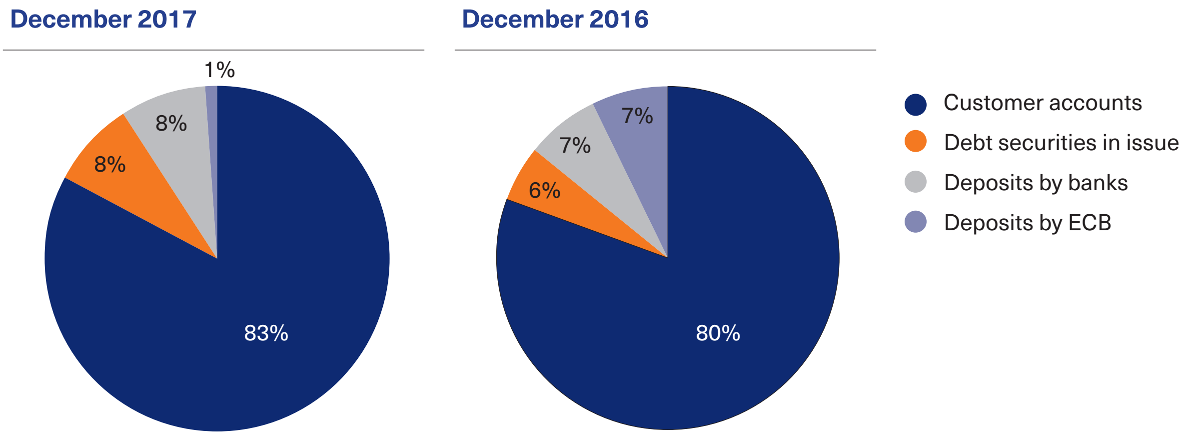
During the year ended 31 December 2017, debt securities in issue increased by €309m or 23% to €1,633m.

Bonds and medium-term notes reduced by €53m or 14% to €321m during the year, primarily due to €50m of MTNs maturing while a further €6m of bonds terminated during the year.

Non-recourse funding is funding by way of residential mortgage-backed securities. This form of funding increased by €362m or 38% to €1,312m, due to the issuance of a €500m asset-backed security during the second half of 2017, offset by redemptions on existing debt securities in issue.

Financial Review
(continued)

Funding and Liquidity
The following charts show the Group's funding profile as at 31 December 2017 and 2016:



The Group successfully reduced its ECB funding during the year in line with the Group's funding policy, with the majority of this funding requirement being replaced by customer accounts and repurchase agreements, which are classified as 'deposits by banks'.

For the year ended 31 December 2017, customer accounts amounted to €16,995m, which made up 83% of total funding, compared to 80% for the year ended 31 December 2016. The remaining funding base comprises deposits by banks (on repurchase agreements) at €1,612m, debt securities in issue of €1,633m and subordinated liabilities of €23m.

All non-recourse funding amortises over time, with the final maturities of the bonds due in over 5 years' time. Customer deposits along with ECB funding and deposits by banks are predominantly short term in nature, being less than one year. Further details on the maturity profile of these deposits are provided in note 34.

Regulatory Capital
The following table outlines the Group's regulatory capital position under CRDIV/CRR as at 31 December 2017.

	31 December 2017[1]		31 December 2016	
	Transitional €m	Fully loaded €m	Transitional €m	Fully loaded €m
Capital resources:				
Common equity tier 1	**1,812**	**1,590**	1,827	1,579
Additional tier 1	**66**	**52**	98	82
Tier 1 capital	**1,878**	**1,642**	1,925	1,661
Tier 2 capital	**76**	**67**	78	68
Total capital	**1,954**	**1,709**	2,003	1,729
Risk weighted assets	**10,593**	**10,593**	10,593	10,593
Capital ratios:				
Common equity tier 1 capital	**17.1%**	**15.0%**	17.2%	14.9%
Tier 1 capital[2]	**17.7%**	**15.5%**	18.2%	15.7%
Total capital[3]	**18.4%**	**16.1%**	18.9%	16.3%
Leverage ratio[4]	**8.0%**	**7.1%**	7.8%	6.8%

1The 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.
2The tier 1 capital ratio is the ratio of a bank's common equity and additional tier 1 capital to its total risk-weighted assets (RWA).
3 The total capital ratio is the ratio of a bank's total capital (tier 1 and tier 2 capital) to its risk-weighted assets.
4 The leverage ratio is calculated by dividing tier 1 capital by total exposure (on balance sheet items, off balance sheet items and derivatives).

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

	31 December 2017		31 December 2016	
	Transitional €m	Fully loaded €m	Transitional €m	Fully loaded €m
Total equity	**2,111**	**2,111**	2,100	2,100
Less: AT1 capital	**(122)**	**(122)**	(122)	(122)
Captive insurance equity[1]	**(10)**	**(10)**	(10)	(10)
Adjusted capital	**1,979**	**1,979**	1,968	1,968
Prudential filters:				
Intangibles	**(39)**	**(39)**	(34)	(34)
Deferred tax	**(103)**	**(343)**	(71)	(355)
AFS reserves	**(7)**	**-**	(24)	-
Revaluation reserve	**(10)**	**-**		
Others	**(8)**	**(7)**	(12)	-
Common equity tier 1	**1,812**	**1, 590**	1,827	1,579

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

The Group's transitional common equity tier 1 (CET1) ratio at 31 December 2017 is 17.1%. This has decreased by 0.1% since 31 December 2016 reflecting the net impact of an increase in prudential filters (-0.28%) and annual profits after taxation (+0.14%). The fully loaded CET1 ratio is 15.0% at 31 December 2017 (31 December 2016: 14.9%).

The transitional total capital ratio of 18.4% at 31 December 2017 is 0.5% lower than the position at 31 December 2016 and the fully loaded position has decreased by 0.2% to 16.1%.

CET1 capital resources are €1,812m at 31 December 2017. This has decreased by €15m primarily due to an increased DTA deduction (€32m), a decrease in other equity reserves (€23m) offset by profits after tax during the year €40m. Transitional additional tier 1 capital is €32m lower due to a reduction in the qualifying additional tier 1 debt instrument.

Total RWAs remained at €10,593m due to increased Operational Risk RWA (€101m) offset by a decrease in Credit Risk RWA (€101m).

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

The leverage ratio on a transitional basis at 31 December 2017 is 8.0%, 0.2% higher than the position at 31 December 2016 due to a decrease in loan assets and securities financing transaction (SFT) exposures.

The Group exceeded its 2017 SREP transitional CET1 requirement of 9.2% by 7.9% at 31 December 2017. The SREP requirement is subject to annual review by the ECB. The Group has been notified by the ECB of its 2018 SREP requirement which is effective from 1 January 2018. The SREP decision requires that the Group maintains a CET 1 ratio of 9.825% and a total capital ratio of 13.325% on a transitional basis.

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

The Group's Pillar III disclosures for the year ended 31 December 2017 include additional information on capital requirements, risk weighted assets, resources and risk assessments.

The Group's capital management framework and further analysis of regulatory capital calculations are detailed in note 35 of the financial statements.

Risk Management

Group Risk Management and Governance

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

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

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

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

Group Risk Management Framework
The Group Risk Management Framework (GRMF) is an overarching Risk Management Framework articulating the governance of 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 and Volatility). The GRMF describes the Group-wide approach to the identification, assessment, mitigation, monitoring and reporting of risk across the outlined risk categories. The Group must manage, mitigate, monitor and report its risk exposure through a set of Risk Management processes, activities and tools.

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

Risk Appetite and Strategy

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

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

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

Risk Governance

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

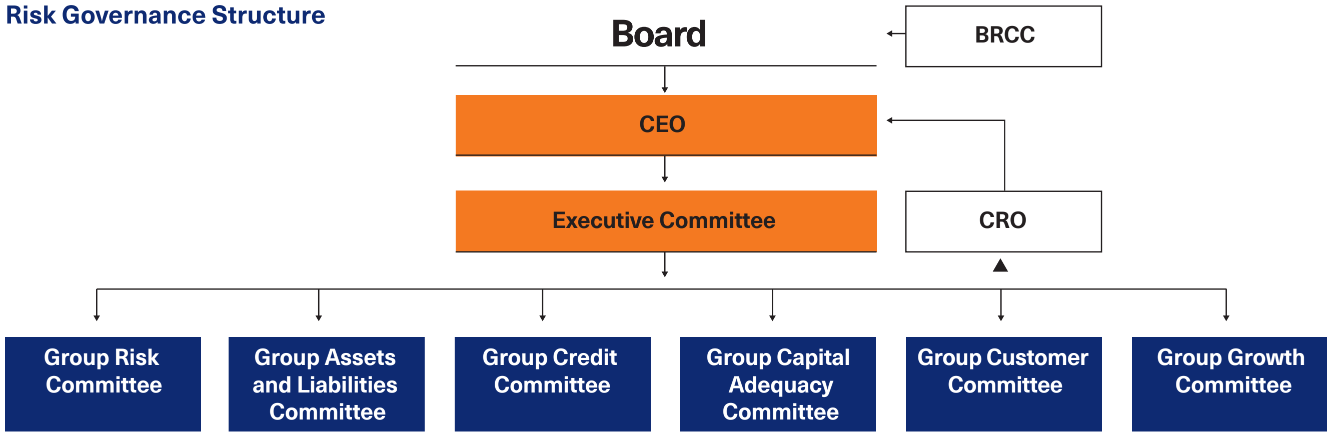
- Ensure the delegation of responsibility for risk oversight and management is appropriate to the nature and types of risk faced by the Group;
- Promote robust dialogue and decision-making around key risk matters;
- Enable the Group to accept and take a level of risk appropriate to its strategic objectives,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

These objectives are fulfilled through:

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

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

Risk Governance Structure



Key Risk Governance Roles and Responsibilities

Governance Forum/Role	Key Responsibilities
Board Ultimately responsible for the Group's business strategy, financial soundness, key personnel decisions, internal organisation, governance structure and practices, risk management and compliance obligations.	A key role of the Board is to ensure that risk and compliance are properly managed in the business. Key risk responsibilities of the Board include, but are not limited to: • Understanding the risks to which the Group is exposed and establishing a documented Risk Appetite for the Group; • Defining the strategy for the on-going management of material risks; and • Ensuring that there is a robust and effective internal control framework, that includes well-functioning risk management, compliance and internal audit functions as well as an appropriate financial reporting and accounting framework.
Board Risk and Compliance Committee (BRCC) Oversees and provides advice to the Board on Risk Governance and the current and future risk exposures tolerance/ appetite and strategy, and oversees the implementation of that strategy by senior management. This includes the strategy for capital and liquidity management, the setting of risk and compliance policies and the embedding and maintenance throughout the Group of a supportive culture in relation to the management of risk and compliance.	The Committee supports the Board in carrying out its responsibilities of ensuring that risks are properly identified, assessed, mitigated, monitored and reported, and that the Group is operating in line with its approved Risk Appetite. Key activities of the BRCC include, but are not limited to: • Reviewing and making recommendations to the Board on the Group's risk profile, both current and emerging, encompassing all relevant risks categories as described in the Risk Management Framework; • Reviewing and making recommendations to the Board in relation to the Group's Risk Appetite Framework and Risk Appetite Statement, and the Group Recovery Plan (RP); • 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 (GRMA) and relevant supporting documents; • Communicating all issues of material Group reputational risk directly to the Board; • Reviewing and making recommendations to the Board on the adequacy of capital and liquidity in the context of the Group's current and planned activities (via reviewing relevant outputs from ICAAP and ILAAP), including in relation to proposed mergers, acquisitions or disposals; and • Promoting a sound Risk Culture across the Group.

Risk Management
(continued)

Governance Forum/Role	Key Responsibilities
Executive Committee (ExCo) ExCo is the Senior Management Executive Committee for the Group, and is the: • Custodian of the Group's collective Management Agenda, Financial Plans and Risk Management Architecture as developed through the annual Integrated Planning Process (IPP); • Accountable body for the Group's operations, compliance and performance; • Ultimate point of escalation for Group specific issues, save for those matters reserved for the Board or its Committees; • Gateway through which decisions required from the Board are reviewed prior to submission unless otherwise delegated by ExCo to one of its sub-committees (or to another forum/ person); and • Forum for Group-wide functional issues.	In the context of Risk Management, ExCo is primarily responsible for, but not limited to: • Implementing the Group's Risk Management Architecture (GRMA) (and that all risks defined therein are managed effectively and efficiently, in a prudential manner within the Group's Risk Appetite); • Ensuring that robust operating frameworks exist (e.g. business continuity, site management, IT system capability and similar) within which the Group's activities are undertaken; and • Defining the Group's organisational structure.
Group Risk Committee (GRC) A forum for Group-wide Risk Management topics, this is a sub-committee of the Executive Committee with the Chair having unfettered access to the Chair of the Board Risk and Compliance Committee.	The Group Risk Committee monitors and enforces adherence to the Group's Risk Frameworks, Risk Policies and Risk Limits. It is the guardian of the Group's Risk Registers and is responsible for monitoring the total risk profile of the Group. Key activities of Group Risk Committee include, but are not limited to: • Measuring and monitoring the total risk profile of the Group and maintaining a Risk Register of top risks facing the Group, together with an assessment of the probability and severity of those risks; • Monitoring regulatory developments and upstream/horizon risk in relation to all relevant risk categories and ensuring that all material issues are communicated to the BRCC or the Board as appropriate; • Monitoring and assessing the Group's risk profile against Risk Appetite and propose remediation plans to restore Risk Appetite where required; • Monitoring the reporting and remediation plan with regard to any breaches of approved limits in accordance with agreed protocol; • Recommending proposed changes to the Group's Risk Appetite Limits for Board approval; • Agreeing the structure and content of the GRMA for recommendation to the BRCC; • Maintaining, monitoring and enforcing adherence to the Group's Risk Management Frameworks and Policies, for all key risk categories excluding those which fall directly under the remit of GCC, ALCO, Customer Committee, Capital Adequacy Committee and Growth Committee; • Recommending the ICAAP, ILAAP and RP to BRCC for review and recommendation to the Group Board; and • Overseeing validation of key Risk Models for all risk categories.

Governance Forum/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 Interest Rate Risk, Treasury Counterparty Risk and Foreign Exchange Risk. It is the body accountable for the evaluation of other potential drivers of earnings volatility, including, but not limited to, competitive and external market pressures, and for agreeing on optimisation and hedging strategies against those risks.	Key activities of ALCO include, but are not limited to: • Recommending the relevant ALM, Treasury and Market Risk elements of the Group's RAS for approval by the Board; • Maintaining, monitoring and enforcing adherence to the Group's Risk Management Frameworks and Policies for all ALM, Treasury and Market Risks; • Monitoring the ALM, Treasury and Market risks to which the Group is exposed; • Maintaining and assessing the ALM, Treasury and Market Risk profiles against set limits and propose remediation plans to restore Risk Appetite/Limits where required; • Reporting any breaches of approved limits in accordance with agreed protocol; • Determining the capital requirements for the Group's ALM, Treasury and Market Risks; • Acting as the decision making body on discretionary balance risk taking and hedging programmes; • Ensuring there is adequate and effective segregation of duties within Treasury and its supporting operations and to approve any significant amendment to the existing division of responsibilities within Treasury and its supporting operations; and • Acting as an approval body for new products, with responsibility for assessing the risk/return attractiveness and optimising the use of the Group's capital, funding and liquidity resources.
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 Group Credit Committee is responsible for developing and implementing portfolio credit policy within the Group. The policy addresses all material aspects of the full credit lifecycle, including credit risk assessment and mitigation, collateral requirements, collections and forbearance and the risk grading of individual credit exposures. Key activities of the GCC include, but are not limited to: • Recommending the relevant Portfolio Credit Risk elements of the Group's RAS for approval by the Board; • Setting and monitoring adherence to the Group's Credit Policy, including discretion limits and structure for underwriting, scoring, collections, recoveries and provisioning within the boundaries of the Group's RAS (as approved by the Board); • Monitoring the portfolio credit risks to which the Group is exposed; • Maintaining and assessing the portfolio credit risk profile against set limits and propose remediation plans to restore Risk Appetite where required; and • Reporting any breaches of approved Limits in accordance with agreed protocol.
Group Capital Adequacy Committee (CAC) CAC is responsible for the detailed execution and initial oversight responsibilities for Capital Adequacy. The CAC is responsible for reviewing the adequacy of capital on an ongoing basis and should receive (at a minimum) quarterly reporting on the current and forecast capital position	The CAC is responsible for, but not limited to: • Overviewing and challenging of specific ICAAP related activities in the relevant business lines and risk functions, in collaboration with the Supervisory Review and Evaluation Process (SREP) Team in the Financial Risk function, which is responsible for designing and co-ordinating the ICAAP; • Reviewing and challenging the ICAAP documentation for JST submission and recommending same to GRC for recommendation to BRCC for approval by the Board; • Reviewing and challenging the solvency stress testing framework (including scenarios, assumptions, results and management actions) and recommending same to GRC for recommendation to BRCC for approval by the Board; and • Reviewing the adequacy of capital in the context of current and planned activities and recommending same to ExCo.

Governance Forum/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 the right customer outcomes in order to generate sustainable long-term shareholder value permeates the Group's approach and thinking. This covers new product development, product delivery and fulfilment, ongoing product and customer management, and customer interaction.	The Group Customer Committee: • Provides guidance to Executive Management (including ExCo and other ExCo sub-committees) for business and commercial decisions which may have a material impact on customers and for the endorsement of such proposals; • Reviews high impact customer events, issues and complaints arising to both provide guidance on significant individual issues/events and to analyse trends to inform future strategy and decision-making with regard to customers; • Reviews the Conduct Risk that exists within the Group against the Board-approved Conduct Risk Appetite and Principles; and • Serves as the central oversight body for all customer matters ensuring fair treatment of customers is at the heart of key decisions made by the business.
Group Growth Committee The Group's Growth Committee provides context and promotes understanding of the commercial agenda.	The Growth Committee monitors performance against key commercial targets and is responsible for identifying, initiating and executing on activities/projects to achieve those targets based on customer insight. The commercial agenda is defined by the organisation's intentions to meet both income and cost targets as set through the Medium Term Plan, in the context of the Group's Risk Appetite.

Role of the Chief Risk Officer

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

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

The CRO is accountable for the development and oversight of the Group's Risk Appetite Framework and RAS, which the CRO recommends to the Board for their approval. The CRO is responsible for translating the approved Risk Appetite into risk limits which cascade throughout the business. Together with management, the CRO is actively engaged in monitoring the Group's performance relative to risk limit adherence. The CRO's responsibilities also encompass independent review and participation in the Group's 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 to exercise a veto over planned management action agreed by ExCo Risk Sub-Committees (such as the ALCO and the GCC) when the CRO considers such action to be inconsistent with adherence to the Board approved Risk Appetite.

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 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; • 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; and • Developing and embedding the Internal Control Framework (ICF).
Second Line of Defence The 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. Risk function is responsible for the on-going assessment, monitoring and reporting of risk-taking activities across the Group.	**Second Line – Risk Function** • Developing and monitoring the implementation of Risk Management frameworks, policies, systems, processes, procedures 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; • Reporting on all these items, including risk mitigating actions, where appropriate; and • Monitoring the effectiveness of the ICF.

Third Line of Defence
Group Internal Audit 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 Group Internal Audit. This includes the activities of risk and control functions established by the Group. The Head of Group Internal Audit reports directly to the Chair of the Board Audit Committee, 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 Board Audit Committee (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 Board Audit Committee 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 Board Audit Committee on the status and progress of the above.

Principal Risks and Uncertainties

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

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

The Group's 2017 Pillar 3 disclosures report should be read in conjunction with this section of the report.

Government Control and Intervention

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

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

The Minster for Finance and the Bank entered into a Relationship Framework Agreement dated 23 April 2015. The Framework Agreement provides that the Minister will ensure that the investment in the Bank is managed on a commercial basis and will engage with the Bank, 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 Bank.

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 was submitted to the EC in October 2014 and was subsequently approved in April 2015.

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

Whilst the key deleveraging commitments have been met (i.e. the disposals of the CHL and CRE portfolios and the reduction in defaulted trackers), the commitments nevertheless restrict the activities of the Group to particular areas and impose particular viability measures on the Group.

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

Economic Conditions

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

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

Ireland

- Domestically, the macro-economic environment has continued to improve throughout 2017 with GDP growth of between 3.5% and 4.4% expected for 2018 (Department of Finance, Central Bank of Ireland, EU Commission, ESRI), the seasonally adjusted unemployment rate declined over the 12 months to February 2018 from 7.3% to 6.0% (CSO) and house prices have continued to increase during 2017 (the CSO published annual growth to December 2017 of 12.3%).
- The on-going recovery in the Irish economy has continued to aid financing conditions throughout 2017. Gross Government debt as a percentage of GDP is expected to decrease to 69% by the end of 2018 (NTMA).
- Moving forward, the potential risks to the Irish economy are a combination of internal factors including an inadequate supply of private residential housing and a dysfunctional rental property market, combined with increasing wage demands from the public and private sector unions; and external factors, namely 'Brexit', pending changes by the new US Administration to the US economic and taxation policies, and further political and events in EU countries.
- Mortgage volumes increased 18% year-on-year in 2017, reaching a total of €7.3 billion (BPFI).
- Deposit inflows have remained healthy despite prolonged low interest rates; 2017 household deposits reached a record high of €101 billion.
- The Irish banking system has continued to reduce their Euro-system funding throughout 2017. The sector's large stock of Non-performing loans (NPLs) remains among the most significant risks for Irish Banks. However it is important to note that system wide NPLs have reduced from peak levels significantly since 2013. The positive

performance of Irish banks can materially be seen by way of Standard & Poor's (S&P) upgrading of the long term ratings of Irish banks. These upgrades occurred in January 2017. S&P attribute the upgrades to Ireland's continuing robust economic performance feeding into the creditworthiness of Irish banks along with the significant deleveraging efforts that each bank has undertaken in order to right-size their operations.

United Kingdom

- The implications of the UK 'Brexit' Referendum for Irish, European, and Global economies are yet to be fully determined. The decision to leave the EU creates heightened uncertainty over the UK's medium to long term growth prospects.
- Since the 'Brexit' vote, economic growth in the UK has continued, albeit at a declining rate, principally driven by domestic demand. GDP growth for 2017 was 1.8% (IMF), and is forecast to grow by 1.7% in 2018 (BOE). The UK unemployment rate remains low at 4.4% (ONS).
- The Bank of England increased the base line interest rate by 25bps to 0.5% in 2017, with inflation standing at 3% in the year to December 2017. Wage growth remained below the rate of inflation in 2017 and is forecast to remain modest in 2018.
- Since the sale of the residual UK mortgage loan portfolio in November 2016, the Group's direct exposure to the UK economy has significantly reduced.
- However, due to the close economic relationship between the UK and Ireland, an economic downturn in the UK including but not limited to the continued deterioration in the value of Sterling against the Euro, is likely to have consequences for the Irish economy. In addition any restrictions on the trade corridor between Ireland and the UK, particularly given the Brexit outcome, will have negative implications to the Irish economy. As a consequence any deterioration in the Irish economic outlook 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 received a rating upgrade from Moody's in September 2017 attributing it to continued strong economic growth, an almost-balances budget and declining public debt. Ireland's sovereign ratings have, to date, not been negatively impacted following the results of the UK Referendum. As noted above, given the close economic ties between the two countries, Ireland's ratings may still come under review for downgrade should the rating agencies take the view that the impact of Brexit is, or is likely to, materially and adversely impact on Ireland's economic performance.
- In September 2017, Moody's followed their peers and downgraded the UK to Aa2, sighting uncertainty due to Brexit.
- Any downgrade to Ireland's sovereign ratings would likely impact on the sourcing of market funding for the State. Consequently, this in turn may impact on the Group's ability to access markets.

European Union

- In addition to the specific risks associated with Ireland and the UK discussed above, economic, monetary, and political conditions remain uncertain in the Eurozone and EU. The European Commission have forecasted growth of 2.4% within the EU for 2017, with growth continuing at 2.3% 2018 and 2.0% for 2019. The European economy has performed significantly better than expected in 2017, propelled by resilient private consumption, stronger growth around the world, and falling unemployment. These factors are expected to continue underpinning economic activity in the near term.
- The ECB rate has remained at 0% throughout 2017. With inflation expected to stay well below the 2% threshold into 2019 (1.6% in 2019) few analysts are predicting a rate hike before 2020. It is widely expected, however, that the ECB will start to wind down bond buying after its schedule to buy €30 billion of bonds per month until September 2018 expires, if the economy continues to do well. Designed nearly three years ago to fight off the threat of deflation, the bond purchase scheme has cut funding costs, revived borrowing and lifted growth, though it did not raise inflation back to the ECB's target of almost 2 per cent.
- The European Commission however, note that "The main downside risks are external, relating to elevated geopolitical tensions (e.g. on the Korean peninsula), possibly tighter global financial conditions (e.g. due to an increase of risk aversion), the economic adjustment in China or the extension of protectionist policies. In the European Union, downside risks relate to the outcome of the Brexit negotiations, a stronger appreciation of the euro, and higher long-term interest rates. By contrast, diminishing uncertainty and improving sentiment in Europe could lead to stronger-than-forecast growth, as could stronger growth in the rest of the world".
- Other headwinds include political uncertainty in a number of European countries. Upcoming elections may bring increased uncertainty and volatility potentially resulting in a weaker performance within the Eurozone and EU.

Many of the above noted risks are outside of the Group's control. The Group sold our UK and IOM non-core portfolios in 2016, consolidated our balance sheet position, and continue to improve our liquidity, capital and funding bases in order to mitigate against future adverse economic conditions. We have also stress tested our balance sheet to assess our ability to withstand a continued economic downturn.

Capital Adequacy Risk

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

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

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

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

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

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

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

Credit Risk

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

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

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

Deterioration (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.

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 unable to access funding markets or can do so but only at an uneconomic cost. Liquidity Risk is the risk that the Group has insufficient funds to meet its financial obligations as and when they fall due, resulting in an inability to support normal business activity and/or failing to meet regulatory liquidity requirements. These risks are inherent in banking operations and can be heightened by a number of factors, including over reliance on a particular funding source, changes in credit ratings or market dislocation. It is likely that these risks would be further exacerbated in times of stress.

(i) Regulation and Ratios

The Group assesses the liquidity and funding positions with respect to the prescribed regulatory metrics from the CRD IV, the CRR and the Liquidity Coverage Ratio (LCR) Delegated Act. The ratios calculated and reported are Liquidity Coverage Ratio and the Net Stable Funding Requirement (NSFR). During 2017 the Group was also required to comply with the CBI liquidity mismatch ratio which has been discontinued from end 2017.

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

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

(ii) Risk Measurement and Monitoring

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

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

The Group measured and reported adherence to the CBI liquidity mismatch ratio which requires banks to have sufficient resources (cash inflows and marketable assets) to cover 100% of expected cash outflows in the 0-8 day time horizon and 90% in the 9-30 day time horizon. Customer behavioural assumptions are applied to non-contractual product lines when modelling the cash flows. As noted above, this metric has been discontinued from end 2017.

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

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

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

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

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

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

(iii) Liquidity Risk Management Framework

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

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.

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

(iv) Minimum Liquidity Levels

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

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 Group's asset encumbrance level is also monitored and tracked on an on-going basis.

(v) Liquidity Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Conduct Risk is specifically recognised as a distinct risk category that is separate but linked to operational risk and compliance. To this end, the Group has a 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 receives regular reporting from the Head of Conduct Risk, who also reports regularly to both the Group Board and BRCC.

Business and Strategic Risks

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

Business risk is typically assessed over a one year horizon while strategic risk generally relates to a longer timeframe and pertains to volatilities in earnings arising from failure to develop and execute an appropriate strategy. Business Units are responsible for delivery of their business plans and management of such factors as pricing, sales and loan volumes, operating expenses and other factors that may introduce earnings volatility. The development of new markets, products and services and significant changes to existing ones is addressed under the Group's New Product Approval process which 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 Risk Appetite Statement. Monitoring of business and strategic risk is evaluated through regular updates to the ExCo, BRCC and Board. The Group also reviews business and strategic risk as part of the risk identification process.

Reputational Risk

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

Mortgage Redress

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

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

As a result of these reviews, in addition to administrative sanctions, the Group is also exposed to the risk that customers who were impacted, or who may consider themselves to have been impacted, by the loss of a tracker rate mortgage entitlement may seek alternative redress and compensation, beyond that 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. Risks from both of these risk categories are inherently present in the Group's business.

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

The Group's Operational Risk Management Framework 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.

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 action, and could have a material adverse impact on the Group's results, financial condition and prospects. To quantify the potential impact of weaknesses in this regard, and to strengthen the Group's system of internal controls through the consideration of unexpected events, scenario analysis and stress testing are conducted on a regular basis.

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

Third Party Service Providers

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

The Group's Third Party Risk Management Framework, which is aligned to the EBA Guidelines on Outsourcing (2006), 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 across each of the geographies in which we operate. The Group is regulated by a number of regulatory authorities at national and European level.

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

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

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

Directors' Report

The Directors present their Annual Report and audited Group and Company Financial Statements to the shareholders for the year ended 31 December 2017.

Results

The Group profit after tax for the year was €40m (2016 loss: €266m) and was arrived at as presented in the consolidated income statement.

Dividends

No dividends were paid in 2016 or proposed for 2017 year-end.

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 Board Audit Committee 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 42 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 Governance Statement on page 74 under the Board Audit Committee's 2017 significant financial reporting judgements 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 2018-2020. 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 74 under the Board Audit Committee's 2017 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 2017 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 they have established 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 skills, expertise and experience of each Director are set out in the Board of Directors section on pages 58 to 59 of the Annual Report. Alan Cook retired as a Director and Chairman on 31 March 2017 and was succeeded by Robert Elliott who was appointed as a Director and Chairman on the same date. Eamonn Crowley, the Chief Financial Officer was appointed by election as Director at the 2017 AGM that was held on 10 May 2017.

On 29 November 2017, the Company announced that Ms Emer Daly would retire as a Director having completed her second 3 year-term of office. The Company indicated at that time, that Ms Daly would remain on the Board for an interim period until a new Board Audit Committee Chair had been appointed. As the appointment process is expected to conclude in the coming weeks, Ms Daly will retire from the Board at the conclusion of the AGM to be held on 16 May 2018.

All of the Directors in situ at the time of the Group's 2017 AGM were re-appointed by election at the 2017 AGM and all of the Directors will stand for reappointment by election at the Group's 2018 AGM to be held on 16 May 2018.

Information on Directors' remuneration is detailed in the Remuneration Report on pages 83 to 85 of the Annual Report and Directors' and Secretary interests in shares are outlined in Note 40 to the Financial Statements.

Share Capital and Shareholders

Credit Institutions (Stabilisation) Act 2010

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 independence 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 €1,804,673,334.97 divided into 1,550,000,000 ordinary shares of €0.50 each and 3,562,883,512 deferred shares of €0.289 each.

Issued Ordinary Shares
At 31 December 2017, the Company had 454,695,492 ordinary shares of €0.50 each in issue (2016: 454,695,492). Ordinary shares represent 18% of the Company's issued share capital value. No ordinary shares were issued in 2017.

At 31 December 2017, the Company holds, through an employee benefit trust, 4,580 (2016: 4,580) ordinary shares of €0.50 each. Each ordinary share carries one vote and the total number of voting rights at 31 December 2017 is 454,695,492 (2016: 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 31 December 2017, the Company had 3,562,883,512 (2016: 3,562,883,512) deferred shares in issue in that class. Deferred shares represent 82% of the Company's issued share capital value. On a winding up of, or other return of paid up share capital (other than a redemption of shares of any class in the capital of the Company), by the Company, the holders of the deferred shares shall, prior and in preference to any repayment of capital or distribution of any of the assets of the Company to the holders of ordinary

shares, with equal priority and pro rata solely amongst the holders of the deferred shares in proportion to the number of deferred shares held by them at that time, be entitled to receive by way of return of capital an aggregate amount of €1,500,000 and the holders of the deferred shares shall have no further right to participate in any such winding up (whether by way of distribution of assets or participation in any surplus or otherwise) or to a return of capital beyond such amount. Deferred shares carry no right to ask questions or vote at a general meeting or have any dividend rights and shall not be transferable at any time, other than with the prior written consent of the Directors.

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 has been received from the Central Bank of Ireland and the European Central Bank and an application to the High Court of Ireland for an Order confirming the approval of shareholders to cancel and extinguish 3,562,883,512 deferred shares has been listed for hearing on 21 March 2018.

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 Irish 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 in addition to any other meetings in that year and no more than fifteen months may lapse between the date of one Annual General Meeting 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 Annual General Meetings, 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 Annual General Meeting 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 Annual General Meeting), 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 2017, 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 13 March 2018.

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 Group Chief Executive Officer or Group 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. 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 50).

At the 2017 AGM held on 10 May 2017, 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 €75,024,756 representing 33% of the aggregate nominal value of the issued share capital of the Company as at 03 April 2017 (excluding treasury shares). The authority conferred commenced on the 10 May 2017 and will expire at the conclusion of the 2018 AGM or 10 August 2018 (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 2017 AGM held on 10 May 2017, 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 10 May 2017 and shall expire at the conclusion of the 2018 AGM or 10 August 2018 (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 be 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 03 April 2017;

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 10 May 2017 and shall expire at the conclusion of the 2018 AGM or 10 August 2018 (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 03 April 2017; 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 04 April 2017.

Market purchases of own Shares

At the 2017 AGM held on 10 May 2017, 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 10% of the issued ordinary share capital in the Company as at the date of 10 May 2017. The authority will expire on close of business on the date of the next AGM of the Company or on the 10 August 2018 (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 Irish 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 and the maximum price will be the lower of:

(a) 5% above the higher of the average of the closing prices of the Company's ordinary shares taken from the Irish Stock Exchange 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 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; and

(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 by this Resolution will be carried out).

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 44 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 2017.

Political Donations

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

Subsidiary Undertakings

The principal subsidiary undertakings and the Company's interests therein are shown in Note 42 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.

Non-Financial Statement

Information required in accordance with Directive 2013/34/EU (the Accounting Directive) as amended by Directive 2014/95/EU and the Companies (Accounting) Act 2017 is disclosed in the Corporate Social Responsibility Statement.

Details in respect of the Board Diversity Policy are disclosed in the Corporate Governance Statement (see page 57).

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 50, 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).

On behalf of the Board

Robert Elliott
Chairman

Jeremy Masding
Chief Executive Officer

Eamonn Crowley
Chief Financial Officer

Conor Ryan
Company Secretary

Corporate Governance Statement
Chairman's introduction to governance

what the Board does and how it sets the values of the Company

Dear Shareholders,

I am pleased to present the Permanent TSB Group Holdings plc Corporate Governance Report for 2017. The following report sets out the detail of our approach to corporate governance principles and practices, how we implement the 2016 UK Corporate Governance Code and the running of the Board and its Committees during the year.

The reports from the Chairman of the Board Audit, Board Risk and Compliance, Board Nomination and Board Remuneration Committees on pages 72, 77, 79 and 81 respectively highlight the key activities and areas of focus for each Committee.

The Board is responsible for leadership, oversight, control, development and long-term success of the Group. We are committed to observing high standards of corporate governance, integrity and professionalism to deliver on our priorities and promote the long-term success of the Company that will benefit the Bank's stakeholders. Good Corporate Governance is important in enabling the Board to meet challenges and take opportunities in an environment of continual change. We keep our governance structures and arrangements under review on a continuing basis to help us manage risk and provide assurance and accountability in a transparent way for the benefit of our shareholders and all stakeholders.

The Board is also responsible for instilling the appropriate culture, values and behaviour throughout the Bank. In April 2017, we launched our new Vision and Values Strategy, and in November 2017, we launched our Bank-wide recognition programme of 'VIP Awards', recognising employees who make a difference by living our 'Values in Practice'.

Finally, following my appointment as Chairman in March 2017, I would like to thank each of the Directors for their dedication and support during 2017. I look forward to 2018. Our Board is committed to the continued improvement of our collective effectiveness. Whilst our review of this was conducted internally during 2017, next year we will have external facilitation of the Board Evaluation process in accordance with good governance practice.

Robert Elliott
Chairman

Good Corporate Governance is important in enabling the Board to meet challenges and avail of the opportunities in an environment of continual change.

Governance in Action during 2017

- Promotion of our Culture through the launch of our new Vision and Values;
- Continued Board Development and implementation of 'Our People, Our Bank' Programme;
- Engagement with Shareholders; and
- Strengthening our IT and Cyber Security practices supported through the appointment of a new Chief Technology Officer.

Board Performance objectives for 2018

- Focus on Board Diversity by increasing female representation to 30%;
- Externally facilitated Board Performance Evaluation;
- Monitor progress of initiatives aimed at improving oversight and challenge capacity of the Board and its committees; and
- Actively demonstrate the Group's values in the discussions and decisions that are conducted and taken by the Board.

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 2017, 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 70. The developments outlined in this review demonstrate that the Group has achieved significant progress over 2017 in strengthening the Group's systems of risk management and internal control but that further embedding of the Group's Internal Control Framework together with leveraging the work concluded or now underway is required to achieve full compliance with these UK Code Principles.

The Company is required under E.2.4 of the 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. Due to the detailed nature of the business at the 2017 AGM, which considered a complex capital reorganisation, the issue of documentation was delayed in order to facilitate enhanced consultation with key stakeholders of the Group. It is the Board's intention to comply with the provisions of E.2.4 for the 2018 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.

Governance in Action: Culture

The Board recognises the importance of their role in establishing the culture and values of the Bank as key attributes to the Bank's success. The Board held a number of debates during 2017 that were focused on the Bank's culture and how we could further develop and underpin our culture across the Bank.

In 2017, we launched our new Vision and Values setting out how we, as employees and Directors of the Bank, should behave in the conduct of our duties. I am delighted to report the launch of the VIP (Values in Practice) Awards, a Bank-wide recognition programme of those making a difference by living our Values in Practice and translating them into expected organisational behaviours. Further information on our Vision and Values is detailed in the Strategic Report on page 13.

Feedback on culture was incorporated into our annual employee engagement programme through the 2017 'Pulse Survey'. In addition, we are pleased to report the launch of 'Our People, Our Bank – Building A Better Place To Work Together' programme, an initiative focused on strengthening the culture of the organisation by rebuilding employee trust in leadership, embedding the right behaviours, and driving high performance.

During 2018, the Board will continue to monitor culture across the Bank, to determine how we can further embed our values and drive a culture which translates into expected organisational behaviours.

Governance in Action: Board Training and Development

On appointment, Directors receive a comprehensive induction programme tailored to their individual needs. In addition, I review the training needs of Directors on an individual basis to ensure that those needs are matched with appropriate internal presentations and external events. Including myself, all of our Non-Executive Directors have, or will shortly complete the Certified Bank Director course with the Institute of Banking. Due to the ever evolving nature of the complex environment within which the Bank operates, the Board continually seeks to keep informed of the challenges and opportunities relevant to the Bank. During the year, the Board attended a number of internally and externally facilitated workshops. In addition, the Board held a separate session discussing the G30 report 'Towards Effective Governance of Financial Institutions'. Further details of the induction process and training and workshops provided to Directors during 2017 are set out on page 69 of the Corporate Governance Statement.

Governance in Action: Engagement with Shareholders

Investor Relations Team: The Group has an established and dedicated Investor Relations team, headed by the CFO. The Group has an active market engagement programme in place where we report our financial results live through a webcast twice a year typically in March and July and update the market on trading twice a year typically in May and November. The Group publishes all results, including the webcasts, on our website. The Group also reports other relevant information to the market on a timely basis. The Investor Relations team, together with the CEO and CFO, provides regular updates to the Board on the types of activities mentioned above, along with market reactions, in order to ensure that the members of the Board develop an understanding of the views of major shareholders.

Chairman: During last year, I took the opportunity to meet with some of the Group's major shareholders.

Senior Management: The Company's largest shareholder is the Minister for Finance of Ireland. Members of the Senior Management meet with the Department of Finance officials on a monthly basis to discuss the achievement of the Group's business plan and any other important matters as specified by the Relationship Framework.

Governance in Action: IT and Cyber Security

Given the prominence of data protection and cyber security and the implementation of the EU General Data Protection Regulations (GDPR) in May 2018, the Board recognise the increasing threat cyber security has to our business. In response to the Group's readiness to deal with any cyber security issues, in 2017 we appointed a new Chief Technology Officer as a member of our Executive Leadership team, with responsibility for implementing an information security programme across the business to protect our data. The Board Audit Committee has been delegated responsibility for monitoring progress in this area, while the Board receives regular updates on the status of the programme.

Board Objective for 2018: Board Diversity

We are committed to ensuring that the Board is sufficiently diverse and has the right balance of skills and experience to operate effectively. The Group recognises the importance of having a diverse Board in maintaining a competitive advantage. The Board has established a written policy on Board Diversity, including gender. Last year, the Board set itself a target of achieving a target of 30% female representation on the Board by the end of 2017.

While the Board had a 20% female representation by end of 2017, the Board remains committed to achieving the target of 30% female representation by end of 2018. The Nomination Committee will continue to retain gender diversity as a key factor to consider in all Board appointments.

Board Objective for 2018: Board Performance, Effectiveness and Oversight

The performance of the Board, its Committees and individual directors, is evaluated internally on an annual basis. I have completed an internal performance evaluation and I am pleased to report the results of the review were broadly positive and that each of the Directors continues to perform effectively and to demonstrate strong commitment to the role.

The internal evaluation did highlight the need to enhance certain operational aspects of the oversight capability of the Board and its Committees. The Board has set out changes to Board and Committee operational governance, focused on strengthening the oversight and challenge capacity of the Board and its Committees through a number of initiatives, including ensuring that the Board has sufficient capacity to concentrate on matters of strategic importance. Implementation of these initiatives will feature regularly on Board agendas throughout the year.

Arising from the internal evaluation, a number of additional actions agreed by the Board will be implemented during the current year. More information on the Board evaluation process can be found on page 68 of the Corporate Governance Statement.

In accordance with the UK Corporate Governance Code, an externally facilitated evaluation of the Board will be carried out during 2018.

Corporate Governance Statement
Board of Directors

				
Name **Position**	**Robert Elliott (65)** **Chairman**	**Jeremy Masding (52)** **Chief Executive Officer**	**Eamonn Crowley (48)** **Chief Financial Officer**	**Stephen Groarke (43)** **Chief Risk Officer**
Independent	Yes	No	No	No
Appointed	31 March 2017	28 February 2012	10 May 2017	17 May 2016
Board Committees	Nomination (Chair) Remuneration	None	None	None
Skills, Expertise and Experience	Robert is a former Chairman and Senior Partner of Linklaters LLP, a global law firm with a partnership of 460 members and approximately 5,500 staff. Before becoming Chairman of the firm, Robert held the position of Global Head of Banking with the firm. In this role, Robert was responsible for approximately 65 partners in 22 countries around the world and advised on major UK and international banking and restructuring projects. Robert was Chairman of Linklaters' Partnership Board, the senior governing body responsible for all of the firm's strategic and major decisions and which also ensured that all partners were appropriately consulted. In his role as Senior Partner and as the firm's ambassador, he has also contributed widely to industry and City organisations, think tanks and community-led initiatives. He has championed greater inclusiveness and diversity within the firm and actively demonstrated a strong commitment to community engagement outside of it. Robert has extensive experience as a consultant to companies in the banking sector and is an experienced chairman. He is also a Non-Executive Director of TheCityUK, the lobbying group for financial and professional services businesses in the UK and brings substantial boardroom experience as a client advisor. Robert continues to work on a part-time basis with Linklaters as Chairman Emeritus and Partner Consultant. He is also a Non-Executive Chairman of Saranac Partners Limited and provides consultancy services for Alix Partners.	Jeremy is an experienced career banker, having worked with Barclays Bank in a variety of different roles between 1984 and 2007. These roles included branch banking, international banking and in head office as a Director of Strategy Development. 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. Jeremy was Chairman of the Richmond Group (2010-2012), an independent loan broker and lender, and Group Chief Executive of Central Trust plc. (2007-2009), a specialist loan broker and lender. Jeremy is an Associate and Fellow of the Chartered Institute of Bankers, holds an MBA from Manchester Business School and is a Certified Bank Director.	Eamonn joined the Bank in 2017 from Bank Zachodni WBK S.A. ("BZ WBK"), Banco Santander's publicly listed Polish retail and commercial bank, where he was Chief Financial Officer and a member of the Executive Committee. 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. Eamonn is a fellow of the Chartered Association of Certified Accountants, a member of the Association of Corporate Treasurers, and holds an MBA from University College Dublin. Eamonn has over 25 years of experience in international business across financial services, banking and M&A. Eamonn is an experienced banker and brings extensive corporate finance, treasury and financial reporting experience to the Board.	Stephen is a qualified accountant who was appointed as Group CRO in April 2016 following a period of six months as Interim Group CRO. Prior to taking up the position of Interim Group CRO, Stephen held the position of Head of Group Finance at Permanent TSB. He previously held senior positions in Bank of Ireland Group and Ulster Bank Group. Since his appointment as Group CRO, Stephen has been instrumental in driving new and enhanced internal control and risk management standards for Permanent TSB.
Other Current External Commitments	Robert is a director of three non-commercial Companies, St Augustines Chapel Charity, Tonbridge School and Ben Ainslie (Holdings) Ltd. He is also a director of Windship Technologies Ltd and Real Ventures (Hull) Ltd.			

Julie O'Neill (62)
Non-Executive Director
Senior Independent Director

Yes

28 January 2014

Remuneration (Chair)
Risk and Compliance
Nomination

Julie served as Secretary General of the Irish Department of Transport from 2002 until 2009 and in a public service career spanning 37 years, working in strategic policy development and implementation with eight Government Departments. She is now an independent strategic management consultant and 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 and former chair of the audit committee of Trinity College Dublin. She is a member of the Institute of Directors and a Licentiate of the Institute of Banking from whom she has received the designation of 'Certified Bank Director'. Julie brings a wide range of economic and social policy experience, as well as extensive administrative and managerial experience to the deliberations of the Board.

Julie is chairperson of the Sustainable Energy Authority of Ireland.

Emer Daly (54)
Non-Executive Director

Yes

20 September 2011

Audit (Chair)
Risk and Compliance
Nomination

Emer is a Fellow of the Institute of Chartered Accountants and is an experienced Non-Executive Director and Chair of the Audit Committee. Emer previously worked in senior roles with PricewaterhouseCoopers and AXA Insurance. She is Chair of RSA Insurance DAC (A position approved by the Central Bank of Ireland) and was recently appointed as a Non-Executive Director to the board of Ryanair p.l.c.. Emer has previously held non-executive roles with Friends Provident International Ltd, Lombard International Assurance S.A, FBD Holdings Plc, Eirgrid p.l.c., Payzone p.l.c., the Property Registration Authority, and the Dublin Dental Hospital, where she was Board Chairman for seven years. Emer has also received the designation of 'Certified Bank Director' from the Institute of Banking. Emer brings her skills and expertise in accounting and risk management to the Board and her past experience is of particular benefit as Chair of the Audit Committee.

Emer is a member of the audit committee of the Department of Foreign Affairs and Trade, and lectures in risk management in the UCD Graduate Business School. She is a Director of Chetwood Financial Limited

Richard Pike (51)
Non-Executive Director

Yes

28 January 2014

Audit
Risk and Compliance

Richard has extensive experience of working with financial institutions and technology companies throughout the world, assisting companies in managing enterprise risk more efficiently while addressing local regulatory guidelines and standards. He has previously worked in various senior banking, insurance, credit and market risk roles. He 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. Richard has also received the designation of 'Certified Bank Director' by the Institute of Banking. 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.

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 also a Director of Stir Consulting Services limited, Governor Software.

Ronan O'Neill (64)
Non-Executive Director

Yes

26 July 2016

Risk and Compliance (Chair)
Nomination

Ronan qualified as a Chartered Accountant with Price Waterhouse in Dublin. Since then he has spent much of his career with the AIB Group both in Ireland and the UK. Prior to retiring from that organisation in 2013, he was Chief Executive Officer of AIB (UK) plc and a member of the AIB Group Leadership Team. He has an extensive range of experience across all banking disciplines at the highest level, with a particular exposure to risk and treasury functions including membership of the AIB Group Risk Committee and Assets and Liabilities Committee between 2011 and 2013. During this period, as Chief Executive of AIB UK, Ronan had responsibility for SME Business in the UK and the retail banking business of First Trust in Northern Ireland. Ronan 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, which is of particular benefit to the Board Risk and Compliance Committee which Ronan chairs.

Ronan is a Director of Woodlands Advisers Limited.

Ken Slattery (69)
Non-Executive Director

Yes

30 August 2013

Audit
Remuneration

Ken is a Fellow of the Institute of Bankers, a 'Certified Bank Director' and a member of the Institute of Directors. He has wide-ranging experience of the Irish financial services landscape, having worked in a number of senior executive positions with the Bank of Ireland Group ("BOI") in a career spanning 40 years. Following retirement from BOI in 2006, Ken held an executive role for 10 years as Credit and Operations Director with Social Finance Foundation, a credit organisation in the social world.

He also held Non-Executive Director positions including chairpersons of audit and risk committees in Government Departments in Ireland and Northern Ireland (Department of Transport, Tourism, Dublin and the Department of Finance, Belfast). He is former Non-Executive Director of Realex Financial Services where he was chair of the Company's audit and risk committees. Ken's general banking experience compliments the existing skillset of the Board and his 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.

Ken is a Non-Executive Director of three non-commercial companies, Choice Housing Ireland Limited, and its subsidiaries. Acorn Housing and Oaklee Housing Trust, where he Chairs the latter company's audit and risk committees. He is also a Non-Executive Director and Chairman of the audit and risk committee of the National Shared Services Office, the Irish Government's shared services company for HR, payroll and in time, finance.

Andrew Power (61)
Non-Executive Director

Yes

26 September 2016

Audit
Remuneration

Andrew is a former partner in the Consulting arm of Deloitte UK where he specialised in working with Retail Financial Services companies and, in particular, has extensive experience around strategy development and operational model transformation/process improvement. 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.

Andrew is a director of Andrew Power Consultancy Limited.

Conor Ryan
Company Secretary

Conor joined the Bank in 1989 and was appointed Company Secretary in 2017, having previously held the role of Deputy Company Secretary since 2012. As Company Secretary, he 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 Institute of Chartered Secretaries and Administrators (ICSA) and was President of the Institute in Ireland from 2014 to 2016

2017 Board Meeting Attendance and Directorships

Member	Appointed	Ceased	Number of Full Years on Board	2017 meeting attendance Scheduled	2017 meeting attendance Unscheduled	Number of Directorships held
Non-Executive Directors						
Robert Elliott	31 Mar 2017	-	0	9/9	6/7	4
Emer Daly	20 Sep 2011	-	6	13/13	7/8	4
Julie O'Neill	28 Jan 2014	-	3	13/13	7/8	3
Richard Pike	28 Jan 2014	-	3	13/13	6/8	4
Andrew Power	26 Sep 2016	-	1	13/13	8/8	2
Ronan O'Neill	26 Jul 2016	-	1	13/13	8/8	2
Ken Slattery	30 Aug 2013	-	4	13/13	8/8	1
Alan Cook	13 Apr 2011	31 Mar 2017	5	4/4	1/1	3
Executive Directors						
Jeremy Masding	28 Feb 2012	-	5	13/13	6/8	1
Stephen Groarke	17 May 2016	-	1	13/13	7/8	1
Eamonn Crowley	10 May 2017	-	0	8/8	6/6	1

Notes:
PTSB is the sole direct subsidiary of PTSBGH. During 2017, 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 2017 or at time cessation from the Board.

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. He facilitates active engagement and challenge by the Board to the Executive Committee and conducts the annual Board evaluation. 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 Group's operations, compliance and performance. The role of the CEO is to select and lead an effective team to manage the Group. The executive management team is called the Executive Committee, details of which are set out overleaf. 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 robust 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.

Corporate Governance Statement
Executive Committee

Jeremy Masding
Chief Executive

Eamonn Crowley
Chief Financial Officer

Stephen Groarke
Chief Risk Officer

Ger Mitchell
Group HR Director

Group HR is responsible for building capability and nurturing talent throughout Permanent TSB to ensure that our Group Strategy is delivered. Our strategic vision is 'To Be The Preferred Financial Services Employer in Ireland' and our 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.

Ger joined the Bank in 1993 and has held a variety of senior management roles in branch banking, intermediary development and regional management. Ger has completed the Certified Bank Director programme, has a Business Masters (MBS) through UCC/IMI and a C.DIP in Accounting and Finance (ACCA).

Mark Coan
Commercial Director

Commercial is responsible for maximising value creation via continual performance improvement. Direct responsibilities within Commercial include overall Growth Planning, Customer Experience, Product, Marketing and Digital.

Mark joined the Bank in 2016 and brings a wide range of commercial experience to the role. He worked for most of the last decade with Virgin Media in Ireland (formerly UPC/NTL), where since 2011, he was Vice President, Consumer, overseeing the Commercial operations of the company. He had previously worked in NTL / UPC in various commercially focused roles including Product Development, Sales & Marketing, and Digital. He holds a BEng from Leeds University.

Brendan Lynott
Distribution Director

Distribution is responsible for meeting customer needs in the delivery of compliant sales performance across the Bank's Distribution channels incorporating the branch network, voice, digital, and intermediaries.

Brendan joined the Bank in 1997 and is a career retail banker with 40 years' experience having joined AIB in 1978. Brendan holds an MBA from the Graduate School of Business, UCD, is a Fellow of the Institute of Banking, and a Certified Bank Director. He is a former President of the Institute of Banking in Ireland.

Andrew Walsh
Group Legal Counsel

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

Andrew joined the Bank in 2014. He became a member of the Group's Executive Committee in 2015. Prior to joining the Group, 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.

Shane O' Sullivan
Group Director of Operations

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

Shane joined the Bank in 2000, having held the position of Managing Director of the Group's Asset Management Unit until his appointment to Group Director of Operations during 2017. Shane previously worked with Bank of Ireland Group, Ulster Bank Group and HSBC Group.

Shane is a 'Certified Bank Director' and holds an MBA from Dublin City University.

Tom Hayes
Group Chief Technology Officer

Tom joined the Bank in 2017 from AIB where he had worked since 1992, and where most recently, he held the position of Head of Digital Transformation Delivery.

Tom has responsibility for the development and delivery of the Group's Technology, Payments and Change Agenda, including working closely with the Commercial Director, Mark Coan, and Director of Operations, Shane O'Sullivan, to design and deliver the Digital Transformation Agenda.

Tom has held various roles including: Head of Customer Engagement Technology, AIB Digital and Head of IT Infrastructure & Operations. Tom is originally a graduate of UCC and holds a Master of Business Studies (MBS) from Smurfit Business School. He recently completed a Post Graduate Diploma in Digital Business, IMI.

Breege Timoney
Interim Director, Mortgage Product Review Group

Breege is the Interim Director of the Mortgage Product Review Group (MPRG), reporting to Ger Mitchell and is a regular attendee at Executive Committee meetings. The MPRG was established in late 2015 following the Mortgage Redress Programme. The MPRG incorporates the programme of work required under the CBI's industry-wide Tracker Mortgage Examination. A wide ranging review of tracker mortgage accounts has been undertaken according to a detailed framework required by the CBI. A redress scheme has been implemented to deal with any issues identified which have resulted in customer detriment.

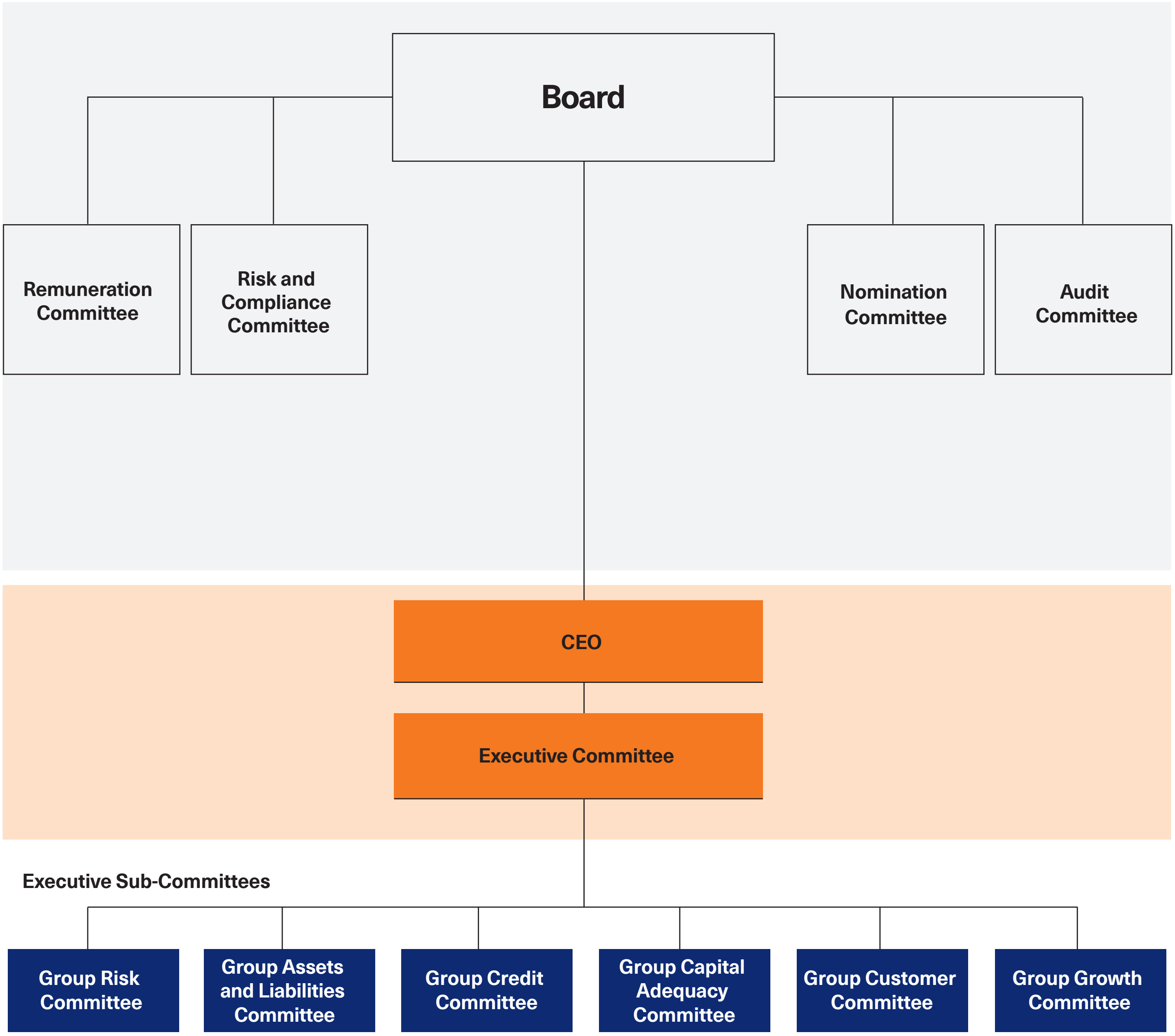
Breege joined the Bank in 2014. She is a Fellow of the Chartered Association of Certified Accountant and has an MSc in Investment, Treasury and Banking. She has spent the majority of her career in the financial services industry and has previously held senior finance roles in Bank Of Ireland Group and Ulster Bank Group.

Paul Redmond
Head of Group Internal Audit

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.

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. He is a qualified accountant and Certified Bank Director.

Governance Structure



The Board retains primary accountability for corporate governance within the Group 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 Group's operations, compliance and performance. The CEO is the principal executive accountable to the Board for the day to day management of the Group. The CEO has established the Executive Committee whose terms of reference are approved by the Board. In turn, the Executive Committee has established a number of sub-committees made up of senior management with relevant expertise to address the delegated obligations of each sub-committee.

Roles and Responsibilities

Board

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

Remuneration Committee

- Oversees remuneration and reward strategies.
- Ensures remuneration strategy is aligned with recruitment and risk appetite.
- Oversees senior management compensation.

Risk and Compliance Committee

- Oversees financial and non-financial risks.
- Approves and monitors risk framework and risk appetite.
- Oversees credit, funding and liquidity policies.

Nomination Committee

- Reviews structure, effectiveness and composition of the Board.
- Reviews all new director and senior management appointments.
- Oversees succession planning.

Audit Committee

- Oversees internal financial controls.
- Reviews full year and half year financial statements.
- Oversees external/internal audit supervision.
- Reviews Whistleblowing arrangements.

Executive Committee

- Brings proposals on strategy to the Board.
- Implements Board strategy.
- Accountable for the Group's operations, compliance and performance.
- Delivers all governance commitments.
- Oversees day-to-day management of the Group.
- Forum for Group wide functional issues.

Group Risk Committee

- Maintains , monitors and enforces adherence to risk policies and frameworks.
- Recommends changes to risk appetite and internal capital and liquidity levels.

Group Assets and Liabilities Committee

- Manages assets and liabilities, treasury investments, capital management and asset allocation.
- Manages risks, hedging and Asset Liability Management systems.

Group Credit Committee

- Manages credit policy and Credit Risk frameworks and systems.
- Decides collections policy and treatment strategies.
- Escalation point for customer lending decisions.

Group Capital Adequacy Committee

- 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.

Group Customer Committee

- 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.

Group Growth Committee

- 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.

The Board has established Audit, Risk, Remuneration and Nomination committees as described above. During December 2016, in line with its legal and regulatory obligations, the Board of PTSB established separate Audit, Risk, Remuneration and Nomination committees. Being composed of the same members and in managing a common agenda, Board Committee meetings of the Company and PTSB run concurrently.

Board Role and Responsibilities

As members of a unitary Board, all of the Directors have the same legal and fiduciary responsibilities. The Board as a whole is collectively responsible for the success of the Group in accordance with its stated objectives. All Directors must take decisions objectively in the interests of the Group. The key responsibilities of the Board as a whole are to:

- Question, challenge, assist development of and approve the strategic and operating plans proposed for the Group by Management and to ensure that an appropriate level of balance exists between its strategic contribution and that of its monitoring and policing activity;
- Set and oversee the amounts, types and distribution of both internal capital and own funds adequate to cover the risks of the Group;
- 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;
- Ensure that there is a remuneration framework that is in line with the risk strategies of the Group;
- Play a lead role in developing the Group's corporate culture and values;
- Ensure that there is a robust and transparent organisational structure with effective communication and reporting channels;
- Provide leadership for the Group within a framework of prudent, ethical and effective controls which enable risk and compliance to be assessed and managed;
- Ensure that Management create and develop a performance culture that drives value creation without exposing the Group to excessive risk of value destruction;
- Make well informed and high quality decisions based on a clear line of sight into the business;
- Ensure that the Group has a robust finance function responsible for accounting and financial data;
- Be accountable, particularly to those that provide the Group's capital; and
- Review regularly the appropriateness of its own governance arrangements and embrace internal as well as external evaluation of Board effectiveness.

Directors must also act in a way they consider, in good faith, would promote the success of the Group 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;
- need to foster the Group's business relationships with customers, suppliers and others;
- interests of the Group's employees;
- impact of the Group's operations on the community, environment and tax payer; and
- desirability of the Group maintaining a reputation for high standards of business conduct.

Board Decisions

There is an effective Board to lead and control the Group. The Board has reserved to itself for decision, a formal schedule of matters pertaining to the Group and its future direction, such as the Group'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 Group is willing to accept, or to avoid, in order to achieve its business objectives.

The Board delegates day-to-day management of the Group to the CEO. The Board relies on the Risk Appetite and the delivery of strategic, operating and financial plans to be implemented by the CEO, the Group'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.

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

Board Objectives

The objectives of the Board are to ensure that the Group is:

- Customer focused;
- Performing against agreed corporate strategy;
- Conforming to effective, prudent and ethical standards of corporate governance; and
- Properly managed in the areas of risk and compliance.

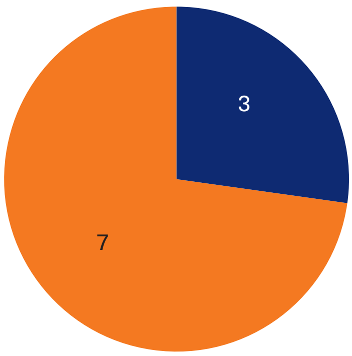
Strategy Development

The Board has responsibility for developing the Group's strategy. 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 Groups' ICAAP, ILAAP, Recovery Plan and Risk Appetite Statement. The process for developing the Medium Term Plan involves the CEO presenting proposals to the Board on the Medium Term Plan at a strategy away day held with the Group's Executive Committee. These proposals are grounded in a strategic fact-base and informed by current macro-economic Indicators. Taking feedback and direction from the Board, the CEO reverts with updated plans to the Group's Executive Committee for finalisation before presentation back to the Board for approval.

Independence

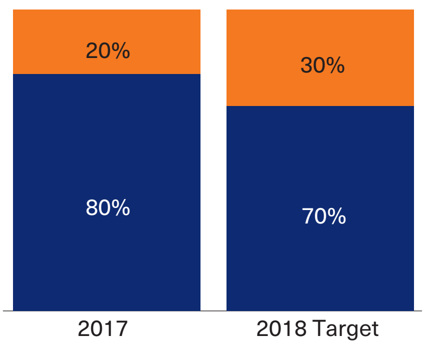
The Board has carried out its annual evaluation of the independence of each of its Non-Executive Directors, taking account of the relevant provisions of the UK Code, namely whether the Directors are independent in character and judgment and free from relationships or circumstances which are likely to 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.

Executive v Non-Executive



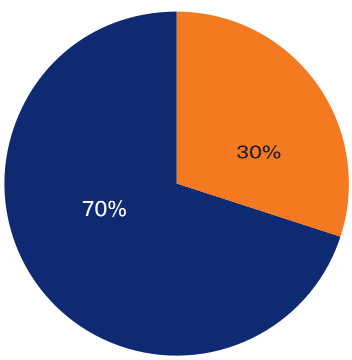
- Executive Directors
- Non-Executive Directors

Gender Diversity



- Male
- Female

Tenure of Non-Executive Directors



- 0-3 years
- 4-6 years

Board Size and Composition

Biographies of each of the Directors are set out in the Board of Directors section on page 58. 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 Group.

Decisions on Board membership are taken by the Board or by shareholders. The Nomination Committee brings recommendations on Board membership to the Board. During 2017, Robert Elliott was appointed as a Director by the Board and Eamonn Crowley was appointed as a Director by shareholders at the Company's 2017 AGM.

The balance and mix of appropriate skills and experience of Non-Executive Directors are taken into account when considering a proposed appointment. 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 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 had set a target of achieving a minimum 30% female representation on the Board by the end of 2017. While this target was not achieved by the Board at the end of 2017, Board gender is a key weighting that is used by the Nomination Committee in considering the selection of candidates to fill Board positions. The Board remains committed to achieving its stated objective of 30% female representation on the Board, in accordance with the Board's Diversity Policy. The Company is committed to having a diverse Board, and in line with proposed changes to the UK Corporate Governance Code due to be implemented in 2019, the Board considers diversity of gender, social and ethnic backgrounds, cognitive and personal strength and ensures an open and fair recruitment process.

The Board's objective is that approximately 50% of Non-Executive Directors, including the Board Chairman, together with the Chairs of the Audit and Risk Committees, should have Banking and/or financial experience and this will also be taken into account when recommending appointments. All candidates for appointment need to demonstrate the financial literacy required for a proper understanding of the Group'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.

The Board has a target size of between 10 and 12 Directors with three of these positions being filled by Executive Directors, namely, the Chief Executive, Chief Financial Officer and Chief Risk Officer. 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 independent Non-Executive Directors and without need for over reliance on any one Director or small group of Directors. The Board requires that all Non-Executive Directors are Independent Non-Executive Directors. The Board believes that this 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.

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 reappointment by election at the Company's 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. Ms Daly, who has completed a 6 year-term on the Board, will continue in office for an interim period and will retire at the 2018 AGM. The Chairman is proposed for reappointment 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 performance evaluation process to assess the effectiveness of the Board and its Committees. The performance evaluation is conducted internally on an annual basis, and externally facilitated every three years. Led by the Chairman, the internal performance evaluation takes into account recommendations on Board membership and performance. The process for the 2017 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.

2017 Board Evaluation process

A questionnaire based on 16 key governance related themes was issued to the Board to assess the performance of the Board and its Committees. A separate questionnaire on Board performance was also issued to the Executive Committee. During 2017, the Board Chairman met collectively with the Non-Executive Directors without the presence of Executive Directors. The Chairman also 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.

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. The Chairman was not present at the meeting when dealing with the evaluation of his performance. Without the CEO present, the Chairman presented his evaluation of the CEO's performance against agreed objectives to the Nomination Committee. The Nomination Committee also considered the performance of the remaining Executive Directors for 2017 and also received a presentation from the CEO on his assessment of performance of the Group's Executive Committee members.

Outcomes of 2017 Board Performance Evaluation

The Nomination Committee's review of Board performance took place in February 2018. At this meeting, the members of the Nomination Committee reviewed each of the following to consider the performance of the Directors, Board and its Committees:

- Outputs from the performance reviews of the Chairman, CEO, Executive Directors and Non-Executive Directors;
- A report prepared by the Company Secretary analysing the output from the Board and Executive Committee questionnaires;
- A governance discussion document prepared by the Company Secretary;
- Board skills matrix;
- Board and Committee tenure;
- Board and Committee meeting attendance schedule;
- Independence of Non-Executive Directors;
- Responsibilities of the Board, Chairman and CEO;
- External Directorships;
- Any declared interests of the Directors; and
- The Board's Diversity Policy.

Overall, the Nomination Committee 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. The 2017 Board performance evaluation highlighted a number of areas for development during 2018. The Nomination Committee recommended an action plan which was approved by the Board in February 2018 and will be implemented during 2018.

2018 Board Performance Action Plan

Board papers	Continued drive to enhance the quality of papers presented to the Board in order to ensure the Board have the right level of information and insight to make well informed decisions.
Board focus	Focus Board attention on issues of material importance by further reviewing which matters need to be presented to the Board and those which can be delegated to Board Committees/Management.
Director training and development	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.
Non-Executive Director Meetings	Schedule additional regular one-to-one meetings between the Non-Executive Directors and the Chairman and more frequent Non-Executive Director only meetings.
Board size	Based on the significant number of Board and committee meetings held during 2017 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.

External Board Performance Evaluation
In addition to the annual internal evaluations, an externally facilitated Board performance evaluation is carried out every three years, comprising a detailed and rigorous examination of all aspects of the Board and Committees' performance. Where this external evaluation is critical of the performance of the Board, the frequency of subsequent external evaluations will be increased to annually until acceptable performance is noted. Any such evaluation will be provided to the Central Bank of Ireland. The last externally facilitated evaluation of performance took place in 2015 and will be conducted again based on 2018 performance.

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 how the Group works and the key issues it faces. Directors will also be encouraged to make site visits to see the Group'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 Group 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. Some of the topics for which internal workshops/ training sessions were provided to Non-Executive Directors during 2017 included Brexit, ICAAP, Tracker Review, Digital Strategy, Anti Money Laundering, ECB Supervisory Review and Evaluation Process (SREP), Risk Appetite Statements, liquidity/capital planning, TRIM, IFRS9 and the macro-economic environment.

Board Meetings

The Board held 13 scheduled Board meetings and 8 un-scheduled Board meetings during 2017. Board papers are issued electronically to Directors via a secure online board portal in sufficient time to facilitate review by the Directors. The Chairman of each committee reports on the committee's proceedings at Board meetings, if appropriate. The Board receives formal reports on Group 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

All Board committees are composed of Non-Executive Directors, all of whom are considered by the Board to be independent. Membership, the Chairmanship and the terms of reference of each committee are reviewed annually. Detailed terms of reference for each of the committees are available on request and on the Group's website www. permanenttsbgroup.ie.

Board Responsibilities

The Board has overall responsibility for the Group's system of risk management and internal control. The Group's business involves the acceptance and management of a range of risks. 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.

The Board has 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.

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 2017.

The Board 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 2017 leading to a financial loss and material progress has been delivered throughout the Group in, but not limited to the following areas:

- Improvements in the Risk Profile of the Group;
- Completion of the Tracker Mortgage review programme;
- Progressing the development of the Group's Non-Performing Loan Strategy;
- Appointment of a Head of Data Management;
- Increased awareness of Risk Culture across the Group;
- Risk Appetite enhancements and communications;

The risk governance infrastructure evolved further through 2017 with the establishment of a Data Governance Forum and 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. Ensuring that these frameworks and policies are fully implemented with evidence of sufficient consistent implementation will remain a focus for the Board and Management in 2018.

The Board acknowledges that, in considering 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, the aforementioned developments demonstrate that the Group has achieved significant progress over 2017 but that further embedding of the Group's Internal Control Framework together with leveraging the work concluded or now underway is required to achieve full compliance with these UK Code Principles.

The Board has delegated, to Executive Management, the planning and implementation of the system of risk management and internal control within an established framework which applies throughout the Group.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group for the year under review and up to the date of approval of the financial statements. In accordance with UK Code provision C.2.1, the Board confirms that a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, has been carried out, details of which are set out on page 56. A full description of those risks and how they are managed is set out in the Risk Management section.

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 Board, 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;
- Group Internal Audit (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 Board Audit Committee 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 and as issued by the IASB;
- 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 judgements 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;
- User access to the financial reporting system is restricted to those individuals that require it for their assigned roles and responsibilities; 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 Audit Committee

As Chair of the Board Audit Committee, I am pleased to present the report of the Committee for the year ended 31 December 2017 which 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 by the Committee during 2017 are set out in this report. In addition to matters set out in the report which were considered by the Committee during 2017, the Committee also played a significant role in overseeing the implementation of control improvement recommendations made by both Group Internal Audit and the External Auditors. This will continue to be a priority for the Committee during 2018. Other areas of focus for 2018 will be the impact of IFRS 9 on impairment provisions and monitoring the continued implementation and embedding of the Group's Internal Control and Risk Management Framework.

On behalf of the Board Audit Committee

Emer Daly

Emer Daly
Chair, Board Audit Committee

Composition and Operation

The Board Audit Committee is composed of Independent Non-Executive Directors. Neither the Board Chairman nor the CEO is a member of the Board Audit Committee. The Board requires that the Chairman of the Board Audit Committee has recent and relevant financial experience. The Chairman of the Board Audit Committee is responsible for leadership of the Committee and for ensuring its effectiveness. 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 CEO, CFO, 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. On an annual basis the Committee reviews its own terms of reference and its own effectiveness and recommends changes considered necessary to the Board.

2017 Board Audit Committee Meeting Attendance

Member	Appointed	Ceased	Number of Full Years on the Committee	2017 meeting attendance
Emer Daly*	26 Oct 2011	-	6	8/8
Andrew Power	26 Sep 2016	-	1	8/8
Ken Slattery	31 Aug 2013	-	4	8/8
Richard Pike	1 Jun 2014	-	3	8/8

*Chair

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 in 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 overleaf. 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 2017

During 2017, the Committee expended a significant amount of time considering those issues set out in the Significant Financial Reporting Judgements and Disclosures and, recommending for approval to the Board, the Annual Report and Interim report.

During 2017, the Committee also:

- Reviewed Group Internal Audit activity throughout the year, including a review of performance against the 2017 internal audit plan;
- Approved a Group Internal Audit Plan covering the years 2018-2021;
- Reviewed the 2017 Internal Quality Assessment of the Group Internal Audit Function;
- Considered and approved an updated Internal Audit Charter;
- Reviewed and considered the Bank's arrangements and processes for the introduction of IFRS9;
- Reviewed impairment provisions;
- Reviewed the effectiveness of internal control over financial reporting;
- Reviewed the governance and approval arrangements underlying the fair, balanced and understandable assessment of the Annual Report;
- Reviewed the Group's Pillar 3 policy and disclosures;
- 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.

Significant Financial Reporting Judgements and Disclosures

During the year, the Board Audit Committee reviewed the external auditors' findings and the following significant financial reporting judgements and disclosures for the 2017 Financial Statements.

Loan Impairment Provisions

The Committee considered the Group's methodology including assumptions and parameters for loan impairment provisioning. The Committee discussed with Management in detail the changes and revisions made to the Group's provisioning models, the resulting level of impairment provisions recognised in the financial year, and the total impairment allowance at the year end. The Committee focused more particularly on the residential mortgage portfolio where the economic environment continued to improve. Management also provided the Committee with an analysis of various parameters and assumptions used in the impairment provision methodology. The Committee considered the parameters and refinement changes in the model and were satisfied with their appropriateness.

The Committee also reviewed Management's considerations of arrears levels, forbearance measures and their impact on provision levels and key assumptions, and was satisfied that the level of loans classified as impaired at year end was consistent with the Group's methodology, and that the calculation and resulting provision recognised were appropriate based on the requirements of IAS 39.

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 2017, as outlined in more detail under "Going Concern" and "Longer Term Viability" on the following page.

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 judgements 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 2017 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 judgement 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 2017, 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 with the valuation of the subsidiary and the resultant write down of the investment.

IFRS 9 transition
The Committee considered the estimated impact on shareholders' equity of the transition to IFRS 9 on 1 January 2018. The Committee reviewed technical papers prepared by management and challenged management judgements used in determining the correct classification and measurement of financial assets and the net increase in balance sheet provisions based on IFRS 9 requirements. The Committee considered the associated disclosures and concluded that they were appropriate based on the relevant accounting and disclosure standards, principally IAS 8.

Further information on the impact of this new accounting standard is set out on page 120 in note 1 to the consolidated financial statements.

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 which outlines the Directors' view that the Group will continue as a going concern for a period of 12 months following the signing of this report.

In making the judgement the Committee were provided with detailed papers containing Management's considerations of the risks and uncertainties as they may pertain to going concern. These judgements were reviewed by the Committee, and the Committee agree with Management's view that the Group continues on a going concern basis.

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 42 to 48, 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 outright profits for the 2017 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, including potential capital reductions as a result of sales of non-performing loan books, they are satisfied that the Group is on track to return to profitability 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 2017. During the year, the Group reduced its reliance on ECB funding with the Group holding €0.23bn of funding from the ECB at 31 December 2017 compared to €1.38bn at 31 December 2016.

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 2017. 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. Directors and Management have considered these factors, and in particular a deterioration of the macroeconomic environment leading to further house price falls, a potential increase in the level of arrears under a stress case and the impact that these may have on the Group's performance and are satisfied that the Group's capital plan is adequate for certain reasonably possible events. However, in this regard we have assumed that there is no material change to government or political policies which materially impact our business.

EU Restructuring Plan
The Restructuring Plan was approved in April 2015. The Group continues to monitor the progress against the Restructuring Plan Term Sheet, and assumes that no issues are currently expected to arise which would cast doubt on the longer term viability of the Group.

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 2020;
- 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 2020.

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 2017 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 judgement, they are independent of the Group.

The Board Audit Committee review 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 8 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 2017 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 Ivan McLoughlin who has held this role since 2013. 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.

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 Chairman of the Board Audit Committee and the Board Audit Committee meets 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. In December 2017 the Audit Committee considered the Internal Quality Assessment and made a number of recommendations arising from this review to improve the effectiveness of the function and these recommendations are tracked to closure at Audit Committee Meetings on a regular basis. 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
Board Risk and Compliance Committee

The Committee continued to oversee risk governance and risk appetite together with the embedding of our culture of risk management and compliance.

As Chair of the Board Risk and Compliance Committee, I am pleased to present the report of the Committee for the year ended 31 December 2017 which 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 by the Committee during 2017, are set out in this report. 2017 was a year in which the Committee focused on strengthening the Group's systems of risk management and internal control, details of which are described on page 70 and also set out within this committee report. The development of a mature risk culture within the Group continues to be a priority focus for the Committee and is an integral part of the Group's strategy. While the Committee is not yet in a position to confirm full compliance with the UK Code as set out in the Board Chairman's introduction on page 56, a key priority for the Committee is to oversee the continued embedding of the Group's Internal Control Framework together with leveraging the significant work concluded in 2017 and currently underway in 2018. It is the Board's stated objective to achieve full compliance with the UK Code requirement to maintain systems of risk management that are robust and defensible.

On behalf of the Board Risk and Compliance Committee

Ronan O'Neill
Chairman, Board Risk and Compliance Committee

Governance in Action during 2017

- Focused on NPL Reduction Strategies;
- Sought and received broader and deeper Risk Information from the Risk Function;
- Enhancements in Cyber and Information Security;
- Brexit Risk Review;
- Implementation of Risk Culture programme; and
- Risk Management and Internal Control effectiveness review.

Committee objectives for 2018

- Oversee the annual review on the effectiveness of the Bank's Risk and Compliance Functions;
- Support delivery of the Bank's NPL reduction strategies; and
- Support management of the Group's IT Assets.

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.

2017 Board Risk and Compliance Committee Meeting Attendance

Member	Appointed	Ceased	Number of Full Years on the Committee	2017 meeting attendance
Ronan O'Neill*	26 Jul 2016	-	1	12/12
Emer Daly	24 Oct 2011	-	6	12/12
Richard Pike	28 Jan 2014	-	3	12/12
Julie O'Neill	28 Jan 2014	-	3	12/12

*Chairman

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.

Matters considered by the Committee in 2017

During 2017, the Committee continued to progress the Group Risk Change Programme, which was originated to ensure that the Group Risk Function was in a strong position to discharge its duties in respect of overseeing the risk taking activities of the Group, and, fundamentally, supporting the need to assure a robust risk, governance and control culture across the Group. In executing its mandate, and where relevant, the Committee was cognisant of regulations and regulatory expectations. During 2017, the Committee also held four workshops, to which all Board members were invited. These workshops separately addressed ILAAP and ICAAP development and the alignment of the Bank's capital models to TRIM (Targeted Review of Internal Models).

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; and
- 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-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; and
- Annual MLRO Report.

Governance in Action: Brexit Risk Review

The Committee undertook a review of the risks posed by the UK's decision to leave the European Union. While there is much uncertainty surrounding the impact of Brexit, for PTSB, the financial services in Ireland, and, in relation to the economy generally, the Committee considered the potential impact on our principal risks as well as potential opportunities. The Committee considered contingencies to manage the key risks identified from the Brexit Review. The Committee will continue to track potential risks and closely monitor the developments of Brexit throughout 2018.

Governance in Action: Risk Culture Programme

The Committee considered the culture across the Bank in relation to the management of risk and compliance. The Committee endorsed a Risk Culture Programme, which focuses on a number of initiatives aimed at strengthening the culture across the Bank. These initiatives include 'Our People, Our Bank – Building a Better Place to Work' programme, Network 2020, VIP (Values in Practice) Awards, Diversity and Inclusion diagnostic, as well as our annual Pulse Survey. These initiatives contribute towards embedding a culture of managing risk and compliance.

Corporate Governance Statement
Board Nomination Committee

As Chairman of the Board Nomination Committee, I am pleased to present the report of the Committee for the year ended 31 December 2017 which 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 by the Committee during 2017, are set out in this report. During the year, the Committee reviewed the Group's Succession planning for the Board and Senior Management to ensure the Bank has a pipeline of executives. Following her second three-year term, Ms Emer Daly has announced her intention to step down from the Board during 2018. The Board Nomination Committee are actively engaged in overseeing the appointment of a suitable replacement to the Board and Chair of the Board Audit Committee. Following the 2017 internal Board Performance Evaluation process, the Board Nomination Committee made recommendations to the Board to maximise the efficiency of the Board and its Committees. The focus of the Committee during 2018 will be to support an externally facilitated Board performance evaluation of the Board and Directors. The Committee is also committed to addressing the targets set out in the Board Diversity Policy.

On behalf of the Board Nomination Committee

Robert Elliott
Chairman, Board Nomination Committee

The Board Nomination Committee oversees succession planning for the Board and senior management

Committee objectives for 2018

- Focus on Board Diversity;
- Externally facilitated Board Performance Evaluation;
- Oversee the appointment of a new Board Audit Committee Chair; and
- Succession Planning review for the Board and Senior Executives.

Responsibilities of the Committee

The Board Nomination Committee is charged with responsibility 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 Group, both Executive and Non-Executive, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace. This Committee is also responsible for reviewing the effectiveness of the Board's operations, including the Chairmanship and composition of Board committees.

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.

Restructuring of the Bank's Executive Committee

During 2017, the Committee approved the appointment of a new Chief Technology Officer role. Given the impending introduction of GDPR in 2018, the Committee believe this appointment will strengthen the Bank's IT and cyber security capabilities. During late 2017, the Committee also approved a proposal by the Group Chief Executive to re-structure the Bank's Executive Committee through the creation of a new Retail Banking Director role. This will be a critical role in delivering improved commercial performance and the Committee will oversee the recruitment process for this position which is expected to be filled in the second quarter of 2018.

2017 Board Nomination Committee Meeting Attendance

Member	Appointed	Ceased	Number of Full Years on the Committee	2017 meeting attendance
Robert Elliott*	31 March 2017	-	0	6/6
Ronan O'Neill	26 Jul 2016	-	1	8/8
Julie O'Neill	28 Jan 2014	-	3	8/8
Emer Daly	1 June 2014	-	3	8/8
Alan Cook**	2 June 2011	31 March 2017	5	2/2

* Chairman since 31 March 2017
** Chairman until 31 March 2017

Director Appointments

A key function of the Board Nomination Committee is succession planning for the Board. There were two appointments to the Board during 2017. Eamonn Crowley, the Chief Financial Officer, was appointed as an Executive Director in May 2017. Additionally, I was appointed as Non-Executive Director and Chairman of the Board in March 2017 and full details of my appointment process were set out in the 2016 Annual Report.

The Board Nomination Committee are responsible for overseeing the ongoing process to identify suitable candidates and make recommendations to the Board on the Board and Committee composition. The Board Nomination Committee take into consideration the suitability of the preferred candidate, mindful of the Board diversity policy to have 30% female representation on the Board. The ongoing search for a new Board Committee Chair has involved approval by the Board Nomination Committee of a detailed role profile and assisted in this process through review and approval of an updated Board skills matrix. The Board skills matrix enabled the Board Nomination Committee to understand the current skill set of the Board and where potential gaps existed. The Board Nomination Committee has utilised the services of the external search agency 'Odgers Berndston' to generate a long list of potential candidates for this position. Open advertising will not be utilised by the Board Nomination Committee as the Committee is satisfied that the pool of candidates put forward by the search agency is diverse and thorough.

The profile of each candidate on the long list will be considered in the first instance by the Chairman. The Chairman will then hold 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 will be created and these candidates will be invited to meet with the Executive Directors and members of senior management. The purpose of these meetings is 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 will be carried out on the final preferred candidate, which will include a detailed review of their 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 will also consider 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

The process undertaken for the 2017 annual Board performance evaluation and the action plan arising from the resulting 2018 Action plan are set out in page 69. 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 and will be again conducted on 2018 performance. The Board Nomination Committee will identify a suitable external Board evaluation consultant to undertake the 2018 Board performance evaluation.

Other Matters considered by the Committee in 2017

- 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 CEO and his performance assessment of his direct reports
- monitoring of the ongoing process with regard to the appointment of a new Audit Committee Chair
- 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 and making 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
Board Remuneration Committee

As Chair of the Board Remuneration Committee, I am pleased to present the report of the Committee for the year ended 31 December 2017 which 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 by the Committee during 2017 are set out in this report. A significant portion of the Committee's time during 2017 was spent reviewing and updating the Group's Remuneration Policy, and various other remuneration related policies and processes to align with applicable regulation and legislation. During 2017, the Committee also reviewed the Group's medium term remuneration strategy to assess the competitiveness of its total reward arrangements and future direction in the context of market developments amongst its peer group. During 2018, the Committee will ensure that the Remuneration Policy complies with the Group's legal and regulatory obligations and further work will be undertaken in relation to the future total reward framework.

On behalf of the Board Remuneration Committee

Julie O'Neill
Chair, Board Remuneration Committee

Composition and Operation

The members of the Board Remuneration Committee are Julie O'Neill, Robert Elliott, Andrew Power and Ken Slattery, all of whom are experienced in the management and oversight of large organisations where the remuneration and motivation of staff and executives is of crucial importance. Alan Cook also served on the Board Remuneration Committee until his retirement from the Board on 31 March 2017. Julie O'Neill was appointed Chairman of the Committee on 15 June 2016. The Committee had 9 meetings during 2017 and in addition, the Chairman of the Committee met with Senior Management to discuss emerging issues and regulatory requirements relating to remuneration issues.

2016 Board Remuneration Committee Meeting Attendance

Member	Appointed	Ceased	Number of Full Years on the Committee	2017 Meeting Attendance
Robert Elliott	31 Mar 2017	-	0	4/4
Ken Slattery	28 Jan 2014	-	3	9/9
Julie O'Neill*	15 Jun 2016	-	1	9/9
Andrew Power	26 Sept 2016	-	1	9/9
Alan Cook	5 May 2011	31 March 2017	5	2/3

*Chair

Role and Responsibilities

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.

In December 2016, the Board approved changes recommended by the Committee to the Terms of Reference in light of the requirements set out in the European Banking Authority's (EBA) Guidelines on sound remuneration policies. Further minor updates were made in December 2017 in relation to the individuals within the Committee's remit. As such, the main roles and responsibilities of the Committee include:

Recommending the Group's remuneration policies to the Board for approval;

- 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 2017

The Group's Remuneration Policy, while set and governed by the Board, is subject to certain agreements and commitments in place with the Irish State that currently restrict the terms of remuneration for Directors and employees of the Group. The Committee kept under review all aspects of remuneration for the Board Chairman, CEO, Executive Directors and members of the Executive Committee.

The Committee, with the supporting perspective of an external consultant, Deloitte LLP and the internal Group Risk function, applied significant oversight to ensure compliance with the CRD IV related Regulations and Guidelines, including a focus on reviewing the remuneration components of Material Risk Takers. The Committee 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 and Termination policies and compliance with the EBA Guidelines on sound remuneration policies implemented on 1 January 2017. The Committee also reviewed the Group's established variable commission scheme, as well as principles and practices to ensure it is fully aligned 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.

During 2017, the Committee used the external consultant for advice on Executive Director and Senior Management remuneration, remuneration trends in the external market and for perspective on regulatory compliance matters. In 2017, Deloitte also continued to provide support to the Group with regard to the IFRS 9 implementation programme and PSD2 project, as well as supporting initiatives within Group Risk, IT and Operations.

The Group utilises a policy of median base pay versus market peer groups. 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, it takes account of appropriate input from the Group's risk, compliance and internal audit functions to ensure that its decision making process is aligned with the Group's financial performance, risk appetite, regulatory guidelines and stakeholder interests.

If the Group is unable to attract, retain and motivate key skilled and qualified people, its business may be negatively impacted. The Committee keeps the impact of the Group's Remuneration Policy and movements in the external market under review. As part of this process, the Committee, in 2017, reviewed the Group's medium term remuneration strategy to assess the competitiveness of its total reward arrangements and future direction in the context of market developments amongst its peer group.

The Group's Remuneration Policy, details of which are set out in the Director's report on Remuneration applies equally to its Irish and overseas subsidiaries.

Directors' Report on Remuneration

Remuneration Report

This report sets out the Remuneration Policy with a focus on the Group's Senior Executives and Directors. It has been prepared by the Board 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. Building on the changes previously made to the Remuneration Policy, 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 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. 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 Remuneration Policy and strategy are set out in the Group's Pillar 3 Report.

The reward arrangements within the Group can be summarised as follows:

- The Group utilises a policy of median pay versus market peer groups. The policy also 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 2017;
- There has been no granting of share options since 2008; all outstanding share options have now lapsed and no further grants can be made under the remaining scheme which is now closed;
- No deferred remuneration was awarded in 2017;
- There are no outstanding Long Term Incentive Plan (LTIP) share awards;
- Aggregate Executive Director compensation has increased from €732,000 to €1,129,000 (2016-2017); and
- The level of the basic fee paid to Non-Executive Directors increased from €50,625 to €54,675 from 2016 to 2017. This is the first increase in basic fees since 2007, the fees having been reduced in 2009 and 2013. The fees for membership of Committees were also reviewed. Aggregate fees paid to Non-Executive Directors increased from €615,000 to €793,000 (2016-2017) as a result of the increases outlined above and changes to Board and Committee membership during the year.

At an overall level, the Committee ensures that the Remuneration Policy is consistent with the Group's Risk Appetite Statement. The CRO 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 Group's Remuneration Policy, the Board confirms, other than as set out in the Board Chairman's Introduction on page 56, that it has complied with the provisions of the UK Code. The Group's policy on Senior Executive remuneration (including Executive Directors) is to reward Executives competitively in order to ensure the Group continues to attract and retain high calibre Executives and that they 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 and variable pay, recent regulatory changes, capital requirements and ability to pay.

In considering Remuneration Policy the Committee has regard to input from the risk and compliance function and the internal audit function within the Group, both of which review relevant aspects of the Remuneration Policy.

The Committee will continue to have the reward strategy reviewed on an annual basis to ensure it complies with regulatory requirements and relevant market practices.

At the AGM in 2017, 99% 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 page 85.

Executive Directors

The remuneration of the Executive Directors in 2017 comprises a basic salary, certain benefits and defined contribution pension entitlements.

Basic Salary

The basic salary is reviewed annually having regard to competitive market practice and Government guidelines. During 2017, the Board Remuneration Committee reviewed general salary levels within the bank and arising therefrom, the Board approved a general pay increase to staff. These pay increases were effective from 1 January 2017. As part of this review, and in considering current market data and existing State Agreements (in particular the cap of €500,000 on total annual aggregate remuneration (excluding pension contributions), the Board Remuneration Committee recommended to the Board that the CEO's salary remain unchanged at €424,000. This position was considered appropriate in light of changes to the CEO's remuneration approved in 2016, the first salary increase since his appointment in 2012.

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 2017 no house purchase loans had been issued to serving Executive Directors. The CEO, CFO and CRO are eligible to receive an allowance of €20,000 in lieu of a company car.

Bonus and Long-Term Incentive Plans

No bonus payments were made to Executive Directors during 2016 or 2017. Neither were there any long term incentive arrangements in place for Executive Directors in 2016 or 2017.

Pensions
Jeremy Masding, Stephen Groarke and Eamonn Crowley are members of the PTSB Defined Contribution Pension Scheme. The Group contributes 12% of salary into this pension scheme.

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 2016 or 2017.

Share Option Schemes - Audited
No share options were granted in 2016 or 2017. There were no share options in existence at the end of the period and the Group'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	
	2017 €000	2016 €000	2017 €000	2016 €000	2017 €000	2016 €000
Jeremy Masding	**424**	424	**75**	78	**499**	502
Stephen Groarke (appointed 17 May 2016)	**305**	181	**59**	49	**364**	230
Eamonn Crowley (appointed 10 May 2017)	**226**	-	**40**	-	**266**	-
	955	605	**174**	127	**1,129**	732

J Masding - Other remuneration consists of employer pension contributions (€51k), Benefit in Kind (€21k), taxable expenses (€3k).
S Groarke - Other remuneration consists of employer pension contributions (€37k), Benefit in Kind (€20k), taxable expenses (€2k).
E Crowley – Other remuneration consists of employer pension contributions (€27k), Benefit in Kind (€13k).

Executive Directors' Share Options - Audited
No Executive Director (Jeremy Masding, Stephen Groarke and Eamonn Crowley) holds any Share Options in the Company. The Executive and Non-Executive Directors' shareholdings in the Company are detailed in note 40 of the Financial Statements.

Non-Executive Directors' Remuneration – Audited
Non-Executive Directors, including the Chairman, were remunerated solely by way of fees in respect of their Board membership. The Chairman is entitled to an annual fee of €290,000 and Non-Executive Directors received €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 Board Remuneration Committee and to members of the Board Nomination Committee; and
- €20,000 to the Senior Independent Director.

Committee Membership is set out on pages 58 and 59.

The remuneration payable in respect of each Non-Executive Director is as follows:

Director	Note	2017 Basic Fee Level €'000	2017 Fees Paid €'000	2017 Additional Fees paid €'000	2017 Annual Taxable Benefit €'000	2017 Total Paid €'000	2016 Total Paid €'000
Robert Elliott (appointed 31 March 2017)	1	290	218	-	43	261	-
Emer Daly	2	55	55	37	-	92	76
Ken Slattery	3	55	55	12	-	67	57
Julie O'Neill	4	55	55	42	-	97	69
Richard Pike	5	55	55	15	-	70	70
Andrew Power	6	55	55	12	-	67	26
Ronan O'Neill	7	55	55	30	-	85	33
Alan Cook (retired 31 March 2017)	8	194	49	-	5	54	226
Dominic Dodd	9	-	-	-	-	-	29
David Stewart	10	-	-	-	-	-	29

Note 1: Appointed as Chairman and member of the Board on 31 March 2017.
Note 2: Additional fees paid as Chair of the Board Audit Committee and as a member of the Board Risk and Compliance Committee and the Board Nomination Committee.
Note 3: Additional fees paid as a 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 as Senior Independent Director.
Note 5: Additional fees paid as a member of the Board Audit Committee and the Board Risk and Compliance Committee.
Note 6: Additional fees paid as a member of the Board Audit Committee and 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: Ceased as Chairman and as a member of the Board on 31 March 2017. The annual taxable benefit for Alan Cook represents non-pensionable cash in lieu of expenses.
Note 9: Ceased as a member of the Board, member of the Board Audit Committee and Senior Independent Director on 20 April 2016.
Note 10: Ceased as a member of the Board and Chair of the Board Risk and Compliance Committee on 20 April 2016.

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 Chairman 's Statement, the Chief Executive's Review and the 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 Group's position and performance, business model and strategy.

On behalf of the Board

Robert Elliott
Chairman

Jeremy Masding
Chief Executive Officer

Eamonn Crowley
Chief Financial Officer

Conor Ryan
Company Secretary

13 March 2018

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 2017 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 2017;
- 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.

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.

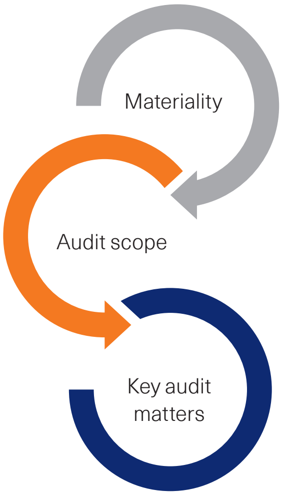
Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 January 2017 to 31 December 2017.

Independent auditors' report to the members of permanent tsb Group Holdings plc (continued)

Our audit approach

Overview

Materiality



Materiality

- €10.5 million (2016: €10.5 million) - Group financial statements
- Based on 0.5% of net assets.
- €9.8m (2016:€10.5m) - Company financial statements
- Based on 1.0% of net 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 99% of the net assets of the group and 90% of absolute profit before tax (ie the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units).

Key audit matters

- Impairment provisions on loans and advances to customers.
- Provision for legacy legal and compliance issues.
- Recoverability of the deferred tax asset.
- IT controls.
- IFRS 9 transitional adjustment.
- Recoverability of the carrying value of the investment in Permanent TSB plc.

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
Impairment Provisions on Loans and Advances to Customers [Group] Refer to page 73 (Corporate Governance Statement), page 110 (Group accounting policies), page 125 (critical accounting estimates and judgements), page 142 (note 19 to the consolidated financial statements) and page 162 (financial risk management note dealing with credit risk). The determination of impairment provisions for the secured lending portfolios involves a number of different provisioning methods depending on loan performance and the size of the loan. Certain provisions are determined using modelling techniques, for example the Residential credit models, while loans above a certain size are determined on an individual loan basis using discounted cash flow calculations. The use of models involves the extraction of large amounts of data from the group's source systems. A mix of historical experience, market information and management judgement is incorporated into the various assumptions which underpin the provisioning process for provisions determined using models and provisions determined on an individual loan basis. We have focussed on the secured lending portfolios due to the inherent complexity and the significant management judgement involved. We have focused in particular on the assumptions underlying the calculation of modelled provisions relating to residential mortgages such as collateral valuation, forced sale discount and foreclosure costs, and the assumptions used in discounted cash flow assessments relating to Commercial Real Estate (CRE), such as collateral valuation.	We assessed and tested the design and operating effectiveness of management's controls over the source data and calculations. We tested the completeness and accuracy of the extraction of the underlying data from the group's source systems. Given the complexity of the residential mortgage models, we engaged our IT audit specialists to assess the data feeds to the models and to re-perform certain model provision calculations. We performed testing over the classification of loans and advances as impaired or non-impaired. For modelled provisions, we challenged key assumptions by comparison to externally available information and assessed certain assumptions for consistency with group specific actual historic experience. Where changes were made to the model parameters and assumptions from those used in the prior year, we understood the rationale and considered such changes to be appropriate. For loans where impairment is assessed on an individual loan basis, our testing incorporated the selection of a sample of individual loans where: • We assessed, by reference to the underlying documentation and through discussion with management, whether or not a trigger for impairment had occurred and challenged the reasonableness of management's judgement in this regard. • If an impairment trigger had occurred, we assessed the appropriateness of provision booked based on the detailed loan and counterparty information, including collateral valuation in the credit file, and considered the estimated future cash flows prepared by management to support the calculation of the impairment provision. We challenged the assumptions used in the future cash flows by comparing estimates to external support, where available. Where appropriate our work involved considering third party valuations of collateral and internal valuations derived from benchmark data. We considered and challenged the group's rationalisation of the overall provision to assess whether relevant risks are reflected in the provision, whether overlays are needed to the model output and to assess the reasonableness of the total provision having regard to available external data. We concluded that the impairment provisions recognised in respect of Loans and Advances to customers at year end was reasonable.

Independent auditors' report to the members of permanent tsb Group Holdings plc (continued)

Key audit matter	How our audit addressed the key audit matter
Provision for legacy legal and compliance issues [Group] Refer to page 73 (Corporate Governance Statement), page 117 (Group accounting policies), page 128 (critical accounting estimates and judgements) and page 153 (note 29 to the consolidated financial statements). The Group has recognised a provision of €45m in respect of legacy, legal and compliance liabilities of which €32m 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 Note 29, the CBI review is ongoing 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 total provision requires management judgement and is subject to estimation uncertainty in respect of the level and settlement amounts of appeals which may arise from impacted customers and the ultimate outcome of the CBI review process.	We read and considered correspondence with the Central Bank of Ireland regarding conduct issues. 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 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 inherent uncertainty in the calculation of the provision, we have challenged Management's assessment of the residual risks and uncertainties relating to Management's estimate of the total cost of the MRP and CBI reviews as described in Note 2 of the financial statements. We have also considered the extent and appropriateness of the disclosures included in the financial statements. 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 a reasonable estimate, and; • the extent of the disclosures included within the financial statements is appropriate.
Recoverability of the deferred tax asset [Group] Refer to page 73 (Corporate Governance Statement), page 109 (Group accounting policies), page 126 (critical accounting estimates and judgements) and page 149 (note 22 to the consolidated financial statements). The Group has deferred tax assets of €361 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 deferred tax assets are outlined in Note 22, 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.	As noted on page 70 in the Corporate Governance report, 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 asset met the requirements for recognition under IAS 12 and that its carrying value was reasonable. We have also considered the appropriateness of the disclosures included in the financial statements.

Key audit matter	How our audit addressed the key audit matter
IT controls [Group] Refer to page 74 (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 2017. 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.
IFRS 9 transitional adjustment [Group] Refer to page 74 (Corporate Governance Statement) and page 120 (note 1 to the consolidated financial statements). The group is adopting IFRS 9 Financial Instruments from 1 January 2018. As required by IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, the group has disclosed the estimated impact of adopting IFRS 9 in Note 1 to the consolidated financial statements. The disclosures in 2017 are intended to give the users of the financial statements an understanding of the impact of the new standard, and as a result are more limited than the disclosures to be included in the 2018 financial statements. We consider the disclosures of the impact of IFRS 9 for impairment to be a key audit matter because of the significant changes introduced by the standard where impairment losses are recognised on an expected loss basis and for which new models have been developed by the Group. As outlined in Note 1, the complexity involved requires new methodologies, new models, additional data and the use of significant management judgement.	We have obtained an understanding of, and evaluated management's processes and controls for, the calculation of the transition adjustment disclosures in the financial statements. We read and considered key model documentation and technical papers prepared by Management and assessed them against the requirements of IFRS 9. We have understood and tested: • the controls over model development, model testing and approval by management; • the selection and approval of key management assumptions and judgements, including those in relation to staging criteria, the use of forward looking information and the determination of probability weighted macroeconomic scenarios; • the integrity of the key data inputs to the models; and • management's controls regarding the review and approval of the output of the models and the application of post model adjustments. Together with our PwC actuarial and risk specialists we: • performed risk based testing of key components of the IFRS 9 models as part of our assessment of the results of management testing; • challenged the reasonableness and appropriateness of the key assumptions and judgements made by management; and • assessed the reasonableness of the forward looking information incorporated into the models and the approach to reflect multiple economic scenarios and associated weightings. We considered management's rationalisation of the overall IFRS 9 impairment transition adjustment in the context of the balance sheet as at 1 January 2018. Based on the procedures performed and evidence obtained we concluded that management's process for the estimation of the IFRS 9 transition adjustment was reasonable and that the disclosures met the requirements of IAS 8.

Independent auditors' report to the members of permanent tsb Group Holdings plc (continued)

Key audit matter	How our audit addressed the key audit matter
Recoverable amount of the carrying value of the investment in Permanent TSB plc [Company only] Refer to page 74 Corporate Governance Statement, page 129 critical accounting estimates and judgements, and page 197 (note 42 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 carrying value and recoverable amounts. In assessing the recoverability of the investment at year end, management determined that the investment was impaired and accordingly recorded an impairment of €186m. We consider this to be a key audit matter given the materiality of the impairment and the judgement associated with the assessment of the recoverability the investment at 31 December 2017.	We evaluated management's assessment of the recoverable amount of the investment and the resulting identification of an impairment of €186m. We evaluated and tested the governance controls over the recoverability assessment. The assessment of fair value less costs of disposal of the investment was based on the group's market capitalisation both before and after year end and on external broker reports. We agreed the valuation data to broker reports and the stock exchange and assessed management's analysis for reasonableness. We recalculated the impairment charge recognised in the income statement. We concluded that the carrying amount of the investment in permanent TSB plc is reasonable.

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. Following the sale of the Lansdowne 199 loan portfolio in the prior financial year along with the loan portfolios of a number of other subsidiaries in the Isle of Man, the Group no longer has significant other 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 99% of the net assets of the group and 90% of the absolute profit before tax (ie the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units). The nature and extent of audit procedures was determined by our risk assessment for each account balance.

Together with additional procedures performed at the group level, this gave us the evidence we needed for our opinion on the financial statements as a whole.

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 (2016: €10.5 million).	€9.8m (2016: €10.5m)
How we determined it	0.5% of net assets	1.0% of net assets
Rationale for benchmark applied	Given the volatility in 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) (2016: €525,000) and €490,000 (company audit) (2016: €525,000) 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 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).

Independent auditors' report to the members of permanent tsb Group Holdings plc (continued)

Directors' Report

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2017 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. (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) 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 74 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 page 74 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 86 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 page 73 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 86, 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 consolidated 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 directors 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 5 years, covering the years ended 31 December 2013 to 31 December 2017.

Ivan McLoughlin
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
13 March 2018

Consolidated Income Statement
For the year ended 31 December 2017

	Notes	Year ended 31 December 2017 €m	Year ended 31 December 2016 €m
Interest income	4	**504**	568
Interest expense	4	**(99)**	(178)
Net interest income		**405**	390
Fees and commission income	5	**58**	57
Fees and commission expense	5	**(19)**	(18)
Net trading (expense)/income	6	**(3)**	3
Net other operating income	7	**2**	29
Total operating income		**443**	461
Administrative, staff and other expenses (excluding exceptional items)	8	**(264)**	(262)
Bank levy and other regulatory charges	9	**(44)**	(61)
Depreciation of property and equipment	20	**(12)**	(12)
Reversal of impairment of property and equipment	20	**1**	2
Amortisation of intangible assets	21	**(10)**	(8)
Exceptional items		**(13)**	(414)
Restructuring and other charges	10	***(12)***	*(15)*
Loss on deleveraging	10	***(1)***	*(399)*
Total operating expenses		**(342)**	(755)
Operating profit/(loss) before (charge)/write-back for impairment		**101**	(294)
Impairment (charge)/write-back			
Loans and advances to customers	19(a)	**(48)**	65
Collateral in possession	19(b)	**(1)**	3
Total impairment (charge)/write-back		**(49)**	68
Profit/(loss) before taxation		**52**	(226)
Taxation	11	**(12)**	(40)
Profit/(loss) for the year		**40**	(266)
Attributable to:			
Owners of the holding company		**40**	(266)
Earnings/(loss) per share		€ Cent	€ Cent
Basic earnings/(loss) per share of €0.5 ordinary shares	12	**6.4**	(60.7)
Diluted earnings/(loss) per share of €0.5 ordinary shares	12	**6.4**	(60.7)

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2017

	Notes	Year ended 31 December 2017 €m	Year ended 31 December 2016 €m
Profit/(loss) for the year		**40**	(266)
Other comprehensive income, net of tax:			
Items that will not be reclassified to the income statement in subsequent years			
Revaluation of property	11	**9**	9
Tax relating to items that will not be reclassified to the income statement	11	**(1)**	(3)
Items that may be reclassified to the income statement in subsequent years			
Currency translation adjustment reserve			
Transferred to income statement on discontinuance of the hedge	16	**-**	1
Available-for-sale (AFS) reserve			
Change in fair value of AFS financial assets	14	**(30)**	(26)
Transfer to income statement on disposals of AFS financial asset	15	**-**	(22)
Tax relating to items that may be reclassified to the income statement	11	**4**	6
Cash flow hedge (CFH) reserve			
Change in fair value recognised in equity	16	**-**	24
Amortisation of dedesignated CFH to income statement	16	**-**	(9)
Tax relating to items that may be reclassified to the income statement	11	**-**	(2)
Other comprehensive income/(expense), net of tax		**(18)**	(22)
Total comprehensive income/(expense) for the year, net of tax		**22**	(288)
Attributable to:			
Owners of the holding company		**22**	(288)

Consolidated and Company Statement of Financial Position
As at 31 December 2017

		Consolidated		Company	
	Notes	31 December 2017 €m	31 December 2016 €m	31 December 2017 €m	31 December 2016 €m
Assets					
Cash and balances with central banks	13	**62**	66	**-**	-
Items in the course of collection	13	**28**	30	**-**	-
Debt securities	14	**1,978**	2,682	**-**	-
Equity securities	15	**12**	9	**-**	-
Derivative assets	16	**37**	44	**-**	-
Loans and advances to banks	17	**1,518**	1,185	**-**	-
Loans and advances to customers	18	**18,370**	18,886	**-**	-
Property and equipment	20	**141**	125	**-**	-
Intangible assets	21	**39**	34	**-**	-
Deferred taxation	22	**343**	353	**-**	-
Other assets	23	**39**	81	**-**	-
Prepayments and accrued income	24	**45**	103	**-**	-
Current tax asset		**-**	2	**-**	-
Assets classified as held for sale	41	**161**	1	**-**	-
Investments in subsidiary undertakings	42	**-**	-	**978**	1,161
Total assets		**22,773**	23,601	**978**	1,161
Liabilities					
Deposits by banks (including central banks)*	25	**1,842**	2,903	**-**	-
Customer accounts	26	**16,995**	16,984	**-**	-
Debt securities in issue	27	**1,633**	1,324	**-**	-
Derivative liabilities	16	**48**	124	**-**	-
Accruals		**8**	10	**-**	-
Current tax liability		**2**	-	**-**	-
Other liabilities	28	**48**	50	**3**	3
Provisions	29	**63**	84	**-**	-
Subordinated liabilities	30	**23**	22	**-**	-
Total liabilities		**20,662**	21,501	**3**	3
Equity					
Share capital	31	**1,257**	1,257	**1,257**	1,257
Share premium	31	**333**	333	**333**	333
Other reserves	31	**(769)**	(764)	**-**	-
Retained earnings	31	**1,168**	1,152	**(618)**	(432)
Shareholders' equity		**1,989**	1,978	**972**	1,158
Other equity instruments	31	**122**	122	**3**	-
Total equity		**2,111**	2,100	**975**	1,158
Total liabilities and equity		**22,773**	23,601	**978**	1,161

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

On behalf of the Board:

Robert Elliott
Chairman

Jeremy Masding
Chief Executive Officer

Eamonn Crowley
Chief Financial Officer

Conor Ryan
Company Secretary

Consolidated Statement of Changes in Equity
For the year ended 31 December 2017

Consolidated

	Attributable to owners of the holding company										
	Share capital €m	**Share premium €m**	**Capital contribution reserve* €m**	**Revaluation reserve* €m**	**AFS reserve* €m**	**Cash flow hedge 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 2015	1,257	331	118	24	103	(13)	-	(856)	1,310	122	2,396
Loss for the year ended 31 December 2016	-	-	-		-	-	-	-	(266)	-	(266)
Other comprehensive income, net of tax (note 11, 20, 32)	-	-	-	6	(42)	13	1	-	-	-	(22)
Total comprehensive income/(expense) for the year	-	-	-	6	(42)	13	1	-	(266)	-	(288)
Contributions by and distributions to owners											
Release of provision in relation to issuance cost of share capital and other equity instruments	-	2	-	-	-	-	-	-	-	-	2
Transfer of capital contribution reserve to retained earnings	-	-	(118)	-	-	-	-	-	118	-	-
AT1 coupon paid (note 31)	-	-	-	-	-	-	-	-	(10)	-	(10)
Total contributions by and distributions to owners	-	2	(118)	-	-	-	-	-	108	-	(8)
Balance as at 31 December 2016	**1,257**	**333**	**-**	**30**	**61**	**-**	**1**	**(856)**	**1,152**	**122**	**2,100**
Profit for the year ended 31 December 2017	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**40**	**-**	**40**
Other comprehensive income relating to prior years, net of tax (note 32)				**13**					**(13)**		**-**
Other comprehensive income, net of tax (note 11,32)	**-**	**-**	**-**	**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 31)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(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**

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

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Company Statement of Changes in Equity
For the year ended 31 December 2017

	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 2016	1,257	331	(132)	-	1,456
Loss for the year ended 31 December 2016	-	-	(300)	-	(300)
Other comprehensive income, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	(300)		(300)
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
Release of provision in relation to issuance costs of share capital and other equity instruments	-	2	-	-	2
Total contributions by and distributions to owners	-	2	-	-	2
Balance as at 31 December 2016	**1,257**	**333**	**(432)**		**1,158**
Loss for the year ended 31 December 2017	**-**	**-**	**(186)**	-	**(186)**
Other comprehensive income, net of tax	**-**	**-**	**-**	-	**-**
Total comprehensive income 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**

Consolidated and Company Statement of Cash Flows
For the year ended 31 December 2017

	Consolidated		Company	
	31 December 2017 €m	31 December 2016 €m	31 December 2017 €m	31 December 2016 €m
Cash flows from operating activities				
Profit/(loss) before taxation for the year	**52**	(226)	**(186)**	(300)
Adjusted for:				
Depreciation, amortisation and impairment of property, equipment and intangibles	**22**	30	**-**	-
Reversal on revaluation of property	**(1)**	(2)	**-**	-
Impairment charge/(write-back) on:				
- Loans and advances to customers	**48**	(65)	**-**	-
- Collateral in possession	**1**	(3)	**-**	-
Impairment of investment in subsidiary undertaking	**-**	-	**186**	300
Unrealised losses/(gains) on financial assets	**3**	(3)	**-**	-
(Gain)/loss on debt securities/buy back	**(1)**	-	**-**	-
Loss on loans and advances to customers	**-**	399	**-**	-
Amortisation of bond discounts	**(3)**	(7)	**-**	-
Other mortgage related adjustments	**17**	24	**-**	-
Other provisions	**18**	16	**-**	-
Visa equity share	**(2)**	(8)	**-**	-
Other non-cash items	**(1)**	6	**-**	-
	153	161	**-**	-
(Increase)/decrease in operating assets				
Items in the course of collection	**2**	-	**-**	-
Loans and advances to banks	**1**	(473)	**-**	-
Loans and advances to customers	**490**	3,230	**-**	-
Debt securities	**638**	1,127	**-**	-
Derivative assets	**1**	(24)	**-**	-
Other assets	**(159)**	164	**-**	-
Prepayments and accrued income	**75**	(18)	**-**	-
Equity securities	**-**	(13)	**-**	-
Increase/(decrease) in operating liabilities				
Deposits by banks (including central banks)	**(1,061)**	(3,461)	**-**	-
Customer accounts	**(8)**	(1,475)	**-**	-
Debt securities in issue	**13**	400	**-**	-
Derivative liabilities	**(36)**	(4)	**-**	-
Other liabilities and accruals	**(4)**	(25)	**-**	-
Provisions	**(38)**	(20)	**-**	-
	(86)	(592)	**-**	-
				-
Net cash inflow/(outflow) from operating activities before tax	**67**	(431)	**-**	-
Tax refund	**3**	5	**-**	-
Net cash inflow/(outflow) from operating activities	**70**	(426)	**-**	-

Consolidated and Company Statement of Cash Flows
For the year ended 31 December 2017 (continued)

	Consolidated		Company	
	31 December 2017 €m	31 December 2016 €m	31 December 2017 €m	31 December 2016 €m
Cash flows from investing activities				
Purchase of property and equipment	**(5)**	(12)	**-**	-
Purchase of intangible assets	**(15)**	(16)	**-**	-
Movement in restricted cash holdings	**90**	171	**-**	-
Net cash flows from investing activities	**70**	143	**-**	-
Cash flows from financing activities				
AT1 coupon payment	**(11)**	(10)	**-**	-
Redemption of debt securities in issue	**(56)**	-	**-**	-
Issuance/maturities of debt securities in issue	**363**	419	**-**	-
Net cash flows from financing activities	**296**	409	**-**	-
Increase in cash and cash equivalents	**436**	126	**-**	-
Analysis of changes in cash and cash equivalents				
Cash and cash equivalents as at 1 January	**600**	736	**-**	-
Increase in cash and cash equivalents	**436**	126	**-**	-
Effect of exchange translation adjustments	**(6)**	(262)	**-**	-
Cash and cash equivalents as at 31 December*	**1,030**	600	**-**	-

*The cash and cash equivalents exclude restricted cash as per note 13.

Reconciliation of liabilities arising from financing activities

			Non cash changes				
	01/01/2017 €m	Financing cash flows €m	Embedded derivatives €m	Hedging adjustment €m	Fair value adjustments €m	Other changes €m	31/12/2017 €m
Debt securities in issue (note 27)	**1,324**	**307**	**1**	**(11)**	**-**	**12**	**1,633**

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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 2017.

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 13 March 2018.

The accounting policies applied in the preparation of the financial statements for the year ended 31 December 2017 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 IFRS Interpretations Committee (IFRS IC) 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 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. There have been no changes in accounting policies during the year.

The financial statements include the information that is described as being an integral part of the audited financial statements contained in the Remuneration Report on pages 84 and 85.

The individual financial statements of the holding company have also been prepared in accordance with IFRS and IFRS IC 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. During 2017 and 2016, the Company impaired their investment in PTSB. See note 42 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 available for sale, land and buildings and collateral in possession.

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 and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and are reflected in the judgements made about the carrying amounts of assets and liabilities.

Actual results may differ from 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, 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 basis of accounting

In considering management's assessment of the Group's ability to continue as a going concern, Management considered principal risks and uncertainties as they might pertain to the Going Concern assumption, particularly the status of the Group's adherence to the terms of the Restructuring Plan, the Liquidity position, Profitability and the Capital position. Management considered these items over the course of the year to date and into 2018, 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 2017. Management considered realistic alternatives, including downside scenarios applied by the Group so as to appropriately test assumptions and potential outcomes. 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 2017 is a period of 12 months from the date of approval of these financial statements ("the period of assessment").

In making this assessment, the Directors and Management have considered the Group's 2018-2021 draft 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 recover in 2017. Though improving, the mortgage market continues to be constrained, impacted by housing completions and various other factors.

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

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

Restructuring Plan (RP)

The Restructuring Plan was approved in April 2015. A commitment was to deliver a cost of income ratio (CIR) of 59% by the end of 2017. This was not achieved largely due to factors outside of the Group's control, including the significant regulatory cost burden for the Group over and above what was originally anticipated when the RP commitments were set. Details of the CIR trajectory for the Group have been discussed with the DG Competition (DG Comp). A breach of this commitment is not, of itself, expected to be an outright risk of the Group not being a going concern.

To the extent that the Group cannot meet its CIR commitment this may require the Group to revisit the terms of the RP, which could result in the EU imposing further commitments to the Group. It is the Group's view that, having raised capital and returned to profits, it is in a better financial position than it was when the original RP was agreed. The re-opening of the RP would not give rise to a material uncertainty which would cast doubt on the ability of the Group to continue as a going concern, and also because the Group is generally better positioned financially.

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

Funding & liquidity

The Group continued to have sufficient liquidity throughout 2017 and has reduced its ECB system funding to €0.23bn (from €1.38bn at 31 December 2016). The Group 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.

Notwithstanding the above, the Group continues to hold a significant liquidity buffer at 31 December 2017. The Group also continues to utilise the normal operations of the ECB for liquidity and funding during the period of assessment and the Directors and Management are aware that the Group's ability to continue to access system liquidity and funding will be dependent on the Group having sufficient eligible collateral. However, the Directors and Management are satisfied, based on a review of funding plans, interaction with wholesale markets and deposit trends that the required liquidity and funding will be available to the Group during the period of assessment, and does not give rise to material uncertainties which would cast significant doubt on the ability of the Group to continue as a Going Concern basis over the period of assessment.

Profitability and capital adequacy

The Group made an outright profit before tax for the 12 month period ended 31 December 2017. Directors and Management 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, Directors and Management are satisfied that the Group is on track to continued pre-exceptional profitability in future years, excluding the impact of deleveraging NPLs.

Directors and Management have also considered the Group's forecasted capital base, including the potential losses of deleveraging NPLs, its ability to withstand additional Group applied stress scenarios such as the economic environment in Ireland declining. On the basis of the above considerations, the Directors and Management have 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 consider it appropriate to prepare the financial statements on a going concern basis.

1.4 Comparative information

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

1.5 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.

Investments in subsidiaries are shown at cost in the Company financial statements unless they are impaired, in which case they are shown at the lower of carrying value and recoverable amounts. If they are held for sale they are measured at the lower of carrying amount and fair value less costs to sell. In general, investments in subsidiaries are assessed for impairment when the subsidiary is loss making or where there are other indicators of impairment. 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

For acquisitions on or before 1 January 2010, the amount capitalised as goodwill is the excess of the cost of a business combination over the interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition. This applies to acquisitions of subsidiary undertakings, associated undertakings and other businesses.

For acquisitions on or after 1 January 2010, the Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets and liabilities assumed, all measured at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

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 IAS 39, “Financial Instruments: Recognition and Measurement” in the income statement.

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.
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 other comprehensive income (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.

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

(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 method. The effective interest rate 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 effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate 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 effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

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 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

Exceptional items are a material component of the Group's profit or loss which would not ordinarily occur while carrying out normal business activities. Consequently due to their materiality, they are presented separately in the income statement to provide ease of analysis for the user of these financial statements.

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.

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.

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

(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%, UK: 20% 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 is both the legal right and 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. This is in accordance with IAS 12.

(vi) Financial instruments

(a) Financial assets

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.

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

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

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

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 effective interest rate 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 effective interest 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.

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 a maturity of less than three months.

(b) Impairment of financial assets
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.

The Group's UK residential mortgage portfolio and legacy residential mortgage portfolio held through its Isle of Man subsidiaries were disposed of during 2016.

Objective evidence of impairment may include the following:
- Delinquency in contractual interest or principal repayments;
- Significant financial difficulty of the borrower;
- Deterioration in value of the collateral;
- For reasons relating to the borrower's financial difficulty a concession is granted that would not otherwise be considered;
- It is probable that the borrower will enter bankruptcy or other financial re-organisation;
- A forbearance request by the customer accompanied by submission of a standard financial statement (SFS);
- Absence of active markets (commercial mortgages);
- Borrower's inability to refinance the existing loan (commercial mortgages); and
- Any significant exceptional events.

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

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

In general, the Group employs statistical models to assess and calculate the appropriate provision charge for all loans greater than 90 days in arrears or when there is objective evidence of impairment. Those statistical models mainly incorporate historical trends of probability of defaults, rates by which defaulted or delinquent accounts are assumed to return to performing status (known as cure rates), the timing of recoveries of collateral and the amount of loss incurred, adjusted for Management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates (Probability of Default), loss rates (Loss Given Default), cure rates and the expected timing of recoveries of collateral are regularly benchmarked against actual outcomes to ensure that they remain appropriate. Loss rates are updated to include best estimate of current values of collateral held (see note 34 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 effective interest rate (in the case of a portfolio assessment, the weighted average interest rate of the portfolio) on the carrying amount, representing the unwind of the discount of the expected cash flows.

Incurred But Not yet Reported (IBNR) impairment

Loans for which no evidence of loss has been specifically identified are grouped together according to their credit risk characteristics (such as home loans or buy-to-let, geographical location, type of collateral, loan-to-value ratio, past due status, forbearance treatment status) for the purpose of calculating an estimated collective provision. This reflects impairment losses that the Group has incurred as a result of events occurring before the statement of financial position date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually reported in the future when more evidence of impairment becomes available at which stage the relevant loans are moved from IBNR to specific impairments.

IBNR impairment provision is determined after taking into account:

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

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.

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

Residential mortgage exposures with certain risk characteristics, including those exposures greater than €1m, may attract an additional IBNR provision.

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 effective interest rate. Where, having assessed the loan for impairment and the loan is not deemed to be impaired, it is included within the IBNR assessment.

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

Non-forbearance renegotiation

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

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

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 which are accounted for under IAS 39 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 effective interest rate method.

A financial liability is de-recognised when its contractual obligations are discharged, cancelled or expired. 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. De-recognition 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.

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 effective interest rate 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) 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 available for sale, 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, 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;
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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 33.

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

(vii) Derivative instruments and hedging

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%.

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 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.

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

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.

(viii) Leases

Lessee

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.

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.

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.

(ix) Securitised assets

The Group has entered into funding arrangements to finance specific loans and advances to customers where a substantial proportion of the risk and rewards of the assets are retained. All such financial assets are held on the Group's SOFP and a liability is recognised for the proceeds of the funding transactions.

(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.

Notes to the Consolidated Financial Statements
(continued)

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

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.

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 based on the most robust valuation method available to the Group. Subsequent to initial recognition, the property is revalued based on movements in the Group's index based valuation model. Where the carrying value of collateral in possession is greater than their fair value, a charge is recognised in the income statement. Where the Group has the ability and intention to sell collateral in possession within 12 months, collateral in possession is held as assets held for sale (see note 41). Where the Group believes that selling properties within 12 months is improbable based on historic experience, collateral in possession is reported within other assets in note 23.

(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 an asset (or disposal group), other than a financial asset as classified under IAS 39, 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 group) are recognised in the income statement. Increases in fair value less costs to sell of such assets (or disposal group) 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.

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

Financial assets within the scope of IAS 39, 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: 1) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or 2) 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.

(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 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 effective interest rate. 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) Investment in subsidiary

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.

(xix) 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.

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

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 2017, the Group assessed the new and revised IFRSs which took effect during 2017 and concluded that none had a material impact on the Group 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 IASB but are not yet effective at 31 December 2017.

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 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 Group is currently assessing the impact of IFRS 16 on the consolidated Financial Statements of the Group.
Amendment to IAS 12, 'Income taxes', 'Recognition of deferred tax assets for unrealised losses'	Amendments made to IAS 12 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that: A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period. An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit. Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type. Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.	Periods beginning on or after 1 January 2017. 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
Amendments to IAS 7, Statement of cash flows on disclosure initiative	These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This includes changes arising from cash flows (eg drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences. Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities. Entities may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.	Periods beginning on or after 1 January 2017. Endorsed by the European Union.	The implementation of these amendments has no significant impact on the Group accounts.
Amendment to IFRS 15, 'Revenue from contracts with customers'	IFRS 15 'Revenue from Contracts with Customers' is a comprehensive new accounting standard for recognising revenue and will replace the existing standard, IAS 18. It is effective from 1 January 2018. IFRS 15 provides a principles based five-step model to be applied to all contracts with customers except those within the scope of IFRS 9. Under IAS 18, the timing of revenue recognition from the sale of goods and services is primarily based on the transfer of risks and rewards. IFRS 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to the customer. A good or service is transferred when control passes to the customer. Previously, IAS 18 allowed greater room for judgment when identifying goods and services within a contract and then allocating revenue to these goods and services. IFRS 15 requires revenue from a contract to be allocated to each distinct good or service provided. Entities will be required to provide users of financial statements with more informative disclosures. The new standard requires: • Qualitative and quantitative information to be provided in regards to opening and closing balances, detailing explanations for significant changes in contract balances. • Disclosure of the remaining performance obligations as a function of transaction price, together with qualitative and quantitative explanations of when remaining amounts will be recognised as revenue. • Disaggregation of revenue into categories that depict how revenue and cash flows are affected by economic factors.	Periods beginning on 1 January 2018. Endorsed by the European Union.	The Group has assessed the impact of IFRS 15 on the consolidated Financial Statements of the Group and the implementation of these amendments has no significant impact on the Group accounts.

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

IFRS 9

Future Accounting Policy Change

Transition to IFRS 9 - effective 1 January 2018

IFRS 9, the new financial instrument standard issued by the IASB in July 2014, replaces IAS 39, and was endorsed for adoption in the European Union on 22 November 2016. IFRS 9 will be formally implemented by the Group with effect from 1 January 2018, in line with the Standard's requirements. As permitted, the Group will not restate comparative periods on initial application of IFRS 9 and will recognise any measurement difference between the previous carrying amount and the new carrying amount at the transition date, through an adjustment to opening retained earnings. The Group will reflect the application of the requirements of the new standard and related changes to other accounting standards as at, and from, the adoption date.

Related changes to other accounting standards:

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

The Group has not early adopted any aspect of IFRS 9 or the related aspects of IFRS 7R and IAS 8 but has considered accounting and regulatory guidance on pre-transition disclosure requirements, including the December 2015 Basel Committee (BCBS) 'Guidance on credit risk and accounting for credit losses', the related EBA Draft Guidelines issued in July 2016, and the European Securities and Markets Authority (ESMA) November 2016 guidance in relation to IFRS 9 disclosures. IFRS 7R and related changes to IAS 8 will also be formally implemented by the Group from 1 January 2018.

Classification & Measurement

IFRS 9 sets out criteria for the classification and measurement (C&M) of financial assets which are significantly different from the criteria in IAS 39, moving from a rules based approach to a principles based approach.

In determining the measurement approach to be applied to a financial instrument, IFRS 9 sets out two key criteria for assessment:
1. Are the cash flows associated with the instrument solely payments of principal and interest ("the SPPI test")?
2. What is the purpose for which the financial instrument is held? 'Hold to collect principal and interest', 'hold to collect and sell', or 'held for sale'?

Debt instruments that are managed on a 'hold to collect and sell' basis will be accounted for at fair value through other comprehensive income (FVOCI). Financial instruments held for sale will be accounted for at fair value through the income statement. Debt instruments that are managed on a "hold to collect" business model basis will be accounted for at amortised cost.

IFRS 9 retains most of the existing classification and measurement requirements for financial liabilities in IAS 39. Overall financial liabilities are still measured at amortised cost with some exceptions. For financial liabilities designated at fair value through profit or loss, gains or losses attributable to changes in own credit are presented in other comprehensive income. The Group does not expect to invoke the fair value option for financial liabilities.

Implementation of Classification & Measurement policy changes

The Group has concluded the work necessary to prepare for transition to IFRS 9 for classification and measurement.

The SPPI test was applied based on an assessment of the contractual features of each product. All instruments assessed passed the SPPI test. This outcome is in line with managements' expectation given the nature of the Group's business models (retail bank) and risk appetite.

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

- 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.

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

The results of the business model assessment, based on the facts and circumstances as they existed on 1 January 2018 will not be materially different to the current measurement basis under IAS 39.

The group's balance sheet comprises the following financial assets:

Classification	Comprising the following financial instruments at 1 January 2018 :	Classification & Measurement basis
Loans and advances to customers	• €20bn residential mortgage book; • €224m commercial mortgage book; and • €345m comprising three smaller consumer loan books (term loans, credit cards and current account overdrafts).	• Hold to Collect, measured at amortised cost
Loans and advances to banks	• Interbank placements c.€1.5bn	• Hold to Collect, measured at amortised cost
Debt securities held	• Held as part of the liquidity book €2bn	• Hold to Collect , measured at amortised cost- €1,194m • Hold to Collect & Sell, measured at FVOCI-€784m
Derivative Financial Instruments	• Derivative financial instruments will not pass the SPPI test. As a result, they will continue to be accounted for in a similar manner as they are currently accounted for under IAS 39, i.e. FVTPL.	• Measured at FVTPL

The quantitative impact of the transition to IFRS 9 for classification and measurement has been assessed as immaterial for financial assets.

IFRS 9 C&M Impact Assessment– Financial Liabilities

There is no quantitative impact of the transition to IFRS 9 for classification and measurement for financial liabilities.

Transition to IFRS 9 for Classification & Measurement

The new classification and measurement requirements in IFRS 9 will be applied retrospectively by adjusting the Group's balance sheet on transition on 1 January 2018. IFRS 9 does not require the Group to restate comparatives; as such for 30 June 2018 statutory financial reporting, the Group's 2017 comparatives will be presented on an IAS 39 basis.

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.

Transition to IFRS 9 for Hedge Accounting

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 has completed, with adoption of IFRS 9 Hedge accounting policy approved by Group ALCO in November 2017.

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

Impairment

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 IAS 39, a financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment (a loss event). Losses as a result of a future event (expected losses), no matter how likely, are not recognised. In contrast, the IFRS 9 impairment model looks to 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, even where a loss event has not yet occurred.

General concepts within IFRS 9 expected loss approach

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 the IFRS 9 ECL model, the change in credit risk should be based on the risk of default and not changes in the amount of ECL which may be expected on a financial instrument. The standard introduces a 3-stage model for impairment, based on changes in credit risk quality since initial recognition:

- **Stage 1** – includes financial instruments that have not had a significant increase in credit risk since initial recognition. For these assets, 12-month ECL is recognised. 12-month ECL is the expected credit 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.

Implementation of Impairment Accounting Key Changes

The move to the expected loss accounting model in IFRS 9 will result in a number of changes to the Group's current impairment approach. The following is a list of the more important changes for understanding the impact of IFRS 9 on the Group:

- All originated loans and other assets within scope of the Standard will attract a provision equal to at least 12 months expected loss.
- The Standard will require the Group to calculate and maintain lifetime inputs, such as lifetime Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).
- The Group will be 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 determined to be significant, a provision for lifetime expected losses will be recognised.
- The scope of the standard includes undrawn loan commitments previously within the scope of IAS 37. This will require the Group to hold a provision on such undrawn off balance sheet facilities, which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.
- Forward looking macroeconomic scenarios are required to be included in the provisioning process and in determining changes in credit risk.
- IFRS 9 requires the Group to calculate ECL which considers multiple scenarios and possible outcomes together with their probability of occurrence.

Further detail on implementation of the new ECL impairment accounting framework, including the key judgements therein, is set out below.

Exception to the general three stage impairment model

Purchased or originated credit impaired assets (POCI) are excluded from the general 3 stage impairment model in IFRS 9. POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised on a credit-adjusted EIR basis. ECLs are only recognised or released to the extent that there is a subsequent change in expected credit losses. The Group purchased the credit impaired Newbridge Credit Union (NCU) portfolio in 2014, the NCU portfolio is accounted for on a POCI basis under IFRS 9 and had a net book value of €14m on 31 December 2017.

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

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.

Key Drivers of ECL

The following concepts introduce significant judgment 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 macro-economic factors through probability weighted scenarios.

Definition of default

The definition of default used in the measurement of ECL for IFRS 9 purposes is aligned to the regulatory definition of default used by the Group for credit risk management purposes, and which is in the course of being approved for use for capital management.

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

Assessment of significant increases in credit risk

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

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

For its originated BTL portfolio, the Group will also assess the risk of negative equity at maturity as part of its SICR evaluation for that cohort of exposures.

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

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

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

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

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

A process has been implemented to determine the FLI used in the ECL models, leveraging existing ICAAP processes, while recognising that IFRS 9 scenarios are not stress scenarios. The governance and oversight process includes the review, challenge and sign-off of FLI for the three IFRS 9 scenarios.

The methodology to incorporate multiple economic scenarios into the ECL models considers, amongst other things, the Group's four year MTP, and the views of policy makers on longer term economic prospects and key risks. In developing the methodology, the Group has referenced publically available information for key economic indicators including the House Price Index (HPI), unemployment, interest rates and publically available external macro-economic 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 Group will adopt three scenarios for ECL purposes.

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

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

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

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

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

Quantitative impact on transitioning to IFRS 9

The Group will recognise any measurement difference between the previous carrying amount and the new carrying amount, at the transition date, through an adjustment to opening retained earnings and reflect the application of the requirements of the new standard and related changes to other accounting standards, at the adoption date. The Group estimates that the transition to IFRS 9 will result in a net decrease in shareholders' equity of c. €100m after tax. The Group will continue to refine this estimate during the transition period as new processes and systems are embedded.

Transitional Capital Arrangements

Regulatory rules set out an option for institutions to avail of relief on the transitional impact of IFRS 9 for:

- 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

The Group will take the option to apply transitional capital arrangements noting a one-off option to reverse its decision in the transitional period subject to regulatory approval.

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) IAS 39 impairment losses on loans and advances to customers

Management reviews the Group's loan portfolios to assess for impairment monthly. This review involves exercising judgement in determining the key assumptions and estimations when calculating impairment provisions on both individually and collectively assessed loans and advances to customers. Details of the impairment provisioning methodologies are provided within the credit risk section of note 34.

Specific impairment provisions

In general, the Group employs statistical models to assess and estimate impairment provisions. These are subject to estimation uncertainty due to the use of various parameters and assumptions in the calculations such as historic loss experience, rates by which defaulted or delinquent accounts are assumed to return to performing status (known as cure rate), foreclosure costs and current economic assumptions, such as house price changes as well as the expected level of application of forbearance treatments which may differ from actuals.

These parameters and assumptions require significant management judgement to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than that suggested by historical experience. Historical experience provides the most objective and relevant information to assess inherent loss within each portfolio, though sometimes it may not be as representative of the inherent incurred loss in a given portfolio at the statement of financial position date. For example, when there have been changes in economic, regulatory or behavioural conditions which result in the most recent trends in the portfolio risk factors not being fully reflected in the calculations. In these circumstances, Management uses judgement by appropriately adjusting the relevant parameters and assumptions derived from historical loss experience to ensure such parameters and assumptions are reflective of current economic conditions.

The parameters and the assumptions used in the calculation of impairment provisions are reviewed regularly in light of differences between loss estimates and actual loss experience. For example, cure rates, loss rates and expected timing of future recoveries are regularly re-calibrated against actual outcomes to ensure they remain up to date and appropriate.

2. Critical accounting estimates and judgements (continued)

Given the relative sizes of the portfolios, the key judgemental area for the Group is in relation to the level of impairment provision applied for the ROI residential mortgage portfolio and the key variables within this judgement include account behavioural trends such as cure rates, collateral valuations linked to movement in market house prices, foreclosure costs and application of forbearance treatments. Sensitivity analysis of certain assumptions is provided below:

- **Collateral valuations:** The value of collateral is estimated by applying the changes in the CSO Residential Property Price Index to the assessed value of the property. If the assumed peak-to-trough house price decline in the model was increased by 5% at 31 December 2017, the impairment provision would increase by c. €71m in respect of those assets without a recent valuation. If the assumed peak-to-trough house price decline in the model was decreased by 5% at 31 December 2017, the impairment provision would decrease by c. €49m in respect of those assets without a recent valuation. Both of these sensitivities are absent of any supervisory requirements. The actual house price decline at 31 December 2017 was 23.1% from the peak in 2007 according to the Residential Property Price Index published by the CSO.
- **Cure rate:** The cure rate is, as explained above, the rate by which defaulted or delinquent loans are assumed to return to performing status. A 5% favourable change in the cure rate would reduce the impairment provision by c. €14m at 31 December 2017 and a 5% unfavourable change in the cure rate would increase the impairment provision by c. €14m at 31 December 2017.
- **Foreclosure costs:** Foreclosure costs assumption also influence the impairment provision. A 1% increase in foreclosure costs would result in increasing the impairment provision by c. €25m at 31 December 2017 and a 1% decrease in foreclosure costs would result in decreasing the impairment provision by c. €22m at 31 December 2017.
- **Firesale discount:** A 1% increase change in the firesale discount rate would increase the impairment provision by c. €18m at 31 December 2017 and a 1% decrease in the firesale discount rate would reduce the impairment provision by c. €17m at 31 December 2017.
- **Repo rate:** A 5% increase in the repossession rate would increase the impairment provision by c. €12m at 31 December 2017 and a 5% decrease in the repossession rate would decrease the impairment provision by c. €12m at 31 December 2017.

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

- **Default rates**: A 1% favourable change in the default rate would reduce the impairment provision by c. €42m at 31 December 2017 and a 1% unfavourable change in the default rate would increase the impairment provision by c. €42m at 31 December 2017.

IBNR impairment provisions

IBNR impairment provisions for residential mortgage portfolios are also subject to estimation uncertainty, in part, because it is not practicable to identify losses on an individual loan if objective evidence does not exist. Where no objective evidence is available, these loans are grouped together with financial assets which have similar credit characteristics and are collectively assessed for impairment.

IBNR impairment provisions are allocated to loans which are believed to be impaired at the statement of financial position date and while not individually assessed, are expected to have incurred losses. This provision is sensitive to changes in the time between the loss event and the date the impairment is specifically identified, known as the loss emergence period. The loss emergence period currently in use is 12 months and management believes this to be appropriate but is sometimes longer for particular risk profile portfolios. In the ROI residential mortgage portfolio, a further increase of one month in the loss emergence period would result in an increase to the impairment charge of c. €6m while a decrease of one month in the loss emergence period would result in a decrease to the impairment charge of c. €7m.

(b) Deferred taxation

At 31 December 2017, the Group had a net deferred tax asset of €343m. See note 22 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 €361m at 31 December 2017. It should be noted that the full deferred tax asset on tax losses relates to tax losses generated in Permanent TSB plc (PTSB) 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 Taxes", 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 history of recent losses, in accordance with IAS 12, there must be convincing other evidence to underpin this assessment.

2. Critical accounting estimates and judgements (continued)

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

- The formal approval of the Group's Restructuring Plan by the European Commission in April 2015;
- The successful conclusion of the Group's €525m capital raise and re-listing in May 2015;
- The improving macroeconomic environment including the continued stabilisation in Irish Sovereign Bond yields, continued growth in GDP, the continued decline in unemployment and the continued increase in house prices;
- External forecasts for the Irish economy which indicate continued and increasing economic recovery in the medium term;
- The significant progress made on the deleveraging of the Non-Core portfolios during 2016 with the completion of the sale of the Group's remaining UK business and the Group's Isle of Man mortgage business;
- The current expected trajectory of the Group's financial performance; and
- The Group's projected liquidity and capital position.

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;
  - 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 begin to return to normalised levels; together with further anticipated growth in the Group's market share;
  - Continued focus on cost management; and
  - The cost of risk will gradually return to normalised levels reflecting the Group's assessment of the medium to long term average.
- Consideration of forecasting risks, including sensitivity analysis on the financial projections in the relation to 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 recent global political uncertainty.

Taking the above factors into account, and in the absence of any expiry date for the utilisation of carried forward tax losses in Ireland, the Board have concluded that it is more likely than not that there will be sufficient taxable profits against which the losses can be utilised and on the basis of the assessment above, continue to recognise €361m of a deferred tax asset on tax losses on the statement of financial position as at 31 December 2017.

In this regard, the Group has carried out an exercise to determine the likely number of years required to utilise the deferred tax asset arising on tax losses carried forward. Based on the Group's latest forecast plans to 2021 and assuming a level of profitability growth consistent with GDP growth of approximately 2.5%, it will take c. 23 years for the deferred tax asset on tax losses of €361m to be utilised. A level of profitability consistent with GDP growth continues to be considered by Management to be appropriate given the Group's primarily domestic retail focus and the expectation arising therefrom that, over the long-term, the Group's performance would be expected to broadly track the performance of the Irish economy. 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%). Management are of the view that a long-term assumed growth rate of 2.5% is not unreasonable in this context.

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

The expected period of time to full utilisation of the Deferred Tax Asset has increased since 31 December 2016 from 22 to 23 years (an increase of 1 year). This is mainly due to decreased 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 extended. Assumptions underpinning the Deferred Tax Asset recoverability analysis are broadly in line with prior periods.

2. Critical accounting estimates and judgements (continued)

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 22, 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.

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 expected 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 DTA 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 reasonable timeframe, it is our expectation that the time period over which these assets might be recovered could extend by between 1 to 4 years. If all adverse assumptions were to arise the period of recoverability would be extended by a further 12 years (i.e. full utilisation by 2052). 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. However, as noted, based on the Group's latest forecast plan, Management estimate that the expected time period for recovery of the deferred tax asset on tax losses to be 23 years, i.e. full utilisation is expected by 2040.

(c) Financial instruments

The Group's accounting policy for the determination of fair value of financial instruments is set out in note 1(vi)(d). 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 33.

(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.

2. Critical accounting estimates and judgements (continued)

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 customers and other actions, including a Mortgage Redress Programme (MRP) in connection with an on-going 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.

As at year end, redress and compensation has been offered to all impacted customers identified through the MRP and the CBI Tracker review. While the investigation is well progressed, management has considered on-going uncertainties that may impact on the provision, including the outcome of the on-going CBI assurance work and investigation; additional compensation arising from appeals taken by customers through the Appeals process, the FSO or the Courts; and the potential for a regulatory fine being levied in respect of any alleged breaches of the Consumer Protection Code. 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.

(e) Impairment review of its subsidiary undertaking

Impairment review

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.

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 post-tax free cash flows at a discount rate appropriate to the investment. The determination of both requires the exercise of judgement. The estimation of post-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. Operating segments

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

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

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

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

In H1 2017, following a strategic review, the decision was taken to close PBI and to begin an orderly wind-down of the business. The banking licence for PBI was surrendered in December 2017, and PBI legally changed its name to PBI Ltd.

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

3. Operating segments (continued)

Financial performance of the segments for the years ended 31 December 2017 and 31 December 2016 are presented below.

Year ended 31 December 2017	**Core Bank**		**Non-Core**		
		Of which UK*		**Of which UK**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
Net interest income					
From external customers	**405**	**(2)**	**-**	**-**	**405**
From internal customers	**-**	**3**	**-**	**-**	**-**
Total net interest income	**405**	**1**	**-**	**-**	**405**
Other banking income	**36**	**-**	**-**	**-**	**36**
Net other operating income	**2**	**-**	**-**	**-**	**2**
Total operating income	**443**	**1**	**-**	**-**	**443**
Total operating expenses including bank levy and other regulatory charges and excluding exceptional items, depreciation and amortisation	**(308)**	**(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	**(329)**	**(2)**	**-**	**-**	**(329)**
Operating profit before write-back/(charge) for impairments and exceptional items	**114**	**(1)**	**-**	**-**	**114**
Impairment charge for loans and advances	**(48)**	**-**	**-**	**-**	**(48)**
Impairment charge on collateral in possession	**(1)**	**-**	**-**	**-**	**(1)**
Operating profit/(loss) before exceptional items	**65**	**(1)**	**-**	**-**	**65**
Exceptional items (net)					**(13)**
Profit before taxation					**52**
Taxation					**(12)**
Profit for the year					**40**

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

Year ended 31 December 2016	**Core Bank**		**Non-Core**		
		Of which UK		**Of which UK***	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
Net interest income					
From external customers	379	-	11	11	390
From internal customers	19	-	(19)	(19)	-
Total Net interest income/(expense)	398	-	(8)	(8)	390
Other banking income	41	-	1	1	42
Net other operating income	29	-	-	-	29
Total operating income/(expense)	468	-	(7)	(7)	461
Total operating expenses including bank levy and other regulatory charges and excluding exceptional items, depreciation and amortisation	(314)	-	(9)	(9)	(323)
Depreciation of property and equipment	(12)	-	-	-	(12)
Write-back of impairment on property revaluation	2	-	-	-	2
Amortisation of intangible assets	(8)	-	-	-	(8)
Total operating expenses excluding exceptional items	(332)	-	(9)	(9)	(341)
Operating profit/(loss) before write-back of impairments and exceptional items	136	-	(16)	(16)	120
Write-back of impairments for loans and advances and collateral in possession	63	-	5	-	68
Operating profit/(loss) before exceptional items	199	-	(11)	(16)	188
Exceptional items (net)					(414)
Loss before taxation					(226)
Taxation					(40)
Loss for the year					(266)

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

3. Operating segments (continued)

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

31 December 2017

	Core Bank		Non-Core		
		Of which UK*		Of which UK	Total
	€m	€m	€m	€m	€m
Assets					
Held for sale	**161**	**-**	**-**	**-**	**161**
Other assets	**22,612**	**110**	**-**	**-**	**22,612**
Total segment assets	**22,773**	**110**	**-**	**-**	**22,773**
Total segment liabilities	**20,662**	**1**	**-**	**-**	**20,662**
Total segment liabilities of which are intergroup funding	**108**	**-**	**-**	**-**	**108**
Capital expenditure	**33**	**-**	**-**	**-**	**33**

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

31 December 2016

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

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

4. Net interest income

	Year ended 31 December 2017 €m	Year ended 31 December 2016 €m
Interest income		
Loans and advances to customers	**450**	492
Debt securities and other fixed-income securities	**54**	75
- Held to maturity	**24**	32
- Available for sale	**28**	35
- Loans and receivables	**2**	8
Gains on interest rate hedges on assets (note 16)	**-**	1
	504	568
Interest expense		
Deposits from banks (including central banks)	**(5)**	(37)
Due to customers	**(73)**	(111)
Interest on debt securities in issue	**(15)**	(14)
Fees payable on ELG Scheme (note 40)	**(2)**	(4)
Losses on interest rate hedges on assets (note 16)	**(1)**	-
Amortisation of core deposit intangibles (note 21)	**-**	(11)
Loans and advances to banks	**(3)**	(1)
	(99)	(178)
Net interest income	**405**	390

Interest recognised on impaired loans and advances to customers was €78m (31 December 2016: €104m). Interest recognised on loans and advances to customers which are non-performing but not impaired was €23m (31 December 2016: €27m).

Interest recognised on forborne loans and advances to customers was €110m (31 December 2016: €127m); this includes interest on performing and non-performing forborne loans.

Included in net interest income are net gains on interest rate fair value hedges which include gains on hedging instruments of €18m (31 December 2016: €20m) and losses on hedged items attributable to hedged risk of €19m (31 December 2016: €19m).

Net interest income includes a charge in respect of deferred acquisition costs on loans and advances to customers of €17m (31 December 2016: €26m).

5. Fees and commission income

	Year ended 31 December 2017 €m	Year ended 31 December 2016 €m
Fees and commission income		
Retail banking and credit card fees	**47**	45
Brokerage and insurance commission	**10**	10
Other fee and commission income	**1**	2
Fees and commission income	**58**	57
Fees and commission expense	**(19)**	(18)
Net fees and commission income	**39**	39

6. Net trading (expense)/income

	Year ended 31 December 2017 €m	Year ended 31 December 2016 €m
Held-for-trading		
Interest rate instruments	(2)	4
Foreign exchange losses	(1)	(1)
Net trading (expense)/income	(3)	3

7. Net other operating income

	Year ended 31 December 2017 €m	Year ended 31 December 2016 €m
Swap terminations	**1**	-
Other income	**1**	-
Gain on sale of share in Visa Europe	**-**	29
Net other operating income	**2**	29

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

	Year ended 31 December 2017 €m	Year ended 31 December 2016 €m
Staff costs (as detailed below)	**146**	135
Other general and administrative expenses	**118**	127
Administrative, staff and other expenses (excluding exceptional items)	**264**	262

Other general and administrative expenses include operating lease rentals on land and buildings of €7m, (31 December 2016: €7m) and fees paid to the Group's auditors for services outlined below:

	Year ended 31 December 2017 €m	Year ended 31 December 2016 €m
Statutory auditor's remuneration (including expenses and excluding VAT)		
- Audit of the individual and the Group financial statements	**1.2**	1.0
- Other assurance services*	**0.6**	0.4
- Tax advisory services	**-**	-
- Other non-audit services**	**0.3**	0.5

*Other assurance services in 2017 include proactive assurance relating to IFRS 9, the review of fees paid in respect of the ELG scheme (see note 40 for further details) and other Central Bank reporting. Other assurance services in 2016 include the review of fees paid in respect of the ELG scheme and other Central Bank reporting.
**Other non-audit services in 2017 and 2016 principally relate to the accounting advice PwC provided on various projects including IFRS 9 and the launch of new structured entities which was provided by PwC UK. PwC UK was paid €0.1m and €0.2m in 2017 and 2016 respectively for this service.

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

Staff costs

	Year ended 31 December 2017 €m	Year ended 31 December 2016 €m
Wages and salaries including commission payable to sales staff	**118**	111
Staff redundancy costs	**2**	1
Social insurance	**13**	13
Pension costs		
- Payments to defined contribution pension schemes	**13**	11
Total staff costs	**146**	136

Staff redundancy costs associated with exceptional items for the year ended 31 December 2016 are presented above.
Staff redundancy costs associated with exceptional items for the year ended 31 December 2017 are included as part of Note 10 exceptional items.

Staff costs of €6m (31 December 2016: €6m) have been capitalised to intangible assets (see note 21), 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 2017 and 31 December 2016 in the tables below:

Closing and average number of staff (including Executive Directors) employed during the year:

	Closing staff numbers		Average staff numbers	
	2017	2016	2017	2016
Ireland	**2,373**	2,399	**2,437**	2,392
UK*	**10**	12	**10**	12
	2,383	2,411	**2,447**	2,404

*This relates to employees working in the IOM (specifically PBI)

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

	Closing staff numbers		Average staff numbers	
	2017	2016	2017	2016
Core Bank	**2,383**	2,399	**2,447**	2,391
Non-Core	**-**	12	**-**	13
	2,383	2,411	**2,447**	2,404

Information concerning Directors' emoluments is disclosed in the audited section of the Directors' Report on Remuneration on pages 84 to 85.

9. Bank levy and other regulatory charges

	Year ended 31 December 2017 €m	Year ended 31 December 2016 €m
Bank levy	**23**	27
BRRD levy	**7**	9
Other regulatory charges	**14**	25
Bank levy and other regulatory charges	**44**	61

Other regulatory charges include €10m for Deposit Guarantee Scheme (DGS) and €2m for the Central Bank Industry Funding Levy which, for 2017, is based on the revised methodology advised by the Central Bank of Ireland.

10. Exceptional items

At 31 December 2017, exceptional items amounted to €13m. This comprises a €12m charge in relation to the restructure of the Group's distribution model and back office operations function and other net costs of €1m relating to previously deleveraged portfolios.

At 31 December 2016, exceptional items amounted to €414m which consisted of €399m in relation to deleveraging costs and €15m in relation to restructuring costs and other legacy legal provisions. Deleveraging costs included the sale of the UK loan portfolio and the loans of Irish Permanent (IOM) Limited.

11. Taxation

(a) Analysis of taxation charge

	Year ended 31 December 2017 €m	Year ended 31 December 2016 €m
Current taxation		
Charge for current year	**-**	1
Adjustments for prior periods	**-**	(2)
	-	(1)
Deferred taxation		
Origination and reversal of temporary differences	**12**	41
Deferred taxation recognised in the income statement (note 22)	**12**	41
Taxation charged to income statement	**12**	40
Effective tax rate	**23%**	(18%)

The Group taxation charge for the year ended 31 December 2017 was €12m (31 December 2016: €40m). This charge is mainly due to a current year deferred tax charge of €12m which arises due to the utilisation of tax losses carried forward to shelter tax adjusted profits arising in the year.

11. Taxation (continued)

(b) Reconciliation of standard to effective tax rate

	Year ended 31 December 2017 €m	Year ended 31 December 2016 €m
Profit/(loss) on the Group activities before tax	**52**	(226)
Tax calculated at standard ROI corporation tax rate of 12.5% (2016: 12.5%)	**7**	(28)
Adjustment to tax charge in respect of previous years	**-**	(2)
Tax effect of non-deductible expenses	**5**	54
Tax effect of non-taxable income	**(1)**	(1)
Other	**1**	4
Adjustment to tax losses carried forward	**-**	13
Taxation charged to income statement	**12**	40

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

	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)**
- Transfer to income statement on asset disposal	**-**	**-**	**-**
Cash flow hedge reserve:			
- Change in fair value	**-**	**-**	**-**
- Amortisation of dedesignated CFH to income statement	**-**	**-**	**-**
Balance as at 31 December 2017	**(21)**	**3**	**(18)**

	Year ended 31 December 2016		
	Gross €m	Tax €m	Net €m
Revaluation of property	9	(3)	6
Currency translation adjustment reserve	1	-	1
AFS reserve:			
- Change in fair value of AFS securities	(26)	3	(23)
- Transfer to income statement on asset disposal	(22)	3	(19)
Cash flow hedge reserve:			
- Change in fair value of cash flow hedge reserve	24	(3)	21
- Amortisation of dedesignated CFH to income statement	(9)	1	(8)
Balance as at 31 December 2016	(23)	1	(22)

12. Earnings/(loss) per share

(a) Basic earnings/(loss) per share

	Year ended 31 December 2017	Year ended 31 December 2016
Weighted average number of ordinary shares in issue and ranking for dividend excluding treasury shares	**454,690,912**	454,690,912
Profit/(loss) for the year attributable to equity holders	**€40m**	(€266m)
Less AT1 coupon paid (see note 31)	**(€11m)**	(€10m)
Profit/(loss) for the period attributable to equity holders less AT1 coupon paid	**€29m**	(€276m)
Basic earnings/(loss) per share (€ cent)	**6.4**	(60.7)

(b) Diluted earnings/(loss) per share

	Year ended 31 December 2017	Year ended 31 December 2016
Weighted average number of potential dilutive ordinary shares arising from the AT1 conversion feature	**-**	-
Weighted average number of ordinary shares excluding treasury shares held under employee benefit trust used in the calculation of diluted loss per share and including the potential dilutive ordinary shares from the AT1 conversion feature	**454,690,912**	454,690,912
Diluted earnings/(loss) per share (€ cent)	**6.4**	(60.7)

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

No adjustment to the weighted average number of ordinary shares for the effects of dilutive potential ordinary shares was required for the year ended 31 December 2017 or 31 December 2016, 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*

	2017	2016
Number of shares in issue at 1 January (note 31)	**454,695,492**	454,695,492
Treasury shares held (note 31)	**(4,580)**	(4,580)
	(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

*As per IAS 33, when calculating the loss 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.

13. Cash and cash equivalents

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

	31 December 2017 €m	31 December 2016 €m
Cash and balances with central banks	**62**	66
Items in the course of collection	**28**	30
Loans and advances to banks repayable on demand (maturity of less than 3 months) (note 17)	**1,518**	1,172
	1,608	1,268
Restricted cash included in loans and advances to banks repayable on demand	**(578)**	(668)
Cash and cash equivalents per statement of cash flows	**1,030**	600

At 31 December 2017, restricted cash of €578m (31 December 2016: €668m) comprised cash of €485m (31 December 2016: €466m) held by the Group's securitisation entities and €93m (31 December 2016: €202m) which related to cash collateral placed with counterparties in relation to derivative positions and repurchase agreements.

14. Debt securities

	31 December 2017				31 December 2016			
	HTM securities €m	AFS securities €m	Loans and receivables €m	Total €m	HTM securities €m	AFS securities €m	Loans and receivables €m	Total €m
Government bonds	**1,194**	**784**	**-**	**1,978**	1,151	1,277	8	2,436
NAMA bonds	**-**	**-**	**-**	**-**	-	-	246	246
Gross debt securities	**1,194**	**784**	**-**	**1,978**	1,151	1,277	254	2,682

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

	31 December 2017				31 December 2016			
	HTM securities	AFS securities	Loans and receivables	Total	HTM securities	AFS securities	Loans and receivables	Total
Listed	**1,194**	**784**	**-**	**1,978**	1,151	1,277	-	2,428
Unlisted	**-**	**-**	**-**	**-**	-	-	254	254
Gross debt securities	**1,194**	**784**	**-**	**1,978**	1,151	1,277	254	2,682

Debt securities with a carrying value of €0.11bn (31 December 2016: €0.01bn) have been pledged to third parties in sale and repurchase agreements.

As at 31 December 2017, the amount of debt securities remaining available to be used and eligible as collateral (though eligibility will depend on the criteria of the counterparty) in sale and repurchase agreements had a carrying value of €1.87bn (31 December 2016: €2.7bn).

Held to maturity (HTM) securities of €1.19bn are comprised of Irish and Spanish bonds. The Spanish bonds were purchased during 2017. They represent securities with fixed maturities and fixed and determinable cash flows, which the Group has the ability and intention to hold until maturity.

Loans and receivables debt securities, which included bonds issued by NAMA, were all redeemed during the year.

The movement in HTM, AFS and loans and receivables securities may be classified as follows:

	2017			2016		
	HTM securities €m	AFS securities €m	Loans and receivables €m	HTM €m	AFS securities €m	Loans and receivables €m
As at 1 January	**1,151**	**1,277**	**254**	1,555	1,506	778
Change in fair value	**-**	**(54)**	**-**	-	(40)	-
Additions	**275**	**-**	**-**	-	-	-
Maturities / disposals	**(200)**	**(433)**	**(252)**	(377)	(188)	(528)
Interest net of cash receipts	**(32)**	**(6)**	**(2)**	(27)	(1)	4
At 31 December	**1,194**	**784**	**-**	1,151	1,277	254

15. Equity securities

	31 December 2017 €m	31 December 2016 €m
As at 1 January	**9**	23
Acquisition	**-**	8
Revaluation	**3**	1
Disposals	**-**	(23)
Total equity investments	**12**	9

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

	31 December 2017 €m	31 December 2016 €m
Unlisted	**12**	9
Gross equity securities	**12**	9

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

A gain of €29m was recorded in operating income in the 2016 income statement in respect of the sale of the share in Visa Europe at 31 December 2016. This gain was comprised of €21m for the upfront cash and deferred cash components and a further €8m for the preferred stock in Visa Inc.

PTSB continues to hold the preferred stock in Visa Inc. at 31 December 2017. This was fair valued at €12m at 31 December 2017 and is recognised in the Statement of financial position.

The fair value of this shareholding in Visa Inc. is classified as level 3 as the valuation of the share includes inputs that are based on unobservable market data (refer to note 33 for further details).

16. Derivative assets/liabilities

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

The derivative instruments used by the Group include:

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

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

16. Derivative assets/liabilities (continued)

Derivatives held by the Group are analysed as follows:

	31 December 2017			31 December 2016		
	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*	**355**	**16**	**23**	1,043	20	87
	355	**16**	**23**	1,043	20	87
Held for trading						
Forwards	**75**	**-**	**-**	417	2	5
Interest rate swaps	**744**	**21**	**24**	869	22	23
	819	**21**	**24**	1,286	24	28
Embedded derivatives	**7**	**-**	**1**	73	-	9
	7	**-**	**1**	73	-	9
Derivative assets & liabilities as per the statement of financial position	**1,181**	**37**	**48**	2,402	44	124

* 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, available for sale 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 designated as fair value hedges and the hedged items attributable to the hedged risk are analysed below:

	31 December 2017 €m	31 December 2016 €m
Gains on hedging instruments	**18**	20
(Losses) on hedged items attributable to hedged risk	**(19)**	(19)
Net (losses)/gains	**(1)**	1

Net investment hedge in foreign operations

The Group hedges part of the currency risk of its net investment in foreign operations using currency borrowings.

In 2015, the Group put in place a net investment hedge where certain GBP denominated deposits in PTSB are designated as the hedging item.

The following gains/(losses) have been recorded in other comprehensive income in respect of hedging instruments held to manage the Group's net investment in foreign operations in addition to the gains/(losses) on the net investment:

	31 December 2017 €m	31 December 2016 €m
Gains in respect of hedging instruments held for net investment in foreign operations	**3**	16
(Losses) in respect of non-derivative hedged net investment in foreign operations	**(4)**	(15)
Net (losses)/gains	**(1)**	1

17. Loans and advances to banks

	31 December 2017 €m	31 December 2016 €m
Held at amortised cost		
Placed with central banks	**805**	228
Placed with other banks	**713**	957
Loans and advances to banks	**1,518**	1,185

Placements with other banks includes restricted cash of €578m (31 December 2016: €668m) of which €485m (31 December 2016: €466m) is held by the Group's securitisation entities and €93m (31 December 2016: €202m) which relates to cash collateral placed with counterparties in relation to derivative positions and repurchase agreements.

Loans and advances to banks amounting to €1,518m as at 31 December 2017 (31 December 2016: €1,172m) have a maturity of less than 3 months.

18. Loans and advances to customers

Loans and advances by category are set out below:

	31 December 2017 €m	31 December 2016 €m
Residential mortgages		
- Held through special purpose entities	**12,554**	12,982
- Held directly	**7,493**	7,812
	20,047	20,794
Commercial mortgage loans	**224**	243
Consumer finance (term loans/other)	**345**	331
Gross loans and advances to customers	**20,616**	21,368
Less: provision for impairment (note 19)	**(2,246)**	(2,482)
Net loans and advances to customers	**18,370**	18,886

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 2017 €m	31 December 2016 €m	31 December 2017 €m	31 December 2016 €m
Tracker rate	**12,688**	13,545	**11,225**	11,909
Variable rate	**6,953**	7,343	**6,179**	6,514
Fixed rate	**975**	480	**966**	463
	20,616	21,368	**18,370**	18,886

The Group has established a number of securitisation entities. This involved transferring the Group's interest in pools of residential mortgages to a number of special purpose entities which issued mortgage-backed floating-rate notes to fund the purchase of the interest in the mortgage pools. The notes are secured by a first fixed charge over the residential mortgages in each pool and may be sold to investors or held by the Group and used as collateral for borrowings. All of the Group's special purpose entities are consolidated. See note 42.

18. 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 2017 €bn	31 December 2016 €bn
Residential mortgages held through special purpose entities	**12.6**	13.0
Notes issued by special purpose entities		
- rated	**8.1**	8.6
- unrated	**4.5**	4.4

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

	31 December 2017 €bn	31 December 2016 €bn
- Sold to third parties and included within debt securities in issue (non-recourse) on the Statement of financial position (note 27)	**1.3**	0.9
- Held by the ECB as collateral in respect of funds raised under the euro system funding programme (note 25)	**0.5**	2.1
- Held by other banks and institutions as part of collateralised lending or sale and repurchase agreements (note 25)	**1.7**	1.8
- Other		
- Available collateral[1]	**4.6**	3.8
- Unrated notes	**4.5**	4.4
	12.6	13.0

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

19. Impairment provisions

(a) Loans and advances to customers

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

A loan is considered to be impaired, and therefore its carrying amount is adjusted to reflect the effect of impairment, when there is objective evidence that events have occurred which give rise to an adverse impact of the estimated future cash flows of the asset. Impairment provisions are calculated either individually on loans where they are significant, or collectively on groups of loans which are individually insignificant. Impairment losses are recorded as charges to the income statement.

The impaired loan balances as at 31 December 2017 were €4,463m (31 December 2016: €4,912m). As at 31 December 2017, there were €85m (31 December 2016: €124m) of loans which are greater than 90 days in arrears that are considered past due but not impaired. Refer to note 34 for further details.

19. Impairment provisions (continued)

31 December 2017	**Loans and advances to customers €m**	**Impaired loans €m**	**Impaired % of total loans %**	**Impairment Provisions Specific €m**	**IBNR €m**	**Total €m**	**Total provisions as % of impaired loans %**	**Total provisions as % of total loans %**
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 & fair value adjustments	**57**							
At 31 December	**18,370**							

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

Impairment charge/(write-back) on loans and advances to customers by geographical location:

	Year ended 31 December 2017 €m	**Year ended 31 December 2016 €m**
Republic of Ireland		
Home loans	**83**	(66)
Buy-to-let	**(34)**	14
Commercial	**(2)**	(4)
Consumer finance	**1**	(9)
Total impairment charge/(write-back) to the income statement	**48**	(65)

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

	Year ended 31 December 2017 €m	**Year ended 31 December 2016 €m**
Specific	**101**	(78)
IBNR	**(53)**	13
Total impairment charge/(write-back) to the income statement	**48**	(65)

19. Impairment provisions (continued)

Impairment charge/(write-back) by segment

	Year ended 31 December 2017 €m	Year ended 31 December 2016 €m
Core	**48**	(60)
Non-core	**-**	(5)
Total impairment charge/(write-back) to the income statement	**48**	(65)

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

2017	Residential mortgages				
Total	ROI €m	UK €m	Commercial €m	Consumer finance €m	Total €m
As at 1 January	**2,336**	**-**	**81**	**65**	**2,482**
Charge/(write-back) for the year (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**

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

2017	Residential mortgages				
Core	ROI €m	UK €m	Commercial €m	Consumer finance €m	Total €m
As at 1 January	**2,336**	**-**	**81**	**65**	**2,482**
Charge/(write-back) for the year (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**

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

19. Impairment provisions (continued)

2017

Non-core	**Residential mortgages ROI €m**	**Residential mortgages UK €m**	**Commercial €m**	**Consumer finance €m**	**Total €m**
As at 1 January	-	-	-	-	-
Transfer of Opening balance to Core	-	-	-	-	-
Write-back for the year (as per Income statement)	-	-	-	-	-
Increase due to interest booked but not recognised	-	-	-	-	-
Unwinding of discount	-	-	-	-	-
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Disposals	-	-	-	-	-
As at 31 December	-	-	-	-	-

2016

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

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

2016

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

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

19. Impairment provisions (continued)

2016

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

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

(b) Collateral in possession

In the year ended 31 December 2017, the Group incurred a charge on collateral in possession of €1m (31 December 2016: write-back of €3m). Collateral in possession is included in Note 23 and Note 41.

20. Property and equipment

In line with the Group's accounting policy, branch properties are revalued on an individual basis. During the year the Group carried out an exercise to ensure that this policy had been consistently applied for the relevant asset portfolios. An analysis was performed and as a result of this, an adjustment of €13m has been credited to revaluation reserves offset by a debit of €13m to retained earnings to reflect the output of that exercise.

2017	Held at Fair Value Land and buildings €m	Held at Cost Buildings €m	Held at Cost Office and computer equipment €m	Total €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**

Of the €9m revaluation, €1m is recognised in the income statement due to impairment write-back on land and buildings and €8m is included in the revaluation reserve in the statement of comprehensive income.

The presentation of land and buildings has been amended from that used in previous years. This new presentation separates land and buildings between those held at fair value and those held at cost less accumulated depreciation. This was amended to enhance the presentation of the Financial Statements in line with IAS 1.

20. Property and equipment (continued)

2016	Held at Fair Value Land and buildings* €m	Held at Cost Buildings* €m	Held at Cost Office and computer equipment €m	Total €m
Cost or valuation				
At 1 January	76	66	48	190
Additions	-	4	8	12
Revaluations	11	-	-	11
Reclassification	(1)	-	-	(1)
At 31 December	86	70	56	212
Accumulated depreciation				
At 1 January	-	(45)	(30)	(75)
Provided in the year	-	(5)	(7)	(12)
At 31 December	-	(50)	(37)	(87)
Net book value at 31 December	86	20	19	125

*The combined total of held at fair value land and buildings and held at cost buildings is equal to the total amount of held at fair value land and buildings in the prior year financial statements.

The net book value of land and buildings include the following:

	31 December 2017 €m	31 December 2016 €m
Land	**29**	23
Buildings - freehold fair value	**66**	63
Buildings - freehold cost	**5**	4
Buildings - leasehold	**25**	16
	125	106

Land and buildings at 31 December 2017 held at fair value was €95m (31 December 2016: €86m). The historic cost of land and buildings is €109m (31 December 2016: €110m).

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 2017 and 31 December 2016 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 2017 and 31 December 2016.

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 6% to 11%. There has been no change to the valuation techniques during the year.

20. Property and equipment (continued)

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 2017 are as follows:

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**

31 December 2016	Level 1 €m	Level 2 €m	Level 3 €m	Total Fair value €m
Land	-	23	-	23
Buildings - freehold *	-	63	-	63
	-	86	-	86

*The table above is aligned with the change in presentation referred to earlier in the note.

21. Intangible assets

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**

2016	Software €m	Core deposits* €m	Total €m
Cost			
At 1 January	52	156	208
Additions	16	-	16
At 31 December	68	156	224
Accumulated amortisation			
At 1 January	(26)	(145)	(171)
Provided in the year	(8)	(11)	(19)
At 31 December	(34)	(156)	(190)
Net book value at 31 December	34	-	34

*Core deposit intangibles were fully amortised as at 31 December 2016. These had been amortised over five years from the date of recognition. Amortisation of these core deposit intangibles was reflected in Net interest income, note 4.

22. Deferred taxation

	31 December 2017 €m	31 December 2016 €m
Deferred tax liabilities	**(18)**	(20)
Deferred tax assets	**361**	373
Net deferred tax assets	**343**	353

Net deferred tax assets are attributable to the following:

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**

2016

	At 1 January €m	Recognised in income statement €m	Recognised in equity €m	Recognised in other comprehensive income €m	At 31 December €m
	€m	€m	€m	€m	€m
Property and equipment	(8)	-	-	(3)	(11)
Unrealised gains/(losses) on assets/liabilities	(13)	-	4	-	(9)
Core deposit intangibles	(1)	1	-	-	-
Losses carried forward	414	(41)	-	-	373
Other temporary differences	1	(1)	-	-	-
	393	(41)	4	(3)	353

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 2017 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 formal approval of the Restructuring Plan by the European Commission during 2015 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, adherence to the Restructuring Plan and the Group's financial position. These factors are set out in further details in note 2, Critical accounting estimates and judgements.

22. Deferred taxation (continued)

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 2017 amounted to €21m (31 December 2016: €21m) which relates to the Group's subsidiaries.

In accordance with IFRS these balances are recognised on an undiscounted basis.

The following information has not been subject to audit by the Group's independent auditor.
Finally, it should be noted that the full net deferred tax asset is not currently included in the Group's CET1 capital. This is due to the fact that, under CRD IV/CRR, the Group was required to begin deducting deferred tax assets that rely on future profitability from CET1 capital in 2014. Transitional arrangements provide for the phasing-out of such assets over a period from 2014 to 2023 with full deduction from 2024. The net deferred tax asset that is reliant on future profitability that is included in CET1, and subject to deduction on a phased basis until 2023, is €240m as at 31 December 2017 (31 December 2016 €284m).

23. Other assets

	31 December 2017 €m	31 December 2016 €m
Collateral in possession	**30**	70
Other	**9**	11
	39	81

Collateral in possession of €30m comprises former home loan properties which are held at fair value. During 2017, Buy-to-let assets which were previously held in other assets were reclassified to held for sale, see note 41 for further details.

Management believes that selling the balance of properties within 12 months is improbable based on historic experience. Therefore, in light of the requirements of IFRS 5, the Group concluded that these collateral in possession do not meet the criteria to be classified as held for sale.

24. Prepayments and accrued income

	31 December 2017 €m	31 December 2016 €m
Visa prepayments	**30**	91
Other prepayments	**15**	12
	45	103

25. Deposits by banks (including central banks)

	31 December 2017 €m	31 December 2016 €m
Placed by the ECB	**230**	1,380
Placed by other banks and institutions on repurchase agreements	**1,610**	1,522
Other deposits	**2**	1
Deposits by banks	**1,842**	2,903

Balances placed by the ECB

Maximum	**1,780**	5,410
Average	**518**	3,031

The Group holds €0.2bn (31 December 2016: €1.4bn) of deposits from the ECB which are secured on €0.5bn (31 December 2016: €2.1bn) of notes issued by special purpose entities controlled by the Group.

Of the deposits received on repurchase agreements, €1.5bn (31 December 2016: €1.5bn) are collateralised on €1.7bn (31 December 2016: €1.8bn) of notes issued by special purpose entities controlled by the Group. The notes issued by special purpose entities are secured by a first fixed charge over residential mortgages held by the special purpose entities (refer to note 18). The remaining €0.1bn repurchase agreements are collateralised on €0.1bn senior bonds.

Other deposits include €2m (31 December 2016: €1m) of cash collateral placed in relation to derivative positions and repurchase agreements.

26. Customer accounts

	31 December 2017 €m	31 December 2016 €m
Term deposits	**8,050**	8,790
Demand deposits	**3,568**	2,938
Current accounts	**3,697**	3,355
Notice and other accounts	**1,680**	1,901
Customer accounts	**16,995**	16,984

€0.1bn of deposits are placed by a Government institution (31 December 2016: €0.2bn) and are included within term deposits.

Term deposits of €8.1bn (31 December 2016: €8.8bn) have decreased by €0.7bn primarily due to a €0.4bn reduction in Corporate Deposits, a €0.2bn reduction in Interest First accounts and a reduction of €0.1bn due to the wind down of PBI.

An analysis of the contractual maturity profile of customer accounts is set out in the liquidity risk section of note 34.

27. Debt securities in issue

	31 December 2017 €m	31 December 2016 €m
At amortised cost		
Bonds and medium-term notes	**321**	374
Non-recourse funding	**1,312**	950
	1,633	1,324

Maturity analysis		
Repayable in less than 1 year	**304**	50
Repayable in greater than 1 year but less than 2 years	**-**	304
Repayable in greater than 2 years but less than 5 years	**7**	13
Repayable in greater than 5 years	**1,322**	957
	1,633	1,324

Non-Recourse funding

During 2017, the Group issued a €500m residential mortgage backed securitisation. As at 31 December 2017, the Group had advances of €1.3bn (31 December 2016: €1bn) collateralised on residential property loans of €1.3bn (31 December 2016: €1bn) subject to non-recourse funding by way of residential mortgage securitisations. Residential mortgage securitisations involve transferring the interest in pools of mortgages to special purpose entities which issue mortgage-backed floating rate notes to fund the purchase of the interest in mortgage pools. These loans, which have not been de-recognised, are shown within loans and advances to customers while the non-recourse funding is shown as a separate liability.

Under the terms of these securitisations, the rights of the providers of the related funds are limited to the mortgage loans in the securitised portfolios 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 €50m of MTNs matured (31 December 2016: €25m) while a further €6m of bonds were terminated during the year.

28. Other liabilities

	31 December 2017 €m	31 December 2016 €m
Amounts falling due within one year		
PAYE and social insurance	**4**	4
Other taxation including DIRT	**3**	5
Other	**41**	41
	48	50

29. Provisions

	2017				2016			
	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	**4**	**74**	**6**	**84**	5	104	8	117
Provisions made during the year	**12**	**9**	**5**	**26**	-	12	5	17
Write-back of provisions during the year	**(1)**	**(4)**	**(4)**	**(9)**	-	(1)	-	(1)
Provisions used during the year	**(3)**	**(34)**	**(1)**	**(38)**	(1)	(41)	(7)	(49)
As at 31 December	**12**	**45**	**6**	**63**	4	74	6	84

The provision at 31 December 2017 is €63m (31 December 2016: €84m) which is comprised of the following:

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

During 2017, the Group announced changes to the Group's distribution model, including changes to the Branch Network. In addition the Group is undertaking a restructure of its Operations Function. Estimated costs to deliver these activities are in the region of €7m, with the majority of this provision being utilised within 12 months.

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

Provision for legacy, legal and compliance liabilities
The Group has recognised provisions of €45m which relate to legal, compliance and other costs of on-going disputes in relation to legacy business issues with certain customers and other actions, including a €32m Mortgage Redress Programme (MRP) in connection with an on-going 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. As at year end, redress and compensation has been offered to all impacted customers identified through the MRP and the CBI Tracker review. While the investigation is well progressed, management has considered on-going uncertainties that may impact on the provision, including the outcome of the on-going CBI assurance work and investigation, additional compensation arising from appeals taken by customers through the Appeals process, the FSO or the Courts, and the potential for a regulatory fine being levied in respect of any alleged breaches of the Consumer Protection Code. 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.

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

30. Subordinated liabilities

	2017 €m	2016 €m
As at 1 January	**22**	22
Other movements	**1**	-
As at 31 December*	**23**	22

	31 December 2017 €m	31 December 2016 €m
Dated		
€24m 0% non-callable lower tier 2 capital notes 2018	**23**	22
	23	22

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

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

Terms and conditions of other outstanding subordinated liabilities

The terms and conditions of the remaining outstanding subordinated liabilities of the Group as at 31 December 2017 are detailed as follows:

- €24m zero coupon, non-callable lower tier 2 capital notes repayable on 15 September 2018, issued at 43.1825% of aggregate nominal amount of €55m. Under the Lower Tier 2 Liability Management Exercise (LME) carried out by the Group in 2011, €31m of the €55m original nominal amount of these notes were repurchased. The remaining notes accrete up at an effective interest rate of 8.76%.

The consent of the CBI is required before:

- Any repayment, for whatever reason, of a dated subordinated liability prior to its stated maturity; and
- Any exercise of any redemption option in any undated liability.

In the event of the winding up of the entity which issued the subordinated liability, the claims of the holders of the subordinated liabilities shall be subordinated to the claims of depositors, policyholders and creditors of the relevant entity other than creditors that are expressed to rank pari-passu with or junior to the claims of the holders of the subordinated liabilities.

31. 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 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

31 December 2016

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

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

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

Issued share capital

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

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**	

Balances as at 31 December 2016

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

Share Premium

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

Other Reserves

Capital contribution reserve (Distributable)

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

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.

In line with the Group's accounting policy, branch properties are revalued on an individual basis. During the year the Group carried out an exercise to ensure that this policy had been consistently applied for the relevant asset portfolios. An analysis was performed and as a result of this, an adjustment of €13m has been credited to revaluation reserves offset by a debit of €13m to retained earnings to reflect the output of that exercise.

AFS reserve (Non-distributable)

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

Cash flow hedge reserve (Non-distributable)

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

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.

Under the scheme of arrangement to incorporate the Company and present it as the ultimate holding parent of the Group, the share capital and share premium in PTSB of €2.922m (including the €2.698m already presented in capital reserves) was cancelled in 2010 and subsequently share capital and share premium was issued in the Group at fair value of €1.087m. These changes in share capital are reflected in the other capital reserves.

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

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. As noted above €118m was transferred from the capital contribution reserve to retained earnings during 2016. Furthermore €11m coupon interest on the AT1 securities was paid from this reserve during 2017 (31 December 2016: €10m), while €13m was debited to retained earnings as a result of the revaluation reserve consistency exercise in 2017.

Other equity instruments - Non-distributable

	31 December 2017 €m	31 December 2016 €m
Additional Tier 1 securities	**122**	122

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

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

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

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

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

32. 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 of equity.

31 December 2017	Revaluation reserve €m	Available for sale reserve €m	Cash flow hedge reserve €m	Currency translation adjustment reserve €m	Retained earnings €m	Total €m
Other comprehensive income (net of tax)						
Revaluation of property relating to prior years (see note 31)	**13**	**-**	**-**	**-**	**(13)**	**-**
Revaluation of property	**8**	**-**	**-**	**-**	**-**	**8**
AFS reserve:						
Change in fair value of AFS financial assets	**-**	**(26)**	**-**	**-**	**-**	**(26)**
Disposal of AFS securities	**-**	**-**	**-**	**-**	**-**	**-**
Cash flow hedge reserve:						
Net change in fair value	**-**	**-**	**-**	**-**	**-**	**-**
Amortisation of dedesignated CFH to income statement	**-**	**-**	**-**	**-**	**-**	**-**
Total other comprehensive income	**21**	**(26)**	**-**	**-**	**(13)**	**(18)**

32. Analysis of other comprehensive income (continued)

31 December 2016	Revaluation reserve €m	Available for sale reserve €m	Cash flow hedge reserve €m	Currency translation adjustment reserve €m	Retained earnings €m	Total €m
Other comprehensive income (net of tax)						
Revaluation of property	6	-	-	-		6
Currency translation adjustment	-	-	-	1	-	1
AFS reserve:						
Change in fair value of AFS financial assets	-	(23)	-	-	-	(23)
Disposal of AFS securities	-	(19)	-	-	-	(19)
Cash flow hedge reserve:						
Net change in fair value	-	-	21	-	-	21
Amortisation of dedesignated CFH to income statement	-	-	(8)	-	-	(8)
Total other comprehensive income	6	(42)	13	1	-	(22)

33. Measurement basis and fair values of financial instruments

(a) Measurement basis and fair values of financial instruments

31 December 2017		Held at amortised cost €m	At fair value through equity €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	13	**62**	**-**	**-**	**-**	**62**	**62**
Items in the course of collection	13	**28**	**-**	**-**	**-**	**28**	**28**
Debt securities*	14	**1,194**	**784**	**-**	**-**	**1,978**	**2,031**
Equity securities	15	**-**	**12**	**-**	**-**	**12**	**12**
Derivative assets**	16	**-**	**-**	**21**	**16**	**37**	**37**
Loans and advances to banks	17	**1,518**	**-**	**-**	**-**	**1,518**	**1,518**
Loans and advances to customers	18	**18,366**	**-**	**-**	**4**	**18,370**	**17,216**
Financial liabilities							
Deposits by banks	25	**1,842**	**-**	**-**	**-**	**1,842**	**1,842**
Customer accounts	26	**16,995**	**-**	**-**	**-**	**16,995**	**17,006**
Debt securities in issue	27	**1,633**	**-**	**1**	**(1)**	**1,633**	**1,637**
Derivative liabilities**	16	**-**	**-**	**24**	**24**	**48**	**48**
Subordinated liabilities	30	**23**	**-**	**-**	**-**	**23**	**24**

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

31 December 2016	Note	Held at amortised cost €m	At fair value through equity €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	13	66	-	-	-	66	66
Items in the course of collection	13	30	-	-	-	30	30
Debt securities*	14	1,405	1,277	-	-	2,682	2,763
Equity securities	15	-	9	-	-	9	9
Derivative assets**	16	-	-	24	20	44	44
Loans and advances to banks	17	1,185	-	-	-	1,185	1,185
Loans and advances to customers	18	18,877	-	-	9	18,886	16,204
Financial liabilities							
Deposits by banks	25	2,903	-	-	-	2,903	2,903
Customer accounts	26	16,982	-	-	2	16,984	16,984
Debt securities in issue	27	1,321	-	9	(6)	1,324	1,328
Derivative liabilities**	16	-	-	37	87	124	124
Subordinated liabilities	30	21	-	-	1	22	23

*Debt securities held at amortised cost include €1,194m of held to maturity securities (31 December 2016: €1,151m).
**Derivative assets and liabilities held at fair value through profit or loss relate to embedded derivative instruments and derivatives instruments deemed to be held for trading.

The following table sets out the fair values of financial instruments that the Group holds at 31 December 2017. 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 2017	Note	Total carrying value €m	Level 1 €m	Level 2 €m	Level 3 €m	Total fair value €m
Financial assets						
Cash and balances with central banks	13	**62**	**-**	**62**	**-**	**62**
Items in the course of collection	13	**28**	**-**	**28**	**-**	**28**
Debt securities	14	**1,978**	**2,031**	**-**	**-**	**2,031**
Equity securities	15	**12**	**-**	**-**	**12**	**12**
Derivative assets	16	**37**	**-**	**37**	**-**	**37**
Loans and advances to banks	17	**1,518**	**-**	**1,518**	**-**	**1,518**
Loans and advances to customers	18	**18,370**	**-**	**-**	**17,216**	**17,216**
Financial liabilities						
Deposits by banks	25	**1,842**	**-**	**1,842**	**-**	**1,842**
Customer accounts	26	**16,995**	**-**	**17,006**	**-**	**17,006**
Debt securities in issue	27	**1,633**	**-**	**1,637**	**-**	**1,637**
Derivative liabilities	16	**48**	**-**	**48**	**-**	**48**
Subordinated liabilities	30	**23**	**-**	**24**	**-**	**24**

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

31 December 2016	Note	Total carrying value €m	Level 1 €m	Level 2 €m	Level 3 €m	Total fair value €m
Financial assets						
Cash and balances with central banks	13	66	-	66	-	66
Items in the course of collection	13	30	-	30	-	30
Debt securities	14	2,682	2,509	254	-	2,763
Equity securities	15	9	-	-	9	9
Derivative assets	16	44	-	44	-	44
Loans and advances to banks	17	1,185	-	1,185	-	1,185
Loans and advances to customers	18	18,886	-	-	16,204	16,204
Financial liabilities						
Deposits by banks	25	2,903	-	2,903	-	2,903
Customer accounts	26	16,984	-	16,984	-	16,984
Debt securities in issue	27	1,324	-	1,328	-	1,328
Derivative liabilities	16	124	-	124	-	124
Subordinated liabilities	30	22	-	23	-	23

(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 minor changes in the assumptions used could have a significant impact on the resulting estimated fair values and, as a result, it may be difficult for the users to make a reasonable comparison of the fair value information disclosed 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 AFS 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.

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

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 mortgages. Cash flows are discounted using the weighted average rate at which the Bank is issuing mortgages into the market at present. The fair value is net of any impairment held against loans 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. For the commercial real estate portfolio which constitutes less than 1% of the total loan portfolio net of provisions, carrying value is also equal to the fair value.

A 1% change in the average discount rate would impact the fair value of the residential mortgage portfolio by approximately €1.5bn.

Debt securities (HTM securities and other Loans and Receivables)

Included in debt securities at 31 December 2017 are €1,194m (31 December 2016: €1,151m) of HTM and €nil (31 December 2016: €8m) of loans and receivables other than NAMA bonds. HTM securities and the residual loans and receivables debt values are derived from observable market data through independent pricing sources such as Bloomberg (level 1).

Deposits by banks/customer accounts

The estimated fair value of current accounts and deposits with no stated maturity which is 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).

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 available for sale 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.

Debt securities (AFS Securities)

Included in debt securities at 31 December 2017 are €784m (31 December 2016: €1,277m) of AFS securities. At 31 December 2017, all of the AFS 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 2017 is €12m (31 December 2016: €9m) 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.

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

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 2017	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets measured at fair value				
Debt securities				
- AFS Debt securities (note 14)	**784**	**-**	**-**	**784**
Equity securities (note 15)	**-**	**-**	**12**	**12**
Derivative assets (note 16)	**-**	**37**	**-**	**37**
Financial liabilities measured at fair value				
Derivative liabilities (note 16)	**-**	**48**	**-**	**48**

31 December 2016	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets measured at fair value				
Debt securities				
- AFS Debt securities (note 14)	1,277	-	-	1,277
Equity securities (note 15)	-	-	9	9
Derivative assets (note 16)	-	44	-	44
Financial liabilities measured at fair value				
Derivative liabilities (note 16)	-	124	-	124

There were no transfers between level 1 and level 2 of the fair value hierarchy during 2017 or 2016.

Level 3 fair value measurements

(i) Reconciliation

	2017 €m	2016 €m
Equity securities - AFS		
As at 1 January	**9**	23
Acquisition	**-**	8
Revaluation movement	**3**	1
Disposals	**-**	(23)
As at 31 December	**12**	9

Equity securities - AFS

PTSB was a Principal Member of Visa Europe Ltd. (Visa Europe) and as such owned one share in Visa Europe with a fair value of €23m at 31 December 2015. In June 2016, all shares in Visa Europe were sold with Principal Members receiving consideration in the form of upfront cash consideration, deferred cash and preferred stock in Visa Inc. A gain of €29m was recorded in operating income in the income statement for the year ended 31 December 2016 in respect of the sale of the share in Visa Europe. This gain comprised €21m for the upfront cash and deferred cash components and a further €8m for the preferred stock in Visa Inc. PTSB continues to hold the preferred stock in Visa Inc. at 31 December 2017. This was fair valued at €12m as at 31 December 2017 and is recognised in the Statement of Financial Position (31 December 2016: €9m).

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

Sensitivity analysis of level 3 fair value measurements

At 31 December 2017, financial instruments classified as Level 3 amounted to €12m. The fair value of this shareholding is classified as Level 3 as the valuation of the share includes inputs that are based on unobservable market data. Management have made assumptions and judgements, based on the best information available to PTSB by Visa Inc. to determine the fair value. The unobservable data includes potential legal costs which may impact on the final number of preferred stock receivable by the Group together with the applicable share price of the preferred stock and relevant US dollar FX rates. Adjustments have been made to the estimated consideration to take account of a range of costs which may be incurred by Visa Inc. along with fluctuations in the share price of Visa Inc. Management have considered the potential favourable and unfavourable effects on the valuation of the shareholding in Visa Inc. in the event that changes were to arise to these unobservable inputs. Management have stressed these unobservable inputs by +/- 100bps which would have a resultant impact on the fair value calculation by +/- €33k.

34. Financial risk management

Risk management framework

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 Board Risk and Compliance Committee, 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 Group Risk Committee, the Group Credit Committee, Group Capital Adequacy Committee and the Assets & Liabilities Committee.

The Board Audit Committee, 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 Board Audit Committee is assisted in its oversight role by Group Internal Audit. Group Internal Audit undertakes both routine and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit Committee.

The information contained in this note forms an integral part of the audited financial statements as described in the Basis of preparation on page 104 except for items denoted as unaudited, which are additional disclosures and do not form an integral part of the audited financial statements.

Further details on the Group's risk management framework, the Group's risk appetite and strategy, risk governance and risk identification and assessment are described under the Risk Management section of this annual report which has not been subject to audit as this does not form an integral part of the financial statements.

The Group risk identification and assessment process identifies the following risks as being material to the operations of the Company:
1. Credit Risk
2. Liquidity Risk
3. Market Risk (including foreign currency exchange risk, credit spread risk and interest rate risk)

This note presents information about the Group's exposures and approach to the management of 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 the Group. All of the Directors of the Company are also Directors of the Board of PTSB. In addition, they have representation on the Boards of Springboard Mortgages Limited and Permanent Bank International Limited, its subsidiary companies. This allows the Directors to monitor the key risks and controls in the underlying subsidiaries.

1. Credit Risk

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

The manner in which the Group's exposure to credit risk arises, its policies and processes for managing it and the methods used to measure and monitor it are set out below:

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.

34. Financial risk management (continued)

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.

Credit-related Commitments

The Group manages credit-related commitments (including commitments and letters of offer) that are not reflected as loans and advances on the statement of financial position.

How Credit Risk Arises

Credit risk is defined as the potential for material financial loss arising from a failure to:

- Accurately predict the likelihood of a customer repaying their debt based upon their disclosed, known or discovered, attributes and characteristics at the point of funding;
- Accurately model the likelihood or extent of unexpected changes in the customer's ability or intent to repay their debt; and
- Accurately predict unexpected changes in the value of security pledged to the Group.

How Credit Risk is Managed

Credit risk is managed within a three lines of defence model, with the objective of being consistent with the Central Bank of Ireland Corporate Governance Code and European Banking Authority (EBA) Guidelines on Internal Governance. To manage this model, Management operates the following:

- Policies and processes to identify, measure or assess, monitor, mitigate and report on risks (first line of defence);
- An internal control framework designed to manage credit policy and strategy, provide support to the business units in the effective application of policy and ensures that policies and procedures are complied with (second line of defence); and
- Group Internal Audit function to provide an independent review of the first two lines of defence (third line of defence).

To support the oversight of the first and second lines of defence, the Group has established a business unit with responsibility for managing Customer Credit Risk.

The Customer Credit Division consists of five individual business units each reporting to the Chief Credit Officer who reports to the Group's Chief Risk Officer (a member of the Group's Executive Committee and an executive member of the Board).

The structure and roles of each unit within the Division are summarised below:

Customer Acquisition Strategy & Decisioning

The primary role of the unit is to support the design of new credit products/processes and manage the credit decisioning process.

Decision Science

The unit is tasked with building and maintaining all of the Group's models and in particular its scorecards and credit models.

Credit Policy, Management Information and Impairment

The unit's responsibility is three-fold:

- Managing the design and maintenance of credit policy and tracking and testing adherence to same;
- Managing the Group's impairment calculations, forecasting and reporting; and
- Designing and delivering efficient credit portfolio data and reporting.

Collections Strategy

The unit is responsible for designing and developing effective strategies for the management of high risk credit facilities, including arrears collection outcomes.

Credit Business Excellence & Project Management Office

The unit supports the Chief Credit Officer, and other units in Credit, through the provision of Project Management expertise and by aiding in capacity planning and process improvement.

34. Financial risk management (continued)

Key components in the Group's management of credit risk

Credit Policy

To aid in the management of credit risk, the Group has put in place credit policies which contain the core values and principles governing the provision and management of credit. These policies take account of the Group's Risk Appetite Statement, 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 Group Credit Committee or the Board of Directors. Below Group Credit Committee 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.

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 periodically as part of the facility review process.

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. With regard to portfolio segmentation, the Group's credit exposures have been segmented to appropriately reflect the characteristics and risk profile associated with different types of exposures.

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

Unaudited

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

The credit risk ratings employed by the Group are designed to highlight exposures requiring management attention. The Group uses the Basel 25 point scale for the internal ratings 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 probability of default.

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

34. Financial risk management (continued)

Derivative assets

Credit default risk also arises on non-traded/over-the-counter derivative exposures since the Group is exposed to the risk of the counterparty defaulting prior to the maturity of "in-the-money" products, thereby necessitating replacement of the contract at applicable market rates. To manage this risk, counterparty limits are maintained in the Group's investment accounting system, and Risk Management and Compliance teams undertake regular independent monitoring of counterparty exposure against limits. Breaches of counterparty limits are required to be notified to the ALCO.

In the case of most counterparties, to avoid a build-up of exposure on derivatives, the Group uses a credit support annex (CSA), which is an addendum to the bi-lateral ISDA Agreement with a counterparty, and which requires daily settlement of mark-to-market values of outstanding derivative deals.

The Group has substantially mitigated its derivative positions through the use of netting and collateral arrangements. The netting 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. It is therefore not considered appropriate to include credit valuation adjustments (CVA) or debt valuation adjustments (DVA) when calculating the fair value of the derivative positions.

Collateral

Credit risk mitigation includes the requirement to obtain collateral, depending on the nature of the product, as set out in the Group's policies and procedures. The 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.).

The Group's requirements for collateral around completion, valuation and management requirements are set out in credit policy and business unit procedures.

Credit Reporting / Monitoring

It is the Group's policy to ensure that adequate up to date credit management information is available to support the effective management of individual exposures and the overall credit portfolio. The Group allocates significant resources with the aim of ensuring on-going monitoring and compliance with approved risk limits. Credit risk at a Group, Business Unit, Operating Unit and Product Type Level is reported on a monthly basis to Senior Management.

This monthly reporting includes information and appropriate insights into portfolio trends including portfolio growth and quality. The Group Credit Committee monitors portfolio and customer concentration on an on-going basis with reference to pre-agreed portfolio control limits and guide points which are designed with reference to the Group's Risk Appetite Statement which is approved annually by the Group's Board of Directors.

The Group Credit Committee also monitors credit policy exceptions on an on-going basis. In addition, other reports are submitted to Senior Management and the Group Credit Committee as required. The Group also operates a Credit Quality Review (CQR) function which reports to the Chief Risk Officer and which is tasked with examining the quality of credit assessment and adherence to credit policy across the various portfolios.

The Group Internal Audit function also provides an independent review of credit risk management controls and procedures.

34. Financial risk management (continued)

Forbearance Measures

The Group has a process in place, the objective of which is to secure compliance 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.

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.

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 and that they comply with all regulatory requirements.

During the period of forbearance, arrears are maintained and, unless the customer is paying more than their contractual minimum payment, arrears balances will remain and the loan will continue to be reported as in arrears with certain long term forbearance strategies (such as term extension and split mortgages) allowing for arrears capitalisation to occur. When customers come to the end of their arrangement period, depending on their circumstances, they may be offered a further arrangement or, if not suitable, they will continue to be managed as a mainstream collections case and if unable to recover, will then move towards repossession or voluntary sale.

Under the Group's current policy, customers can have their arrears balance capitalised once they have demonstrated they can pay the contractual minimum payment, but are unable to clear their historic arrears. This is usually demonstrated by the customer making six contractual monthly payments over the last six months and demonstrating that this level of repayment is sustainable into the future. Customers are typically able to recapitalise once over a 5 year period.

The Group currently offers the following forbearance strategies:

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.

Reduced payments (greater than interest only)

This is an arrangement where the borrower pays full interest on the loan balance plus some principal. This may be a long or short term arrangement. There is an expectation that the principal repayments will increase over time. The shortfall in principal is capitalised.

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.

Term extension

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

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.

Hybrid

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

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.

34. Financial risk management (continued)

Loan Loss Provisioning

Through its on-going credit review processes, the Group seeks early identification of deteriorating loans with a view to taking corrective action to prevent the loan becoming impaired. It is the Group's policy to provide for impairment promptly and consistently across the portfolio. For those loans that become impaired, the focus is to minimise the loss that the Group will incur from such impairment. Loans that are at risk of impairment are managed by the Group's dedicated Asset Management Unit. Management of these accounts may involve implementing appropriate forbearance solutions, entering into sustainable restructuring arrangements or taking action to enforce the Group's security.

Other factors taken into consideration in estimating provisions include the domestic and international economic climate, changes in portfolio risk profile and the effect of any external factors such as legal or competition requirements.

Loan loss provisioning is an on-going process and the provisioning methodologies applied across the portfolio are subject to formal approval by the Group Credit Committee and BRCC on a half-yearly basis. The adequacy of impairment provisions is also reviewed by the Board Audit Committee on a half-yearly basis.

Where cash flows arising from the realisation of collateral held are included in impairment assessments, management typically rely on valuations or business appraisals from independent external professionals. Where such valuations are not available the Group uses estimated cash flows based on valuations from the most appropriate source available for the asset in question.

The Group's accounting policy on impairment provisioning is set out in note 1 and critical estimates and judgements exercised in the impairment provisions calculation are discussed in note 2.

All credit exposures, either individually or collectively, are regularly reviewed for objective evidence of impairment. Where such evidence of impairment exists, the exposure is measured for an impairment provision. Where objective evidence of impairment exists, as a result of one or more past events, the Group is required to estimate the recoverable amount of the exposure or group of exposures.

The Group's impairment provisioning methodologies are designed in accordance with IFRS. International Accounting Standard (IAS) 39 requires there to be objective evidence of impairment and that a credit loss has been incurred. The standard does not permit the recognition of expected losses, no matter how likely these expected losses may appear.

Specific Impairment Provisions

Loans are assessed for specific provisions where they are individually significant loans or greater than 90 days in arrears and/or there is objective evidence that the loan is impaired. An impairment loss occurs where the Group does not expect to recover the full value of the loan facility. The criteria used by the Group to determine whether there is such objective evidence includes, but is not limited to:

- Delinquency in contractual interest or principal repayments;
- Significant financial difficulty of the borrower;
- Deterioration in value of the collateral;
- Where a borrower is in financial difficulty and a concession is granted that would not otherwise be considered;
- The probability that the borrower will enter bankruptcy or other financial re-organisation;
- A forbearance request by the customer accompanied by the submission of a Standard Financial Statement (SFS);
- Absence of an active market;
- Borrower's inability to refinance the existing loan; and
- Any significant exceptional events.

34. Financial risk management (continued)

Collective Assessment

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

Residential mortgage exposures with certain risk characteristics, including those exposures greater than €1m, may attract an additional IBNR provision.

However, in certain circumstances an individual assessment will be carried out and an impairment charge will be calculated. They are as follows:

Individual Assessment

Residential Mortgages

In respect of residential mortgage exposures an individual assessment is performed for all accounts greater than €5m or where evidence is obtained that the borrower may be experiencing difficulties or any other indications as listed in the criteria used by the Group to determine whether there is objective evidence of impairment present. In such cases, a discounted cash flow approach is used incorporating the following factors:

- The Group's aggregate exposure to the customer;
- The recent repayment history i.e. the level of arrears and anticipated future repayments;
- The estimated value of the collateral and certain assumptions with regard to the peak to trough decline in residential house prices;
- The cost of realising the collateral; and
- The estimated time to realise the security/collateral.

Commercial Mortgages

Commercial loans meeting the following criteria are reviewed individually for impairment:

- Loans in default where the customer exposure is greater than €750,000 in value; and
- Watch list cases – performing commercial loans but where evidence is obtained that the borrower may be experiencing financial difficulties.

To determine the appropriate account-specific impairment provision for commercial mortgages, a discounted cash flow is calculated incorporating the following factors:

- The Group's aggregate exposure to the customer;
- The viability of the customer's business model in generating sufficient cash flow to service its debt obligations;
- The estimated realisable value of any security (or other credit risk mitigants) and the likelihood of a successful repossession;
- The expected distribution available on any liquidation or bankruptcy;
- The cost of realising the collateral; and
- The estimated time to realise the security / collateral.

In addition to the above, the Group operates an annual review process for performing commercial loans and loans not subject to specific impairment assessment.

34. Financial risk management (continued)

IBNR Impairment Provisions

Loans which are not specifically impaired or in default, are included in the IBNR provisioning approach. The provision on unimpaired loans which are collectively assessed is calculated using statistical models by determining the probability of arrears levels deteriorating and applying a Loss Given Default (LGD) to the loan balance. These LGDs take into account valuation of collateral, discounting and expected cure rates which are based on historical experience and adjusted as appropriate for Management judgement to reflect current conditions as at the statement of financial position date.

A provision may also be established if no loan-specific indicators of impairment loss have been identified and attributed to specific customers, where experience and other observable data indicate that such impairment losses are present in the portfolio as at the date of assessment.

The IBNR impairment provision factors in the historical loss experience in portfolios with similar credit risk characteristics, current economic conditions and behavioural trends of borrowers.

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. 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.

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 Group's financial assets as at the statement of financial position date.

	Notes	31 December 2017 €m	31 December 2016 €m
Cash and balances with central banks	13	**62**	66
Items in course of collection	13	**28**	30
Debt securities	14	**1,978**	2,682
Derivative assets	16	**37**	44
Loans and advances to banks	17	**1,518**	1,185
Loans and advances to customers	18	**18,370**	18,827
		21,993	22,834
Commitments and contingencies	39	**810**	668
		22,803	23,502

34. Financial risk management (continued)

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 2017 or at 31 December 2016.

Debt securities neither past due nor impaired

	31 December 2017 €m	31 December 2016 €m
Rating		
A	**1,862**	2,682
Baa	**116**	-
Total	**1,978**	2,682

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

	31 December 2017 Sovereign debt €m	31 December 2016 Sovereign debt €m
Country		
Ireland	**1,862**	2,682
Spain	**116**	-
Total	**1,978**	2,682

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

Derivative assets

	31 December 2017 €m	31 December 2016 €m
Covered by netting agreements	**37**	44
Total	**37**	44

The Group has executed standard ISDA agreements with all of its counterparties. The Group has also executed CSA with its counterparties in respect of the majority of derivative instruments to mitigate its credit risk. As part of these agreements, the Group exchanges collateral in line with movements in the market values of derivative positions daily. The cumulative positive market value of derivative assets at 31 December 2017 was €37m (31 December 2016: €44m). 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 2017 of €34m (31 December 2016: €32m) are all held with investment grade counterparties. The level of collateral placed and received by the Group is outlined in note 17 Loans and Advances to Banks with further detail outlined in note 37 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 2017 €m	31 December 2016 €m
Rating		
Aaa	**806**	228
Aa	**470**	151
A	**217**	693
Baa	**23**	49
Ba	**2**	64
Total	**1,518**	1,185

34. Financial risk management (continued)

Loans and advances to customers

i) Asset Quality

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

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

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

A loan is considered to be impaired, and therefore its carrying amount is adjusted to reflect the effect of impairment, when there is objective evidence that events have occurred which give rise to an adverse impact on the estimated future cash flows of the asset. Impairment provisions are calculated either individually on loans where significant, or on groups of loans assessed collectively. Impairment losses are recorded as charges to the income statement.

31 December 2017

	Home loans €m	Buy-to-let €m	Total residential mortgages €m	Commercial €m	Consumer finance €m	Total €m	%
*							
Excellent	**9,287**	**1,098**	**10,385**	**15**	**185**	**10,585**	**52%**
Satisfactory	**1,379**	**2,436**	**3,815**	**100**	**63**	**3,978**	**19%**
Fair risk	**752**	**250**	**1,002**	**36**	**28**	**1,066**	**5%**
Neither past due nor impaired	**11,418**	**3,784**	**15,202**	**151**	**276**	**15,629**	**76%**
Past due but not impaired	**360**	**86**	**446**	**5**	**16**	**467**	**2%**
Impaired	**3,259**	**1,083**	**4,342**	**68**	**53**	**4,463**	**22%**
	15,037	**4,953**	**19,990**	**224**	**345**	**20,559**	**100%**
Provision for impairment losses	**(1,437)**	**(689)**	**(2,126)**	**(71)**	**(49)**	**(2,246)**	
	13,600	**4,264**	**17,864**	**153**	**296**	**18,313**	
Deferred fees, discounts and fair value adjustment	**57**	**-**	**57**	**-**	**-**	**57**	
	13,657	**4,264**	**17,921**	**153**	**296**	**18,370**	

*Unaudited.

31 December 2016

	Home loans €m	Buy-to-let €m	Residential mortgages €m	Commercial €m	Consumer finance €m	Total €m	%
*							
Excellent	9,216	971	10,187	15	170	10,372	48%
Satisfactory	1,413	2,668	4,081	117	50	4,248	20%
Fair risk	820	327	1,147	32	24	1,203	6%
Neither past due nor impaired	11,449	3,966	15,415	164	244	15,823	74%
Past due but not impaired	431	123	554	7	13	574	3%
Impaired	3,406	1,360	4,766	72	74	4,912	23%
	15,286	5,449	20,735	243	331	21,309	100%
Provision for impairment losses	(1,406)	(930)	(2,336)	(81)	(65)	(2,482)	
	13,880	4,519	18,399	162	266	18,827	
Deferred fees, discounts and fair value adjustment	59	-	59	-	-	59	-
	13,939	4,519	18,458	162	266	18,886	-

*Unaudited.

Analysis of the above tables is provided on the following page.

34. Financial risk management (continued)

The Group's loans after impairment amounted to €18.3bn as at 31 December 2017 (31 December 2016: €18.8bn).

Loans which are neither past due nor impaired, before provision for impairment losses, amounted to €15.6bn or 76% of the loan book as at 31 December 2017 in comparison to €15.8bn or 74% of the loan book as at 31 December 2016.

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

Impaired loan balances as at 31 December 2017 were €4.5bn or 22% of the total loan book (31 December 2016: €4.9bn or 23%).

Impairment provisions are €2.2bn and represented 11% of total gross loans and advances to customers at 31 December 2017 compared to €2.5bn which represented 12% of total gross loans and advances to customers as at 31 December 2016.

ii) Non-performing loans

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

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.

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

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%**
Provision coverage ratio*	**43%**	**63%**	**104%**	**92%**	**49%**
NPL Provision coverage ratio**	**36%**	**56%**	**100%**	**92%**	**42%**

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

31 December 2016

	Home loans €m	Buy-to-let €m	Commercial €m	Consumer finance €m	Total €m
Not Impaired no arrears	569	180	3	-	752
Not Impaired < 90 days in arrears	53	9	-	-	62
Not Impaired > 90 days in arrears	118	6	-	-	124
Impaired loans	3,406	1,360	72	74	4,912
Non-performing loans	4,146	1,555	75	74	5,850
Foreclosed assets	38	32	-	-	70
Non-performing assets	4,184	1,587	75	74	5,920
NPLs as % of gross loans	27%	29%	31%	22%	27%
Provision coverage ratio*	40%	68%	113%	88%	49%
NPL Provision coverage ratio**	34%	60%	108%	88%	42%

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

34. Financial risk management (continued)

Loans and advances which are past due but not impaired:

The table on below provide 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	Consumer finance €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**

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.

31 December 2016

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

*Fair value of collateral held

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

34. Financial risk management (continued)

iii) Loan-to-value

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 84% at 31 December 2017 compared to 93% at 31 December 2016.

The Group's residential mortgage lending LTVs at December 2017 reflect updated valuations obtained on high-exposure non-performing loans (largely impacting on high-exposure Buy-to-let properties).

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%**

34. Financial risk management (continued)

31 December 2016

	Home loans %	Buy-to-let %	Total %
Less than 50%	22%	8%	18%
50% to 70%	19%	9%	16%
71% to 90%	20%	14%	18%
91% to 100%	8%	10%	9%
Subtotal	69%	41%	61%
101% to 110%	9%	11%	9%
111% to 120%	7%	11%	8%
121% to 130%	5%	8%	6%
131% to 140%	3%	7%	4%
141% to 150%	2%	5%	3%
151% to 160%	1%	3%	2%
161% to 170%	1%	3%	2%
171% to 180%	1%	2%	1%
Greater than 180%	2%	9%	4%
Subtotal	31%	59%	39%
Total	100%	100%	100%
Weighted average LTV:			
Stock of residential mortgages	84%	121%	93%
New residential mortgages	67%	64%	67%
Impaired mortgages	120%	180%	137%

Analysis by LTV of the Group's residential mortgage lending which is neither past due nor impaired:
The table below illustrates that 88% of residential home loan mortgages that are neither past due nor impaired are in positive equity as at 31 December 2017, an 11% increase on 2016. 55% of residential BTL mortgages are in positive equity as at 31 December 2017, an increase of 4% on 2016.

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%**

34. Financial risk management (continued)

31 December 2016

	Home loans		Buy-to-let	
	€m	%	€m	%
Less than 50%	3,017	26%	384	10%
50% to 70%	2,492	22%	461	12%
71% to 90%	2,415	21%	664	17%
91% to 100%	944	8%	467	12%
Subtotal	8,868	77%	1,976	51%
101% to 110%	882	8%	475	11%
111% to 120%	789	7%	445	11%
121% to 130%	492	4%	331	8%
131% to 140%	181	2%	280	7%
141% to 150%	77	1%	144	4%
151% to 160%	49	1%	83	2%
161% to 170%	41	-	70	2%
171% to 180%	31	-	43	1%
Greater than 180%	39	-	119	3%
Subtotal	2,581	23%	1,990	49%
Total	11,449	100%	3,966	100%

Analysis by LTV of the Group's residential mortgage lending which are 90 days past due or impaired:
In total 43% (31 December 2016: 34%) of the residential mortgage portfolio which is 90 days past due or impaired has an LTV of up to 100% and 20% (31 December 2016: 25%) of loans has an LTV exceeding 150%.

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**

34. Financial risk management (continued)

31 December 2016

	Home loans %	Buy-to-let %	Total %
Less than 50%	7%	1%	5%
50% to 70%	10%	4%	8%
71% to 90%	15%	6%	13%
91% to 100%	9%	6%	8%
Subtotal	41%	17%	34%
101% to 110%	9%	7%	9%
111% to 120%	9%	9%	9%
121% to 130%	9%	8%	9%
131% to 140%	8%	7%	8%
141% to 150%	6%	7%	6%
151% to 160%	4%	6%	4%
161% to 170%	3%	6%	4%
171% to 180%	2%	5%	3%
Greater than 180%	9%	28%	14%
Subtotal	59%	83%	66%
Total	100%	100%	100%
	€m	€m	€m
Loans greater than 90 days in arrears or impaired	3,524	1,366	4,890

iv) Loan origination

Loan origination profile of the residential mortgage loan portfolio before provision for impairment:

The table on the following page illustrates that €5bn or 26% of the ROI residential mortgage portfolio originated before 2006. Between 2006 and 2008 origination was €12bn or 60% of the ROI residential mortgages. The residual of 14% of the ROI residential mortgages were originated between 2009 and 2017.

34. 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**

31 December 2016	**Residential mortgages portfolio**		**Impaired residential mortgages portfolio**	
	Number	**Balance €m**	**Number**	**Balance €m**
1996 and before	1,630	27	322	8
1997	1,547	20	74	3
1998	2,038	41	117	6
1999	3,175	94	256	17
2000	3,956	158	365	30
2001	4,299	218	462	43
2002	6,232	389	563	60
2003	9,214	728	1,070	139
2004	13,211	1,388	1,656	263
2005	18,947	2,610	3,050	576
2006	27,333	5,170	5,494	1,353
2007	23,789	4,894	5,267	1,308
2008	15,189	2,856	3,341	839
2009	3,778	433	597	103
2010	1,424	128	73	10
2011	951	93	17	3
2012	519	47	6	2
2013	1,262	159	2	-
2014	2,615	358	6	1
2015	2,987	424	12	1
2016	3,131	500	8	1
Total	147,227	20,735	22,758	4,766

34. Financial risk management (continued)

v) 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 2017		31 December 2016	
Residential collateral in possession	Number	Balance outstanding at transfer of ownership €m	Number	Balance outstanding at transfer of ownership €m
Home loans	**337**	**90**	253	70
Buy-to-let	**1,471**	**373**	229	63
Commercial	**1**	**-**	-	-
Total	**1,809**	**463**	482	133

Collateral in possession assets are sold as soon as practicable. These assets which total €190m as at 31 December 2017 (31 December 2016: €70m) are included in assets held for sale €160m and other assets €30m. During the year the ownership of 1,455 properties were transferred to the Group.

	Number
Home loans	175
Buy-to-let	1,279
Commercial	1
Total	1,455

During the year 128 properties were disposed.

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

	Number
Home loans	91
Buy-to-let	37
Total	128

31 December 2017

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

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

34. Financial risk management (continued)

31 December 2016

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

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

2. Liquidity Risk

Liquidity risk is the risk that the Group may experience difficulty in financing its assets and / or meeting its contractual obligations as and when they fall due, without incurring excessive cost. Liquidity risk arises from differences in timing between cash inflows and cash outflows and is dependent on the maturity profile and composition of the balance sheet. Cash inflows are in the main driven by, but not limited to the maturity structure of loans and investments held by the Group, while cash outflows are in the main driven by, but not limited to the outflows from deposit accounts, new lending and by the maturity of debt issued. Liquidity risk may increase due to the unexpected lengthening of maturities or non-repayment of assets, a sudden withdrawal of deposits or the inability to refinance maturing liabilities. These factors are often associated with times of distress or adverse market events such as financial or economic turmoil.

Governance

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

Regulatory Compliance

The Group is required to comply with the liquidity requirements of the Central Bank of Ireland with joint supervision from the ECB under the Single Supervisory Mechanism (SSM).

34. Financial risk management (continued)

Liquidity Management

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

Therefore liquidity management consists of two main activities under both normal and stressed conditions:

1. Operational liquidity management, which focuses on monitoring current and expected daily cash flows to ensure that liquidity needs are met. This takes account of the liquidity value of the Group's liquid asset portfolio, which can be readily converted into cash to cover any unforeseen outflows; and
2. Strategic liquidity management, which focuses on assessing an optimal balance sheet structure taking into account the expected future maturity profile of the Group's assets and liabilities.

Liquidity Risk Assessment and Measurement

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

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

PTSB is required to measure and report adherence to the CBI liquidity mismatch ratio which requires that banks have sufficient resources (cash inflows and marketable assets) to cover 100% of expected cash outflows in the 0-8 day time horizon and 90% in the 9-30 day time horizon. Customer behavioural assumptions are applied to non-contractual product lines when modelling the cash flows. This ratio has been decommissioned in 2018.

Net Stable Funding Ratio (NSFR) Asset Encumbrance, Loan to Deposit Ratio and Liquidity Stress Survivability constitute the 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 and with the objective of allowing the Group sufficient time to intervene and mitigate any emerging risk.

The Group's Contingency Funding Plan (CFP) outlines the strategy and action plan to address liquidity crisis events. The CFP identifies processes incremental to the existing daily liquidity risk management 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 stresses on its liquidity position. The stress tests incorporate the liquidity risk drivers, as outlined in the EBA guidelines, when formulating the set of idiosyncratic, systemic and combined stress scenarios.

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

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

34. Financial risk management (continued)

Funding Profile

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

	31 December 2017 %	31 December 2016 %
Customer deposits	**83**	80
Long-term debt	**8**	9
Short-term debt	**9**	11
	100	100

The ALCO also monitors the dependencies inherent in funding by reviewing usage of lines of credit with financial institutions. 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 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**

31 December 2016

	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	2,073	300	-	-	302	230	2,905
Customer accounts	8,982	1,971	2,088	1,955	1,345	713	17,054
Debt securities in issue	-	52	9	4	316	1,286	1,667
Subordinated liabilities	-	-	-	-	24	-	24
Derivative liabilities	4	6	3	7	14	90	124
Total liabilities	11,059	2,329	2,100	1,966	2,001	2,319	21,774

34. Financial risk management (continued)

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 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**

31 December 2016

	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)	11	(3)	6
Gross settled:	-	-	-	-	-	-	-
FX forwards	-	-	-	-	-	-	-
- inflow	315	99	-	-	-	-	414
- outflow	(320)	(99)	-	-	-	-	(419)
Balance at 31 December 2016	(5)	-	(1)	(1)	11	(3)	1

34. Financial risk management (continued)

3. Market Risk

Market risk is the risk of experiencing losses due to factors that affect the overall performance of the financial markets and adverse movements in bond prices, interest rates or foreign currency exchange rates. From the Group's perspective, Market risk consists of three components being foreign exchange risk, credit spread risk and interest rate risk.

Governance

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

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

3.1 Foreign Exchange Risk

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

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 currency exchange rate exposures and eliminate or hedge any material unmatched positions as soon as practicable.

The following information has not been subject to audit by the Group's independent auditor;
Foreign Exchange exposures also may arise as a result of non-Euro contractual payment obligations to third parties. Group Treasury will manage these exposures in line with the underlying policy framework. The aggregate euro denominated 31 December 2017 FX position was €0.1m (31 December 2016 €2.7m).

3.2 Credit spread risk

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

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

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

3.3 Interest rate risk

Interest rate risk arises due to the structural mismatch between assets and liabilities in the balance sheet and is the risk that an investments value will change due to a change in the absolute level of interest rates, the spread between two rates, shape of the yield curve or any other interest rate relationship.

The Group is primarily exposed to re-price, yield curve and basis risk. Interest rate risk modelling is produced and quantified and reported against internal limits to senior management daily. 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.

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 highest exposure as calculated through the EV and EAR models across 12 key stress scenarios (including 6 scenarios prescribed by the Basel document 'Interest Rate Risk in the Banking Book' of April 2016), subject to interest rate flooring assumptions.

The 31 December 2017 interest rate risk level was calculated as €34m (31 December 2016: €36m). The small reduction in risk is driven by the changing maturity profile and persistent low rate environment.

34. Financial risk management (continued)

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.

The following table has been prepared in accordance with the Group's IRRBB framework. Per this framework equity is treated as a liability and therefore has been included within the table.

A summary of the Group's interest rate gap position is as follows:

Interest Rate Re-pricing
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)	

34. Financial risk management (continued)

31 December 2016

	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	18,167	420	966	2,260	450	22,263
Sterling	146	-	-	1	-	147
US dollar	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total assets (A)	18,313	420	966	2,261	450	22,410
Liabilities						
Euro	(13,485)	(1,254)	(1,722)	(5,026)	(644)	(22,131)
Sterling	(367)	(30)	(47)	(11)	-	(455)
US dollar	(47)	(3)	(1)	-	-	(51)
Other	(3)	-	-	-	-	(3)
Total liabilities (B)	(13,902)	(1,287)	(1,770)	(5,037)	(644)	(22,640)
Derivatives						
Euro	608	(48)	(392)	(408)	(55)	(295)
Sterling	247	-	-	-	-	247
US dollar	29	-	-	-	-	29
Other	-	-	-	-	-	-
Derivatives affecting interest rate sensitivities (C)	884	(48)	(392)	(408)	(55)	(19)
Interest rate repricing gap						
Euro	5,290	(882)	(1,148)	(3,174)	(249)	(163)
Sterling	26	(30)	(47)	(10)	-	(61)
US dollar	(18)	(3)	(1)	-	-	(22)
Other	(3)	-	-	-	-	(3)
Interest rate repricing gap (A) + (B) + (C)	5,295	(915)	(1,196)	(3,184)	(249)	(249)
Cumulative interest rate repricing gap	5,295	4,380	3,184	-	(249)	

35. Capital management

PTSB plc and PTSBGH plc are regulated by the European Central Bank (ECB) under the Single Supervisory Mechanism (SSM). The ECB has adopted the Basel III framework, as CRD IV, on a phased basis from 1 January 2014, with full implementation by 2024. CRD IV consists of the Capital Requirements Regulation (CRR), which is directly applicable to firms across the EU and the CRD, which was signed into Irish law through S.I. No. 158 on 31 March 2014. These instruments are collectively known as CRD IV.

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 ECB and the Central Bank of Ireland (CBI). 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.

The Group's regulatory capital comprises 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 2017 Transitional CET1 Minimum SREP capital requirement was 9.2%. The SREP requirement is subject to an annual review by the ECB. The Group has been notified by the ECB of its 2018 SREP requirement which is effective from 1 January 2018. The SREP decision requires that the Group maintains a CET1 ratio of 9.825% and a Total capital ratio of 13.325% on a transitional basis.

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

The following information has not been subject to audit by the Group's independent auditor.
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 2017 and 31 December 2016 which are calculated in accordance with CRD IV regulatory capital requirements.

	31 December 2017 €m	31 December 2016 €m
Common Equity Tier 1 capital		
Share capital and share premium	**1,590**	1,590
Reserves	**382**	378
Prudential filters	**(160)**	(141)
Total qualifying CET1 capital	**1,812**	1,827
Additional Tier 1 capital	**66**	98
Total qualifying Tier 1 capital	**1,878**	1,925
Tier 2 capital		
Subordinated liabilities	**9**	12
Revaluation reserve	**10**	12
Other	**57**	54
Total qualifying Tier 2 capital	**76**	78
Total own funds	**1,954**	2,003

35. Capital management (continued)

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

	31 December 2017 €m	31 December 2016 €m
Risk weighted assets		
Total risk-weighted assets	**10,593**	10,593
- Credit Risk	**9,998**	10,099
- Operational Risk	**595**	494
Capital Ratios		
Common Equity Tier 1 capital ratio (Transitional basis)	**17.1%**	17.2%
Total capital ratio (Transitional basis)	**18.4%**	18.9%

The CET1 and Total capital ratios are calculated and reported to the CBI on a quarterly basis.
The movement in the Group's regulatory capital is summarised below:

	2017 €m	2016 €m
Balance as at 1 January	**2,003**	2,282
Operating profit/(loss) after tax	**40**	(266)
Intangible add-back/(deduction)	**(5)**	1
Deferred tax assets add-back/(deduction)	**(32)**	(25)
Other movements*	**(52)**	11
Balance as at 31 December	**1,954**	2,003

*Other movements are explained as follows:

	31 December 2017 €m	31 December 2016 €m
Reductions due to a decrease in the qualifying AT1 debt instrument	(32)	-
(Reductions)/addition in Tier 2 subordinated debt	(3)	4
Other	3	(14)
(Increase)/reduction in AFS reserves, AT1 coupon accrual and in other own funds	(20)	21
Other movements	(52)	11

36. Current / non-current assets and liabilities

The following table provides an analysis of certain asset and liability line items as at 31 December 2017 and 31 December 2016. The analysis includes amounts 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 2017			31 December 2016		
	Note	Current €m	Non-current €m	Total €m	Current €m	Non-current €m	Total €m
Assets							
Cash and balances at central banks	13	**62**	**-**	**62**	66	-	66
Items in the course of collection	13	**28**	**-**	**28**	30	-	30
Debt securities	14	**104**	**1,874**	**1,978**	924	1,758	2,682
Equity Securities	15	**-**	**12**	**12**	-	9	9
Derivative assets	16	**36**	**1**	**37**	6	38	44
Loans and advances to banks	17	**1,518**	**-**	**1,518**	1,185	-	1,185
Loans and advances to customers	18	**1,049**	**17,321**	**18,370**	993	17,893	18,886
Assets classified as held for sale	41	**161**	**-**	**161**	1	-	1
Prepayments and accrued income	24	**45**	**-**	**45**	103	-	103
Other assets	23	**8**	**31**	**39**	11	70	81
Liabilities							
Deposits by banks (including central banks)	25	**1,612**	**230**	**1,842**	2,373	530	2,903
Customer accounts	26	**14,825**	**2,170**	**16,995**	14,964	2,020	16,984
Debt securities in issue	27	**449**	**1,184**	**1,633**	50	1,274	1,324
Derivative liabilities	16	**16**	**32**	**48**	20	104	124
Accruals		**8**	**-**	**8**	10	-	10
Other liabilities	28	**48**	**-**	**48**	50	-	50
Provisions	29	**48**	**15**	**63**	72	12	84
Subordinated liabilities	30	**23**	**-**	**23**	-	22	22

37. 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 18) and Debt securities (note 14) 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 of the notes.

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.

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.

	31 December 2017		31 December 2016	
	Sale and repurchase agreements	Securitisations	Sale and repurchase agreements	Securitisations
	€m	€m	€m	€m
Carrying amount of assets	**2,383**	**1,286**	3,866	935
Carrying amount of associated liabilities	**1,842**	**1,312**	2,902	950
Liabilities that have recourse only to the transferred financial assets				
Fair value of assets	**2,389**	**1,138**	3,867	744
Fair value of associated liabilities	**1,842**	**1,324**	2,907	963
Net position	**547**	**(186)**	960	(219)

(b) Transferred financial assets that are derecognised in their entirety
The Group has not transferred any financial assets that were derecognised in their entirety.

38. 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 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)**

	31 December 2016					
	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	44	-	44	-	-	44
	44	-	44	-	-	44
Liabilities						
Derivative liabilities	(124)	-	(124)	-	74	(50)
Repurchase agreements	(2,902)	-	(2,902)	-	18	(2,884)
Total	(3,026)	-	(3,026)	-	92	(2,934)

39. 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 2017 €m	31 December 2016 €m
Guarantees and irrevocable letters of credit	**5**	5
Commitments to extend credit		
- less than 1 year	**688**	516
- 1 year and over	**117**	147
Total commitments to extend credit	**805**	663
Total credit commitments	**810**	668

Operating lease commitments

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

	31 December 2017 €m	31 December 2016 €m
Less than 1 year	**8**	8
Greater than 1 year and less than 5 years	**26**	28
Greater than 5 years	**16**	19
Total operating lease commitments	**50**	55

Other contingencies

The Group, like all other banks, is subject to litigation in the normal course of its business. Based on legal advice, other than matters referred to in note 29, the Group does not believe that any such litigation will have a material effect on its income statement or statement of financial position.

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

40. 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 2017 Ordinary shares	31 December 2016 Ordinary shares
Robert Elliot (appointed 31 March 2017)	Chairman	**-**	-
Alan Cook (resigned 31 March 2017)	Chairman	**-**	-
Jeremy Masding	Chief Executive Officer	**-**	-
Eamonn Crowley (appointed 10 May 2017)	Chief Financial Officer	**-**	-
Stephen Groarke (appointed 17 May 2016)	Chief Risk Officer	**-**	-
Conor Ryan (appointed 1 June 2017)	Company Secretary	**10**	-
Ciarán Long (resigned 1 June 2017)	Company Secretary	**334**	334
Emer Daly	Non-Executive Director	**5**	5
Julie O'Neill	Non-Executive Director	**-**	-
Richard Pike	Non-Executive Director	**-**	-
Ken Slattery	Non-Executive Director	**-**	-
Dominic Dodd (resigned 20 April 2016)	Non-Executive Director	**-**	-
Ronan O'Neill (appointed 26 July 2016)	Non-Executive Director	**4**	4
Andrew Power (appointed 27 September 2016)	Non-Executive Director	**-**	-
David Stewart (resigned 20 April 2016)	Non-Executive Director	**-**	-

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 2016: 4,580).

There were no transactions in the above Directors' and Secretary's interests between 31 December 2017 and 13 March 2018.

Details of the Directors' remuneration is included in the Director's Remuneration Report on page 84 to 85.

(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 2017

Jeremy Masding	Chief Executive Officer
Eamonn Crowley	Chief Financial Officer
Stephen Groarke	Chief Risk Officer
Brendan Lynott	Distribution Director
Mark Coan	Commercial Director
Tom Hayes	Chief Technology Officer
Ger Mitchell	HR Director
Shane O'Sullivan	Director of Operations
Andrew Walsh	Chief Legal Officer

David Curtis (Customer Credit Director) and Niall O'Grady (Savings and Investment Director) were considered to be key management personnel during 2016. Additionally Joe Carr (Interim Chief Technology Officer) was considered to be key management personnel during 2017 and their details have been included in the 2017 disclosures.

40. Related parties (continued)

During the year ended 31 December 2017, the following key management personnel changes occurred. Alan Cook retired as Board Chairman and was succeeded by Robert Elliott. Eamonn Crowley was appointed as Chief Financial Officer and as Director of the Board. Tony Hession (HR Director), Toby Clements (Chief Operating Officer) and Emil Ivanov (Group Strategy and Planning Director) ceased as members of ExCo having left the service of the Group. Joe Carr (Interim IT Director) and Tom Hayes (Chief Technology Officer) were appointed to the Exco in 2017. Joe Carr ceased as member of ExCo during 2017. Ger Mitchell (formerly Group Product Review Director) succeeded Tony Hession as HR Director. Shane O'Sullivan (formerly Managing Director of the Bank's Asset Management Unit) was appointed as Director of Operations. Following the expiry of her secondment period from KPMG, Patricia Carroll (interim Chief Financial Officer) ceased as member of Exco.

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

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 2017	31 December 2016
Non-Executive Directors	**7**	7
Executive Directors and Senior Management	**9**	11
	16	18

B (i) Total compensation to Executive and Non-Executive Directors is as follows:

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Fees	**745**	546
Taxable benefits	**53**	78
Salary and other benefits	**1,009**	651
Pension benefits		
- defined contribution	**115**	73
Total	**1,922**	1,348

Total compensation to other key management personnel is as follows:

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Taxable benefits	**47**	2
Salary and other benefits	**3,247**	2,430
Pension benefits		
- defined contribution	**289**	260
CFO Fees*	**58**	512
Total	**3,641**	3,204

*Fees paid to former Interim Chief Financial Officer

40. Related parties (continued)

During 2017, one (2016: three) connected person(s) to the key management personnel were employee(s) of the Group none of whom are directors of the Group. The aggregate compensation paid to these individuals amounted to €0.038m (2016: €0.079m).

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 2017 €'000	31 December 2016 €'000
Balances		
Loans	**2,201**	2,745
Unsecured credit card balances and overdrafts	**-**	5
Deposits	**928**	977

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Transactions during the year		
Loan advances	**-**	1,572
Loan repayments	**141**	736
Interest received on loans	**66**	59
Interest paid on deposits	**(3)**	(8)

Loans to Directors
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**

*No comparative information has been presented in respect of Eamonn Crowley as he was appointed to the Board during 2017.

31 December 2016

	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	21	44	28	37	3	65
Stephen Groarke	4	40	8	36	1	44
	25	84	36	73	4	109

40. Related parties (continued)

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

(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 2017 was €2m (31 December 2016: €4m). The liabilities covered by the scheme at 31 December 2017 amounted to €133m (31 December 2016: €273m).
- The Group holds securities issued by the Government and Government related entities of €1,862m (31 December 2016: €2,682m).
- Customer accounts include deposits of €0.1bn placed by a Government institution (31 December 2016: €0.2bn). Further details on these deposits are provided in note 26.
- 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 2017 the amount recognised in the income statement was €23m (31 December 2016: €27m). The Bank levy has been extended by 5 years to 2021 as announced by the Minister for Finance on 13 October 2015.
- During 2013, following the Transfer Order requested by the Central Bank and issued by the High Court dated 10 November 2013, the Group acquired certain assets, liabilities, books and records of Newbridge Credit Union (NCU) and all its employees transferred to the Group. As part of this transaction, along with the assets and liabilities of NCU, a cash financial incentive of €23m was paid from the Credit Institutions Resolution Fund, which forms part of the Financial Incentives Agreement (FIA) signed between the Central Bank and the Group dated 10 November 2013. It was also agreed in the FIA that the Central Bank will use the Credit Institution Resolution Fund to compensate the Group for 50% of any future impairment losses incurred on NCU loans and advances to customers. Similarly, it was also agreed that if any provision write-backs or future recoveries of previously written off NCU loans and advances to customers occurs, the Group will pay a cash amount equivalent to 50% of the provision write-back or the recoveries to the Credit Institutions Resolution Fund. As per the FIA, this arrangement will continue for ten years from the transfer date. At 31 December 2017, the Group had recorded a payable of €0.2m due under the FIA (31 December 2016: €4m).
- At the 31 December 2017 the Company had an intercompany balance of €3m (31 December 2016: €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.

40. Related parties (continued)

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

		Loans and advances to Banks €m	Debt securities held €m	Derivative assets €m	Derivative liabilities €m	Deposits by banks €m
Allied Irish Banks plc						
	31 December 2017	**5**	**-**	**-**	**-**	**-**
	31 December 2016	47	-	-	1	-
Bank of Ireland						
	31 December 2017	**17**	**-**	**-**	**-**	**-**
	31 December 2016	3	-	-	2	-

41. Assets classified as held for sale

At 31 December 2017, assets classified as held for sale amounted to €161m (31 December 2016: €1m). €160m relates to collateral in possession whose sale is expected to complete within the next 12 months. €1m of these assets relate to three branch properties (31 December 2016: four branch properties) which are no longer occupied by the Group. Management is committed to a plan to sell these assets with an active programme currently underway and expect to complete the sale of these assets within the next 12 months.

42. 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 at the end of the financial year of the subsidiary and the entities it controls (if any) 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. Stephens 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. Stephens Green, Dublin 2.

(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 2016: €1,161m). During 2017, the average share price of the Group decreased and market sentiment towards the banking sector disimproved. As a result of these indicators, the Group carried out an impairment assessment using a combination of internal group models, and externally available data to inform their view of the current valuation of the investment. This resulted in the investment being impaired by €186m.

(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.

42. Principal subsidiary undertakings and interest in subsidiaries and structured entities (continued)

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 securities: and
- To 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 eight SEs in issue in the Republic of Ireland, the details of which are outlined below. During 2017, Fastnet 13 DAC was set up.

	Sub loan provided
SEs setup with ROI Residential Mortgages	
- Fastnet 3 DAC	√
- Fastnet 5 DAC	√
- Fastnet 6 DAC	√
- Fastnet 9 DAC*	√
- Fastnet 10 DAC	√
- Fastnet 11 DAC	√
- Fastnet 12 DAC	√
- Fastnet 13 DAC	√

*The subordinated loan provided for Fastnet 9 DAC was fully repaid during 2016.

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 2017, restricted cash of €485m (31 December 2016: €466m) relates to cash held by the Group's securitisation entities.

43. 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 2017	31 December 2016
€ / £ exchange rate		
Closing	**0.8872**	0.8562
Average	**0.8760**	0.8228
€ / US$ exchange rate		
Closing	**1.1993**	1.0541
Average	**1.1375**	1.1032

44. Events after the reporting period

As part of the Group's on-going NPL strategy, Project Glas was launched in February 2018. Project Glas primarily comprises a €3.7bn sale of non-performing loans, along with other strategies, including a potential participation of the Group in the mortgage to rent scheme. While the outcome of Project Glas is unknown, the Group's plan to reduce the level of non-performing loans over the course of the medium term, if completed, is expected to result in a reduction to the Group's capital resources.

Additional financial risk management information

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 2017 and 2016. The number and balances of loans in forbearance arrangements for residential home loan mortgages and BTL 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 impaired
- Past due but not impaired
- Impaired is the same as that used for appraising the asset quality of the Group's total loan portfolio.

31 December 2017

	Home Loans €m	Buy-To-Let €m	Commercial €m	Total €m	%
*					
Excellent	**-**	**-**	**-**	**-**	**-**
Satisfactory	**538**	**508**	**3**	**1,049**	**20%**
Fair risk	**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**	

*Unaudited.

31 December 2016

	Home Loans €m	Buy-To-Let €m	Commercial €m	Total €m	%
*					
Excellent	-	-	-	-	-
Satisfactory	653	464	4	1,121	19%
Fair risk	649	227	7	883	15%
Neither past due nor impaired	1,302	691	11	2,004	34%
Past due but not impaired	203	35	-	238	4%
Impaired	2,871	687	41	3,599	62%
	4,376	1,413	52	5,841	100%
Provision for impairment losses	(1,103)	(368)	(21)	(1,492)	-
	3,273	1,045	31	4,349	-

*Unaudited.

The balance of loans in the neither past due nor impaired category has decreased by €198m or 10% while the balance of loans in the past due but not impaired category decreased by €60m or 25%.

The impaired loan balances have decreased by €283m or 8% as the Group has negotiated and implemented an increased number of sustainable loan treatment programmes for customers in difficulty.

Disclosure on forborne loans (continued)

Forborne loans and advances which are past due but not impaired:

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**

Collateral held against residential mortgage 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.

31 December 2016

	Home loans €m	Buy-To-Let €m	Commercial €m	Total €m
0-30 days	93	32	-	125
31-60 days	17	2	-	19
61-90 days	11	-	-	11
91-180 days	17	-	-	17
181-360 days	15	-	-	15
> 360 days	50	1	-	51
Total past due not impaired	203	35	-	238
Fair value of collateral held*	197	28	-	225

*Fair value of collateral held

	Home loans €m	Buy-To-Let €m	Commercial €m	Total €m
0-30 days	87	25	-	112
31-60 days	17	2	-	19
61-90 days	11	-	-	11
91-180 days	17	-	-	17
181-360 days	15	-	-	15
> 360 days	50	1	-	51
Total past due not impaired	197	28	-	225

Disclosure on forborne loans (continued)

(b) Impairment provisions

The following table reflects forborne loans and forborne loans >90 days in arrears for which provisions are held and an analysis of specific and collective & IBNR impairment provision balances held against these loans.

Total forborne loans
31 December 2017

	Total loans	Total forborne loans	Forborne % of total loans	Impairment Provisions Specific	IBNR	Total	Total provisions as % of forborne loans
	€m	€m	%	€m	€m	€m	%
Residential:							
ROI:							
- Home loans	**15,037**	**4,006**	**27%**	**1,064**	**80**	**1,144**	**29%**
- Buy-to-let	**4,953**	**1,250**	**25%**	**227**	**40**	**267**	**21%**
Commercial	**224**	**44**	**20%**	**17**	**-**	**17**	**39%**

31 December 2016

	Total loans	Total forborne loans	Forborne % of total loans	Impairment Provisions Specific	IBNR	Total	Total provisions as % of forborne loans
	€m	€m	%	€m	€m	€m	%
Residential:							
ROI:							
- Home loans	15,286	4,376	29%	1,014	89	1,103	25%
- Buy-to-let	5,449	1,413	26%	317	51	368	26%
Commercial	243	52	21%	19	2	21	40%

The total forborne loans have decreased by €541m or 9% as the Group reaches agreement on resolution strategies with customers in difficulty.

Total forborne loans >90 days in arrears
31 December 2017

	Total loans	Total forborne loans	Forborne % of total loans	Impairment Provisions Specific	IBNR	Total	Total provisions as % of forborne loans
	€m	€m	%	€m	€m	€m	%
Residential:							
ROI:							
- Home loans	**15,037**	**1,140**	**8%**	**475**	**2**	**477**	**42%**
- Buy-to-let	**4,953**	**208**	**4%**	**109**	**-**	**109**	**52%**
Commercial	**224**	**18**	**8%**	**9**	**-**	**9**	**50%**

31 December 2016

	Total loans	Total forborne loans	Forborne % of total loans	Impairment Provisions Specific	IBNR	Total	Total provisions as % of forborne loans
	€m	€m	%	€m	€m	€m	%
Residential:							
ROI:							
- Home loans	15,286	1,290	8%	501	2	503	39%
- Buy-to-let	5,449	301	6%	169	-	169	56%
Commercial	243	19	8%	9	-	9	47%

The forborne loans > 90 days have decreased by €244m or 15% due to the arrears for a large number of home loan and buy-to-let accounts falling below 90 days. These accounts remain forborne but exit the >90 days pool.

Disclosure on forborne loans (continued)

(c) Weighted Average - LTV

Analysis by LTV of the Group's residential mortgage lending which are 90 days past due or impaired:

In total 46% of the residential and commercial mortgage portfolios which are 90 days past due have an LTV of up to 100% and 15% of loans have an LTV exceeding 150%.

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%**

31 December 2016

	Home loans %	Buy-to-let %	Commercial	Total %
Less than 50%	6%	1%	13%	5%
50% to 70%	9%	4%	5%	8%
71% to 90%	16%	7%	12%	15%
91% to 100%	9%	6%	7%	9%
Subtotal	40%	18%	37%	37%
101% to 110%	11%	8%	3%	9%
111% to 120%	10%	11%	1%	10%
121% to 130%	10%	9%	3%	10%
131% to 140%	9%	9%	3%	9%
141% to 150%	6%	8%	8%	6%
151% to 160%	3%	6%	13%	4%
161% to 170%	3%	6%	1%	4%
171% to 180%	2%	5%	2%	2%
Greater than 180%	6%	20%	29%	9%
Subtotal	60%	82%	63%	63%
Total	100%	100%	100%	100%

Disclosure on forborne loans (continued)

(d) Forbearance arrangements
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.

The following information has not been subject to audit by the Group's independent auditor.
The PD's associated with non-defaulted accounts which have been granted forbearance is 3.3% (3.2% for home loans and 3.5% for BTLs). The PD's for non-defaulted accounts excluding cases in forbearance is 1.6% (1.3% for home loans and 2.3% for BTLs). The PD's for defaulted accounts is 100% irrespective of the account status (forbearance or non-forbearance).

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 2017 and 31 December 2016.

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

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

31 December 2017

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

31 December 2016

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

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

The tables above reflect a decrease of 2,595 cases, as at 31 December 2017 for the Group in the number of residential home loans in forbearance arrangements, a decrease of €370m. The average balance of forborne loans is relatively unchanged during the period (31 December 2017: €0.157m versus 31 December 2016: €0.156m). As at 31 December 2017, 62% of residential home loan mortgages that are in a forbearance arrangement are >90 days in arrears and / or impaired compared to 60% of loans as at 31 December 2016.

(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 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**

31 December 2016

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

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

The tables above reflect a decrease of 465 cases, as at 31 December 2017 for the Group in the number of residential buy-to-let in forbearance arrangements, a decrease of €163m. The average balance of forborne loans is unchanged during the period (31 December 2017: €0.353m versus 31 December 2016: €0.353m). As at 31 December 2017, 45% of residential buy-to-let mortgages that are in a forbearance arrangement are >90 days in arrears and / or impaired compared to 49% of loans as at 31 December 2016.

Disclosure on forborne loans (continued)

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

Commercial mortgages

	31 December 2017		31 December 2016	
	Number	Balances	Number	Balances
		€m		€m
Interest only	**3**	**1**	3	1
Reduced payment (less than interest only)	**-**	**-**	1	2
Reduced payment (greater than interest only)	**25**	**18**	24	18
Arrears capitalisation	**14**	**7**	19	11
Term extension	**22**	**9**	22	9
Hybrid*	**23**	**9**	23	11
Split mortgages	**1**	**-**	1	-
Total	**88**	**44**	93	52

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

The balance of loans in forbearance in the commercial portfolio amounts to €44m a decrease of €8m or 15%.

(e) Impairment charge and provisions on loans and advances to customers by product line
The balance in the preceding tables denoted impaired loan balance which are in forbearance arrangements. The tables below provides the impairment charges and provisions in respect of these balances, by lending type.

Forborne loans - impairment charge

	Year ended 31 December 2017			Year ended 31 December 2016		
	Performing	Non-performing	Total	Performing	Non-performing	Total
	€m	€m	€m	€m	€m	€m
Residential						
- Home loans	**(28)**	**113**	**85**	(48)	(19)	(67)
- Buy-to-let	**(25)**	**17**	**(8)**	(34)	13	(21)
Commercial	**-**	**(2)**	**(2)**	-	6	6
Total impairment (write-back)/charge	**(53)**	**128**	**75**	(82)	-	(82)

Forborne loans - stock of impairment provisions

	Year ended 31 December 2017			Year ended 31 December 2016		
	Performing	Non-performing	Total	Performing	Non-performing	Total
	€m	€m	€m	€m	€m	€m
Residential						
- Home loans	**25**	**1,119**	**1,144**	34	1,069	1,103
- Buy-to-let	**27**	**240**	**267**	28	340	368
Commercial	**1**	**16**	**17**	2	19	21
Total impairment provisions	**53**	**1,375**	**1,428**	64	1,428	1,492

Disclosure on forborne loans (continued)

(f) 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

31 December 2017

	Residential mortgages							
	ROI							
	Home Loans cases	Home Loans balances	Buy-to-let cases	Buy-to-let balances	Comm. cases	Comm. balances	Total cases	Total balances
		€m		€m		€m		€m
Opening balance 01 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**

*Repayments in respect of loans which are in forbearance at the start and end of the year

31 December 2016

	Residential mortgages							
	ROI							
	Home Loans cases	Home Loans balances	Buy-tolet cases	Buy-tolet balances	Comm. cases	Comm. Balances	Total cases	Total balances
		€m		€m		€m		€m
Opening balance 01 January 2016	28,532	4,435	4,371	1,477	99	59	33,002	5,971
New forbearance extended during the period	2,629	382	561	170	8	2	3,198	554
Deleveraged loans	-	-	(431)	(88)	-	-	(431)	(88)
Exited forbearance								
- re-classified to past due > 90 days past due and/or impaired	(78)	(9)	(55)	(22)	(1)	-	(134)	(31)
- expired forbearance treatment	(2,192)	(295)	(337)	(92)	(8)	(4)	(2,537)	(391)
- expired loan paid down	(763)	(71)	(101)	(24)	(5)	(4)	(869)	(99)
Balance shift*	-	(66)	-	(8)	-	(1)	-	(75)
Closing balance of forbearance loans as at 31 December 2016	28,128	4,376	4,008	1,413	93	52	32,229	5,841

*Repayments in respect of loans which are in forbearance at the start and end of the year

Disclosure on forborne loans (continued)

ii) Reconciliation of movement in Forborne Loans > 90 days in arrears

31 December 2017

	Residential mortgages ROI							
	Home Loans Cases	Home Loans Balances €m	Buy-tolet Cases	Buy-to-let Balances €m	Comm. Cases	Comm. Balances €m	Total Cases	Total Balances €m
Opening balance 01 January 2017	**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**
Deleveraged loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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**

*Repayments in respect of loans which are in forbearance at the start and end of the year

31 December 2016

	Residential mortgages ROI							
	Home Loans Cases	Home Loans Balances €m	Buy-to-let Cases	Buy-tolet Balances €m	Comm. Cases	Comm. Balances €m	Total Cases	Total Balances €m
Opening balance 01 January 2016	7,580	1,299	862	317	23	17	8,465	1,633
New forbearance extended during the period	1,614	237	208	72	10	6	1,832	315
Deleveraged loans	-	-	(20)	(5)	-	-	(20)	(5)
Exited forborne & >90, now forborne < 90	(1,443)	(220)	(177)	(69)	(1)	-	(1,621)	(289)
Exited forbearance								
- re-classified to past due/in default	(15)	(2)	(2)	(1)	-	-	(17)	(3)
Re-classified to non-forbearance loans								
- expired forbearance treatment	(4)	-	-	-	-	-	(4)	-
- expired loan paid down	(324)	(35)	(39)	(16)	(2)	(4)	(365)	(55)
Balance shift*	-	11	-	3	-	-	-	14
Closing balance of forbearance loans as at 31 December 2016	7,408	1,290	832	301	30	19	8,270	1,610

***Repayments in respect of loans which are in forbearance at the start and end of the year**

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

Additional credit information

Residential portfolio

The tables below provide additional detail in respect of the Group's retail mortgage portfolios which is the segment of the lending market to which the Group has most exposure.

The following parameters form part of the IRB approach used by the Group in calculating risk weighted assets associated with these portfolios:

- Exposure at Default is defined as the Group's gross exposure on the loan facility upon default of an obligor;
- Average Probability of default (PD) is the internal ratings assigned using sets of characteristics or attributes associated with the exposure; and
- Average Loss Given Default (LGD) is a "Workout" approach used to estimate actual loss on exposures.

Exposure by geographical location

31 December 2017

	Exposure at Default (€m)	Average PD (%)	Average LGD (%)
ROI	**20,098**	**22.9%**	**12.9%**
UK	**162**	**29.4%**	**13.7%**
Other EU	**35**	**27.5%**	**13.1%**
Rest of the World	**59**	**23.4%**	**12.7%**
Total	**20,354**	**23.0%**	**12.9%**

31 December 2016

	Exposure at Default (€m)	Average PD (%)	Average LGD (%)
ROI	20,772	25.0%	10.0%
UK	176	31.2%	12.7%
Other EU	37	30.0%	11.5%
Rest of the World	64	23.9%	11.9%
Total	21,049	25.0%	10.0%

Exposure by Grade

	31 December 2017		31 December 2016	
	Exposure at Default (€m)	Average PD (%)	Exposure at Default (€m)	Average PD (%)
Excellent	**10,502**	**0.7%**	10,277	0.7%
Satisfactory	**4,130**	**1.6%**	4,296	1.6%
Fair	**1,270**	**10.8%**	1,463	11.3%
Defaulted	**4,452**	**100.0%**	5,013	100.0%
	20,354	**23.3%**	21,049	23.9%

For financial reporting purposes, impairment allowances are recognised based on objective evidence of impairment at the Statement of financial position date with respect to losses that have been incurred. For this and other reasons such as IRB calibration and regulatory oversight/harmonisation programmes e.g. TRIM, impairment allowances will differ from amounts calculated from an expected loss model perspective.

The following information has not been subject to audit by the Group's Independent Auditor.
Loan loss provisioning- IBNR
The impairment on unimpaired loans which are collectively assessed is calculated using statistical models by determining the probability of arrears levels deteriorating and applying loss given default to the impaired loan balance.

The following tables detail the parameters by internal risk grading used by the Group in calculating the impairment provisions in respect of the ROI residential and consumer portfolios. The parameters in respect of ROI residential cured and forborne loans are also detailed.

Additional credit information (continued)

	31 December 2017			31 December 2016		
Home loans	Exposure (€m)	Average PD (%)	Average LGD (%)	Exposure (€m)	Average PD (%)	Average LGD (%)
Excellent	**9,327**	**1.1%**	**14.0%**	9,231	0.9%	15.8%
Satisfactory	**1,389**	**7.0%**	**17.1%**	1,430	5.6%	19.0%
Fair	**951**	**19.5%**	**19.1%**	1,043	15.7%	20.8%
Cured	**261**	**14.5%**	**20.8%**	392	10.3%	22.9%
Forborne	**1,184**	**14.6%**	**19.1%**	1385	11.4%	21.4%

	31 December 2017			31 December 2016		
Buy-to-let	Exposure (€m)	Average PD (%)	Average LGD (%)	Exposure (€m)	Average PD (%)	Average LGD (%)
Excellent	**1,099**	**1.0%**	**26.7%**	974	1.3%	28.0%
Satisfactory	**2,441**	**2.8%**	**34.6%**	2,675	2.1%	36.6%
Fair	**323**	**15.7%**	**35.4%**	430	16.5%	39.2%
Cured	**86**	**11.8%**	**39.7%**	137	7.1%	42.3%
Forborne	**695**	**8.7%**	**36.8%**	723	6.4%	40.0%

Consumer
The Group's non-residential portfolios include Term Lending (including Newbridge Credit Union), Credit Cards and Overdrafts and the tables below provide additional detail in respect of non-residential IBNR parameters:

	31 December 2017			31 December 2016		
Non-residential	Exposure (€m)	Average PD (%)	Average LGD (%)	Exposure (€m)	Average PD (%)	Average LGD (%)
Excellent	**165**	**0.7%**	**68.5%**	157	0.8%	69.9%
Satisfactory	**67**	**1.5%**	**70.9%**	51	1.6%	73.4%
Fair	**38**	**4.0%**	**71.6%**	33	4.9%	74.0%

Provision amounts calculated outside of the statistical models are excluded from the above. The LGD on the 'Fair' grade in the ROI residential mortgage portfolio is driven by a number of conservative scalars applied in respect of over defaulted, multiple forborne etc.

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
ALM Asset Liability Management
AMU Asset Management Unit
AT1 Additional Tier 1
AQR Asset Quality Review
BAC Board Audit Committee
BPFI Banking & Payments Federation Ireland
BRCC Board Risk and Compliance Committee
BRRD Banking Recovery and Resolution Directive
BTL Buy To Let
CA Comprehensive Assessment
CAC Capital Adequacy Committee
CBI Central Bank of Ireland
CCB Capital Conservation Buffer
CCMA Code of Conduct on Mortgage Arrears
CET 1 Common Equity Tier 1
CFH Cash Flow Hedge
CFP Contingency Funding Plan
CIR Cost Income Ratio
CODM Chief Operating Decision Maker
CRD Capital Requirements Directive
CRE Commercial Real Estate
CRO Chief Risk Officer
CRR Capital Requirements Regulation
CSA Credit Support Annex
CSO Central Statistics Office
CVA Credit Valuation Adjustment
DG Comp EC Directorate General for Competition
DGS Deposit Guarantee Scheme
DIRT Deposit Interest Retention Tax
DVA Debt Valuation Adjustments
EAD Exposure At Default
EAR Earnings at Risk
EBA European Banking Authority
ECAI External Credit Assessment Institution
ECB European Central Bank
ECL Expected Credit Loss
EIR Effective Interest Rate
ELG Eligible Liabilities Guarantee Scheme
EU European Union
EV Economic Valuation
EWI Early Warning Indicator
ExCo Executive Committee
FIA Financial Incentives Agreement
FVTPL Fair Value Through Profit or Loss
FX Foreign Exchange
GCC Group Credit Committee
GDP Gross Domestic Product
GIA Group Internal Audit
GRC Group Risk Committee
HFS Held For Sale
HFT Held For Trading
HL Home loan
HTM Held To Maturity
IAS International Accounting Standard
IASB International Accounting Standards Board
IBNR Incurred But Not Reported
ICAAP Internal Capital Adequacy Assessment Process
IFRIC International Financial Reporting Interpretations Committee
IFRS International Financial Reporting Standards
IIA Institute of Internal Auditors
ILAAP Internal Liquidity Adequacy Assessment Process
IMF International Monetary Fund
IOM Isle of Man
IPP Integrated Planning Process
IRB Internal Ratings Board
IRRBB Interest Rate Risk in the Banking Board
ISDA International Swap Dealers Association
JST Joint Supervisory Team
LCR Liquidity Coverage Ratio
LDR Loan to Deposit Ratio
LGD Loss Given Default
LME Liability Management Exercise
LTRO Long Term Refinancing Operation
LTV Loan To Value
MARS Mortgage Arrears Resolution Strategy
MART Mortgage Arrears Resolution Targets
MCO Maximum Cumulative Outflow
MREL Minimum Required Eligible Liability
MTN Medium Term Note
NAMA National Asset Management Agency
NCU Newbridge Credit Union
NII Net Interest Income
NIM Net Interest Margin
NPL Non Performing Loan
NSFR Net Stable Funding Ratio
NTMA National Treasury Management Agency
OCI Other Comprehensive Income
OTC Over the counter
P2G Pillar 2 Guidance
P2R Pillar 2 Requirement
PBI Permanent Bank International Limited
PD Probability of Default
PPI Payment Protection Insurance
PTSB Permanent TSB plc
PTSBGH Permanent TSB Group Holding plc
PwC PricewaterhouseCoopers
PWO 1 Present Value of 1 Basis Point
RAS Risk Appetite Statement
RMBS Residential Mortgage Backed Securities
ROI Republic of Ireland
RP Restructuring Plan
RPPI Residential Property Price Index
RWA Risk Weighted Assets
SBU Strategic Business Unit
SE Structured Entities
SFS Standard Financial Statement
SMBPN Special Mortgage Backed Promissory Note
SME Small & Medium Enterprises
SPE Special Purpose Entity
SREP Supervisory Review & Evaluation Process
SSM Single Supervisory Mechanism
TRIM Targeted Review of Internal Models
UK United Kingdom
VAT Value Added Tax

Definitions

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

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.

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**.**

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

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

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

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

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): 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 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 that the 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 bank, secured by 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 Group's own calculations, the adequate capital which Group consider 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 Group's own calculations, the adequate liquidity which Group consider necessary to cover the risks they take and which they are exposed to.

Impaired loans A loan is considered to be impaired, and therefore its carrying amount is adjusted to reflect the effect of impairment, when there is objective evidence that events have occurred which give rise to an adverse impact on the estimated future cash flows of the asset. Impaired provisions are calculated either individually on loans where significant, or on groups of loans assessed collectively. Impairment losses are recorded as charges to the income statement.

IRBA The Internal Ratings Based Approach (IRBA) allows bank 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: 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) 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.

Definitions
(continued)

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

NPLs Non-performing loans are defined as impaired loans, loans which are greater than 90 days in arrears, loans where the borrower is assessed as unlikely to repay the loan in full without the realisation of the collateral and loans which are deemed unlikely to pay as defined by the May 2013 CBI guidelines on impairment provisioning / EBA ITS.

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.

SME Small and medium enterprises.

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 I 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.

Notes