Interim Report

For the six months ended 30 June 2023

Members of the Irish Olympic Team and the Irish Paralympic Team pictured at the launch of Permanent TSB's title sponsorship of Team Ireland for the 2024 Games in Paris.

We are a community serving the community

permanent tsb
Group Holdings plc

Forward Looking Statements

This document contains certain forward-looking statements with respect to 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 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. Material economic assumptions underlying the forward looking statements are discussed further in Risk Management.

Past performance should not be taken as an indication or guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance. Nothing in this document should be considered to be a forecast of future profitability or financial position and none of the information in this document is intended to be a profit forecast or profit estimate.

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

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

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Financial Highlights

Financial Performance

Underlying profit/(loss) €m [a]

June 2023	€86m
June 2022	€(2)m
June 2021	€(4)m

June 2023: €86m

Underlying profit increased due to higher net interest income, partially offset by impairment charge and higher operational expenses.

Net Interest Margin (NIM) % [b]

June 2023	2.29%
June 2022	1.41%
June 2021	1.50%

June 2023: 2.29%

88bps higher due to elimination of negative yields on excess liquidity and increased yields on the Bank's tracker mortgage portfolio due to ECB interest rate increases, offset by higher wholesale funding costs.

Return/(loss) on Equity % [c]

June 2023	7.59%
June 2022	(0.06)%
June 2021	0.04%

June 2023: 7.59%

Increase in Return on equity driven by a significant improvement in underlying profit, primarily due to an increase in net operating income.

Adjusted Cost to Income Ratio [d]

June 2023	63%
June 2022	92%
June 2021	88%

June 2023: 63%

Decrease in Adjusted Cost to Income ratio driven by an increase in total operating income, partially offset by an increase in total operating expenses.

Customer deposits [e]

June 2023	€22.6bn
December 2022	€21.7bn
June 2022	€20.1bn

June 2023: €22.6bn

Increased in current account and retail deposits in line with expected inflows as a result of Retail Banks exiting the Irish Banking market.

CET1 Ratio (Transitional Basis) [f]

June 2023	14.7%
December 2022	16.2%
June 2022	16.1%

June 2023: 14.7%

Decrease is as a result of capital use on new lending and the Ulster Bank transaction.

NPL Ratio [g]

June 2023	3.3%
December 2022	3.3%
June 2022	5.2%

June 2023: 3.3%

NPL ratio has remained consistent with December 22. NPLs have increased on a gross basis by €41m, due to the addition of loans as part of the Ulster Bank transaction.

RWA [h]

June 2023	€11,245m
December 2022	€10,627m
June 2022	€8,245m

June 2023: €11,245m

Increase is due to balance sheet growth through new lending and the purchase of the Ulster Bank business.

(a) See table on page 11 for a reconciliation of underlying profit to operating profit on an IFRS basis.
(b) Defined as net interest income (NII) divided by average interest-earning assets.
(c) Defined as profit for the period after tax (excluding exceptional and other non-recurring items) expressed as a percentage of total average equity.
(d) Defined as total operating expenses (excluding exceptional items, other non-recurring items, and bank levy and regulatory charges) divided by total operating income.
(e) Defined as the sum of current accounts, retail deposits and corporate deposits.
(f) Total Common Equity Tier 1 (CET1) capital on a transitional basis divided by total risk weighted assets (RWAs).
(g) Defined as non-performing loans (NPLs) expressed as a percentage of the total gross loans of the bank.
(h) RWAs are the Group's assets or off balance sheet exposures, weighted according to risk.

Non-Financial Highlights

A Low ESG Risk Rating through Sustainalytics

Strong performance of the Bank's Green Mortgage*, with c.€365 million in green lending drawn down during H1 2023, accounting for 28% of new Mortgage lending

Growing our branch footprint by 30% to 98 locations nationwide

55% Female Board Gender Composition

Issuance of the Bank's first Task Force on Climate-related Financial Disclosures (TCFD) Report

23,100 new Current Accounts and 14,000 new Deposit Accounts opened during H1 2023, with 53% of new Current Account openings taking place through the Bank's award-winning Digital Current Account

80% Culture Index Score, +10% above our Culture Index Target of 70%

38% of Senior Leadership positions are filled by Women

We have committed to setting science-based reduction targets (SBTs) by the end of 2024 and to calculate our GHG emissions across Scope 1, 2 & 3 annually

Continued focus on €1 billion in SME lending over the next three years

89% of employees feel comfortable to be themselves at work regardless of background or life experiences

Title Sponsor of the Irish Olympic Team and the Irish Paralympic Team for Paris 2024

Our Commitment to Building a Sustainable Business

Our Purpose is to work hard every day to build trust with our customers – we are a community serving the community.

Our Sustainability Strategy gives us an opportunity to put our purpose into action - enabling us to play our part in addressing the global climate crisis, elevate our social impact, enhance our culture and deliver what matter most to our customers and colleagues.

Ultimately, building a sustainable organisation that is fit for the future.

Awards and Recognitions in H1 2023

- Winner – Best Current Account, Bonkers National Consumer Awards, 2023
- Winner – Best Mortgage for First-Time Buyers, Bonkers National Consumer Awards, 2023
- Winner – Financial Services Loyalty Programme/Initiative of the Year, Irish Loyalty and CX Awards, 2023
- Winner – Customer Experience Award, Marketing Institute Ireland All Ireland Marketing Awards, 2023
- Winner – Inclusion and Diversity (Large), CIPD Awards, 2023
- Winner – Excellence in Diversity and Inclusion, Workplace Excellence Awards, 2023
- Winner – Excellence in Flexible and Hybrid Work, Workplace Excellence Awards, 2023

Ambitions for H2 2023 and Onwards

- Embedding our Sustainability Strategy
- Increasing our focus on climate-related and environmental risk management
- Elevating our social impact through partnerships and continuing to support local communities through the Permanent TSB Community Fund
- Partnering with small businesses through our Business Banking Strategy
- Ensuring strong corporate governance, compliance and fair business conduct

* A 5-Year Fixed Product available to all new and existing home loan customers where their homes have a confirmed or proposed Building Energy Rating of A1 to B3.

Chief Executive Review

Introduction

We are very pleased to have successfully completed our transformational acquisition of approximately €6.75 billion of the Ulster Bank Retail, SME and Asset Finance business in the Republic of Ireland. The final migration of the c. €0.5 billion asset finance business took place in mid-July and I want to once again warmly welcome the approximately 88,000 new customers and more than 330 new colleagues who have joined us from Ulster Bank over the course of this acquisition.

The Bank has made enormous progress over the past two years – with greater scale and diversification, an enhanced digital offering, a larger branch network, a bigger team of highly skilled and committed colleagues, and many more customers than before.

Our first half performance shows real momentum in our business as we return to sustainable profitability, evidenced by our underlying profit before tax of €86 million. We continued to support our customers with new lending of €1.4 billion into the Irish economy; an increase of 36% year-on-year ('YoY').

We ended the first half of 2023 as a much bigger, better and stronger Bank, with significant investment in both our physical and digital channels to ensure that we can meet the different needs of our personal and business customers. We opened 25 new branches in communities across Ireland, expanded our range of services offered across our app and website channels and continued to focus on improving our customer experience.

And as we enter the second half of the year having recently concluded the last element of our Ulster Bank acquisition, with the transfer of its Lombard Asset Finance business, we are a bank with greater scale and in a much stronger position to compete.

Our Purpose is to build trust with our customers – we are a community serving the community. In keeping with this Purpose, our focus is to continuously improve how we serve our customers. To bring them the best combination of digital, in-person and voice-based services. To be even closer to them. To offer them the choice of doing business in-branch or at a place of their choosing, at a time of their choosing.

To bring them new and better services, products and ways to meet their financial needs.

Our larger scale will be crucial in giving us the platform to develop additional products and services that are – more customer-friendly, more innovative and, we anticipate, market-leading.

That scale also means we're better placed to serve our existing customers, to attract new ones and to expand both our business banking balance sheet and our business banking product suite significantly.

But one thing hasn't changed at all. That's the commitment of our people, throughout the Bank, to making our ambition of being Ireland's best personal and small business bank a reality.

That commitment has been cemented by the more than 330 new colleagues we've welcomed from Ulster Bank, who are bringing deep knowledge and skill to add to what our existing colleagues have already built up.

And it's that commitment that has been the driving force behind the really strong performance that the Bank has displayed in the first half of 2023.

We look forward to the remainder of the year with confidence and to delivering on our ambition to provide real competition to the Irish banking market.

Business Performance Review

The Bank reports strong business performance for the first half of the year, with total new mortgage lending of €1.3 billion, 41% higher YoY, while market share of mortgage drawdowns grew to c. 23.1%. We are continuing to support a more sustainable economy with 28% of drawdowns into our Green mortgage products which were launched in Q2'22.

New SME Lending of €60 million in the first half of 2023 was 14% lower YoY, however, there is a strong pipeline of SME activity as we move into the second half of the year. Supported by the migration of the Ulster Bank micro-SME book in February, the total SME loan book grew by €0.2 billion to €0.5 billion at 30 June 2023. With the migration of the Asset Finance business in July 2023, the total SME book is now c. €1 billion.

New Consumer Term Lending pay-outs of €60 million increased by 10% YoY, supported by our recent marketing campaign which focuses on our attractive car and home improvement loan propositions. Digital adoption continues to grow with 80% of new term lending drawdowns through our direct channels

Financial Performance Review

The Bank reported a Profit Before Tax of €26 million for the period 30 June 2023 (2022: Loss Before Tax of €36 million) The profit in 2023 includes once-off transaction costs and other provisions of €60 million associated with the Ulster Bank Transaction. ECB increases in interest rates and an increase in interest earning assets as a result of the migration of Ulster Bank loans contributed to Net Interest Income increasing by 92% compared to the same period in 2022, while increased transactional activity from our growing customer base resulted in Net Fees & Commission income increasing to €23m from €19m at 30 June 2022.

Operating Income

Net interest income (NII) of €298 million has increased by 92% year on year and our Net Interest Margin (NIM) increased by 88bps to 2.29%. Net interest income increased due to higher new lending, an increase in ECB rates which impacted tracker mortgages and increased income as a result of the migration of the Ulster Bank assets at the end of 2022 and 2023. This is partially offset by increases in other wholesale funding costs.

Net fees and commission income was €23 million for 2023 compared to €19 million in 2022. The increase is mainly due to increased transactional activity during 2023 from a growing customer base.

Operating Expenses

Operating expenses excluding exceptional and other non-recurring items of €204 million are higher than prior year, primarily driven by increased staff numbers, increased professional fees for servicing of Ulster Bank acquired Mortgages and continued Investment in Digital & Strategic Projects, in addition to inflationary pressures on costs.

Impairment

The Bank recorded an impairment charge on loans and advances to customers of €9 million for period 30 June 2023 compared to a write-back of €9 million for the period ended 30 June 2022. This charge reflects the impact of interest rates increases in the period and a more cautious outlook on future macroeconomic performance and the potential impact on portfolio quality.

Exceptional and Other Non-Recurring Costs

The total exceptional and non-recurring items for period 30 June 2023 are €60 million. This consists of €59 million relating to costs and impairment charges on the Ulster Bank transaction. Additional costs of €2 million relating to legacy legal cases and €1 million impairment charge on deleveraging. This is offset by €2 million relating to an impairment write-back arising from historic deleveraging of loans.

Non-Performing Loans (NPLs)

Non-performing loans (NPL) as a percentage of gross loans were 3.3% at 30 June 2023, in line with December 2022.

Capital

The Common Equity Tier 1 (CET1) capital ratio was 14.4% and 14.7%, on a Fully Loaded and Transitional basis respectively. This compares to the Bank's reported CET1 ratio of 15.2% and 16.2% at 31 December 2022, on a Fully Loaded and Transitional basis respectively.

The reduction in the transitional CET1 ratio (-1.5%) in the six months to June 2023 is primarily due to increasing RWAs as a result of net loan book growth and the migration of remaining Ulster Bank mortgages and SME Business and annual phase-in of transitional prudential filters relating to Deferred Tax Assets and IFRS 9.

Capital ratios remain above both management and regulatory minima.

Customer Experience

Our customers are at the heart of our Purpose and we have a continuous focus on improving our customer experience across our branch, voice and digital channels. Enhancements for the first half of 2023 include the introduction of a dedicated 'host role' in our branches, an expanded Mobile Mortgage team and, most significantly, the opening of 25 new branches in communities across the country to ensure that we can provide face to face support for our customers where they need us.

Our multi-year digital transformation programme also continues to deliver an enhanced customer experience with improvements delivered to online customer journeys, along with the rollout of several enhancements to the Permanent TSB mobile app and desktop services on open24.ie. This includes the introduction of Webchat service in-app, a significant milestone in our digital service offering, which now enables our customers to self-serve and access a new support channel when they need it.

We are also providing a range of enhanced supports for customers and have recently established a dedicated Enhanced Customer Support team to ensure that we can provide additional support to customers who may require it.

Sustainability Business Growth

Sustainability is a strategic priority for our business and during the first half of 2023, we have continued to make progress across the four pillars of our Sustainability Strategy. We are continuing to support our customers in navigating the transition to a low carbon economy with c.€365 million in green lending drawn down through the Bank's Green Mortgage offering during H1, accounting for c.28% of new Mortgage lending. We are now focused on expanding our green customer propositions, ensuring continued support for our Retail and SME customers so they too can meet their sustainability goals.

We conducted our first ESG Risk Rating with Sustainalytics and were awarded a 'Low' risk rating, recognising the progress we have made in recent years. In addition, we completed a programme of work to understand our carbon impact across Scope 1, 2 and 3 (including our financed emissions) and received limited assurance on our data. We are committed to disclosing transparently and in early July, we were pleased to issue our first Task Force on Climate-related Financial Disclosures Report (TCFD) Report to the market, demonstrating the progress we are making on integrating consideration for climate-related and environmental risk into all areas of our business.

While addressing climate change and supporting the transition to a low carbon economy is a key pillar of our Sustainability Strategy, we are equally focused on elevating our social impact and connecting with local communities through both our Community Partnerships and the work of the Permanent TSB Community Fund, onboarding six new Permanent TSB Community Fund charity beneficiaries during the first half of 2023. Through our NextGen and Dare to Believe programmes, in collaboration with Paralympics Ireland and the Olympic Federation of Ireland, we have been proud to engage young people across Ireland through sporting events and education.

As we enter into the second half of the year, we will remain focussed on continuous improvement and further integrating Sustainability into all areas of our business, ultimately building a sustainable organisation that is fit for the future.

Backing Team Ireland

Last year we were thrilled to announce that Permanent TSB had become the title sponsor of the Irish Paralympic and Olympic teams for Paris 2024.

We are now less than a year away from the Olympic opening ceremony and we are delighted with the progress being made by Team Ireland as our athletes and sportspeople continue their preparations.

I want to salute the members of the Team who have already qualified in their respective disciplines and congratulate them on such a wonderful achievement. And to those who are still working towards securing their places, I want to wish you every success and tell you that everyone in Permanent TSB is cheering you on.

This is a really important partnership for us. It goes to the heart of our culture within the Bank of a community serving the community and we know that the Olympic and Paralympic spirit will light up communities throughout Ireland as we get closer to the games.

And we are delighted to provide support for our athletes and sportspeople, who bring so much enjoyment and pleasure to our communities, and we are looking forward to celebrating their successes and their achievements with them.

New Chairperson

Earlier this year we were delighted to welcome Julie O'Neill as the Bank's new Chairperson, following the conclusion of her predecessor Robert Elliott's 6 year term.

Julie brings an exceptional track record in business and public administration to the Bank and she has already made a very positive impact on the organization.

We are constantly evolving, innovating and looking for new and better ways of doing things – for our customers, for our shareholders, for the people who pursue their careers with us and for the wider communities that we serve – and Julie's influence will be crucial in helping us to achieve this.

Outlook

As we look ahead to the remainder of 2023 and beyond, there is a great sense of excitement throughout the Bank about the opportunities that lie ahead.

Our Bank holds a unique and special position in Irish retail banking. That's because it has roots in both the member-owned building society movement, as Irish Permanent, as well as the trustee savings bank movement throughout Ireland, as TSB.

It's a bank that has been around for a long time – over 200 years. And it's one with a really strong heritage of serving communities, and the customers that make up these communities, throughout those 200 years and more.

That heritage of service that evolved from being a member-owned or customer-owned organisation continues to influence everything we do today – how we think about our customers, how we interact with them, how we value them so highly, and how we put them at the heart of what we do.

The dramatic changes in the competitive landscape and the exit of a number of banks in recent years throw down a gauntlet to us to serve not just our existing customers, but those that are in need of a new bank - and to serve the wider economy, which needs competition, variety and innovation.

I can assure you that we in Permanent TSB are up for taking on that challenge.

Eamon Crowley

Eamonn Crowley
Chief Executive
1 August 2023

Financial Review

Performance Summary

The Group has returned an underlying profit of €86m for the first half of 2023, which is an increase of €88 million from the same period in 2022.

During the first half of 2023 the Bank has seen a positive movement in the net interest margin, driven primarily by the ongoing higher interest rate environment. This increase in net interest margin coupled with the additional interest earning assets that have migrated from Ulster Bank in 2022 and 2023 have led to a significant increase in overall profitability for the Bank, which is reflected in both underlying profit and profit before tax. This has been partially offset by increased costs due to inflationary pressures and an increase in staff costs as a result of the growth in staff numbers as part of the Ulster Bank transaction.

The remaining elements of the Ulster Bank transaction have now been completed, with Asset Finance migrating In July. There have been additional one off costs incurred in completing the migration of these assets and embedding them into the Bank. These costs have been treated as exceptional items in the financial statements.

The Bank has taken an impairment charge on loans and advances to customers in the first half of 2023, which reflects the impact of interest rates increases in the period and a more cautious outlook on future macroeconomic performance and the potential impact on portfolio quality.

Ulster Bank Transaction

On 17 December 2021, the Bank entered into a legally binding agreement with NatWest Group Plc to acquire certain elements of the Ulster Bank Retail, SME and Asset Finance business in the Republic of Ireland. On 7 November 2022, the transaction was completed when €5.2bn of the Retail business assets and significant processes were acquired by the Bank thereby legally binding the Bank to acquire the remaining Retail, SME and Asset Financing assets. The Bank successfully completed the migration of the SME business in February 2023, remaining mortgage assets in May 2023 and the Asset Finance business in July 2023. The Bank incurred costs of €97m and €58m on the transaction in 2022 and 2023 respectively, of which €29m are recognised as exceptional costs in the income statement in 2023. This transaction is referenced throughout the book as the Ulster Bank transaction.

Basis of preparation

The financial review is prepared using International Financial Reporting Standards (IFRS) and Non-IFRS measures to analyse the Group's financial performance for the half year ended 30 June 2023.

Non-IFRS measures are used by Management to assess the financial performance of the Group and to provide insights into financial and operational performance on a consistent basis across various financial reporting periods. They also provide details regarding the elements of performance, which the Group considers important in its performance assessment and which it can influence.

Non-IFRS measures are however not a substitute for IFRS measures and IFRS measures should be preferred over Non-IFRS measures where applicable.

The Group has a tightly drawn accounting policy for exceptional items and exceptional items are considered to include:

- Profit/loss on disposal of businesses;
- Gain on bargain purchase in respect of business combinations
- Profit/loss on material deleveraging prior to 31 December 2021, including any increase in impairment arising solely due to the sale of NPLs becoming part of the Group's recovery strategy;
- Material restructuring costs; and
- Material transaction, integration and restructuring costs associated with acquisitions (including potential liquidations).

However, from time to time certain material non-recurring items occur which do not meet the definition of exceptional items as set out in the accounting policy. To assist the users of the financial statements and to ensure consistency in reporting with other financial institutions, these items are disclosed separately from underlying profit in the financial review. These items are clearly identified as non-IFRS items and reconciled back to the IFRS income statement. A reconciliation between the underlying profit and operating profit on an IFRS basis is set out on page 11.

Basis of calculation

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

Management performance summary condensed consolidated income statement

	Table	Half year ended 30 June 2023 €m	Half year ended 30 June 2022 €m
Net interest income	1	**298**	155
Net fees and commissions income		**23**	19
Net other income		**2**	4
Total operating income (excl. exceptional items and other non-recurring items)		**323**	178
Total operating expenses (excl. exceptional items and other non-recurring items, bank levy and other regulatory charges)*	3	**(204)**	(164)
Bank levy and other regulatory charges		**(24)**	(25)
Underlying profit/(loss) before impairment		**95**	(11)
Impairment (charge)/write-back on loans and advances to customers	4	**(9)**	9
Underlying profit/(loss) before exceptional and other non-recurring items**		**86**	(2)
Exceptional items comprises:	5	**(29)**	(30)
Costs incurred in relation to Ulster Bank transaction		**(29)**	(35)
Impairment write-back arising from deleveraging of loans		**2**	7
Other costs		**(2)**	(2)
Other non-recurring items comprise:		**(31)**	(4)
Impairment charge on Ulster Bank transaction		**(29)**	-
Impairment charge on deleveraging		**(1)**	-
Other items relating to Ulster Bank transaction		**(1)**	-
Charges in relation to legacy legal cases		**-**	(4)
Profit/(loss) before taxation		**26**	(36)
Taxation		**(1)**	1
Profit/(loss) for the year		**25**	(35)

* Expense offset by non-recurring income
** See table 6 on page 11 for a reconciliation of underlying profit to operating profit on an IFRS basis

Management performance summary consolidated income statement - key highlights

- **Total operating income (excl exceptional items)** has increased by €145m year on year primarily due to:
  - **Net Interest income** increased by €143m (92%) during 2023 to €298m. The increase is mainly driven by the impact of ECB interest rates on the Bank's excess liquidity held with the Central Bank and improved yields on the Bank's tracker mortgage portfolio. Interest income has also increased as a result of the migration of the Ulster Bank performing loan assets in the second half of 2022 and organic lending outpacing redemptions in the first half of the year. This is offset primarily by increases in both short and medium term wholesale funding costs.
  - **Net fees and commission income** was €23m for the period ended 30 June 2023 compared to €19m at 30 June 2022. The increase is mainly due to growth in customer numbers and an increase in transactional activity.
- **Total operating expenses (excl. exceptional items and other non-recurring items, bank levy and other regulatory charges)** are €204m for the half year ended 30 June 2023 compared to €164m at 30 June 2022. The increase is predominantly driven by increased staff numbers including the transfer of staff from Ulster Bank, increased costs for servicing of the acquired mortgage business and continued investment in digital & strategic projects.
- **Impairment charge** is €9m on loans and advances to customers for the half year ended 30 June 2023, compared to a write-back of €9m for the half year ended 30 June 2022. This charge reflects the impact of interest rates increases in the period and a more cautious outlook on future macroeconomic performance and the potential impact on portfolio quality.
- **Exceptional costs** of €29m for the half year ended 30 June 2023 comprises €29m in costs relating to the Ulster Bank transaction, €2m relating to an impairment write-back arising from deleveraging of loans and €2m in other costs arising in respect of a previous disposal of a business.
- **Other non-recurring items** comprise a day 1 impairment charge of €29m on loans acquired from Ulster Bank, €1m in other items relating to the Ulster Bank transaction and €1m impairment charge on deleveraging.
- **Profit before tax** of €26m for the period ended 30 June 2023, compared to a loss of €36m in the prior period. This is primarily due to the significant year on year increase in total operating income, driven mainly by net interest income, partially offset by an increase in operating expenses and non-recurring costs associated with the Ulster Bank transaction.

Financial Review
(continued)

Net interest income	Net interest margin
€298m	**2.29%**

Table 1: Net Interest Income

	Half year ended 30 June 2023 €m	Half year ended 30 June 2022 €m
Interest income	**348**	177
Interest expense	**(50)**	(22)
Net interest income	**298**	155
Net interest margin (NIM)	**2.29%**	1.41%

Net Interest income

Interest of €298m for the period ended 30 June 2023 increased by €143m (92%), compared to the prior half year. This is mainly driven by the following:

- increased income on assets linked to ECB marginal rate;
- the migration of Ulster Bank performing mortgage loans in Q4 2022; and
- organic growth of the performing loan book with higher new lending than redemptions and repayments.

Table 2: Average Balance Sheet

	Half year ended 30 June 2023			Half year ended 30 June 2022		
	Average Balance €m	Interest €m	Average Yield/ Rate %	Average Balance €m	Interest €m	Average Yield/ Rate %
Interest-earning assets						
Loans and advances to customers	**20,087**	**299**	**2.98%**	14,318	170	2.39%
Debt securities and derivative assets	**3,263**	**16**	**0.98%**	2,744	4	0.29%
Loans and advances to banks[1]	**2,822**	**33**	**2.34%**	-	-	-
Total average interest-earning assets	**26,172**	**348**	**2.66%**	17,062	174	2.06%
Negative interest earning assets						
Loans and advances to banks	**-**	**-**	**0.00%**	5,158	(9)	(0.35%)
Total average negative interest earning assets	**-**	**-**	**0.00%**	5,158	(9)	(0.35%)
Interest earning assets	**26,172**	**348**	**2.66%**	22,220	165	1.50%
Interest-bearing liabilities						
Customer accounts	**22,183**	**12**	**0.11%**	19,545	5	0.05%
Debt securities in issue	**1,018**	**19**	**3.73%**	549	4	1.47%
Lease liabilities	**39**	**-**	**0.00%**	29	-	1.16%
Subordinated Liabilities	**254**	**4**	**3.15%**	254	4	3.18%
Deposits by banks	**1,003**	**15**	**2.99%**	-	-	-
Total average interest-bearing liabilities	**24,497**	**50**	**0.41%**	20,377	13	0.13%
Negative interest earning liabilities						
Deposits by banks[2]	**-**	**-**	**0.00%**	829	(3)	(0.73%)
Total average negative interest earning liabilities	**-**	**-**	**0.00%**	829	(3)	(0.73%)
Interest -bearing liabilities	**24,497**	**50**	**0.41%**	21,206	10	0.09%
Total average equity attributable to owners	**2,428**			1,777		
Net Interest Margin			**2.29%**		155	1.41%

The above table is based on the average balances of assets and liabilities and will not agree to gross interest income and gross interest expense. The overall interest amount will agree to NII.

1 Loans and advances to banks was a negative interest-earning asset for June 2022 and an interest-earning asset for June 2023

2 Deposits by banks was a negative interest earning liability for June 2022 and an interest bearing liability for June 2023

Net interest margin (NIM)

NIM increased by 88bps to 2.29% for the half year ended 30 June 2023 compared to 1.41% for the prior period. The NIM of the Group has grown due to an increase in ECB interest rates which have significantly impacted the yields on ECB linked assets. These increases have not been proportionately passed through to deposit holders, resulting in a net increase in the margin.

Interest income/Average interest-earning assets

- Interest income on loans and advances to customers increased by €129m due balance sheet growth, the pass-through of ECB rate increases to tracker mortgage customers and the addition of mortgages from Ulster Bank in Q4 2022.
- Interest income on debt securities and derivative assets increased by €12m due to lower yielding debt securities being replaced by higher yielding assets.
- The Interest income on loans and advances to banks increased by €42m due to ECB rate rises reversing negative yields on excess liquidity held with the central bank during 2022. The average balance of loans and advances to banks decreased by €2,336m during the year. This balance consist of excess cash reserves with the CBI.

Interest expense/Average interest-bearing liabilities

- Interest expense increased in customer accounts due to an increase in the average balance on customer accounts and increased rates offered on these accounts.
- Interest expense on debt securities in issue increased by €15m during the year due to additional debt issuances being issued at higher rates.
- The average balance of deposits by banks increase due to an increase in market rates for repurchase transactions. The average balance of subordinated liabilities remained consistent year on year.

Total operating expenses *	Adjusted cost income ratio
€228m	**63%**

* Excluding exceptional, other non-recurring items and regulatory charges

Table 3: Operating expenses

	Half year ended 30 June 2023 €m	Half year ended 30 June 2022 €m
Staff costs		
Wages and salaries including commission paid to sales staff	**79**	61
Social insurance	**9**	7
Pension costs	**8**	6
Total staff costs	**96**	74
General and administrative expenses	**76**	65
Administrative, staff and other expenses	**172**	139
Depreciation and impairment of property and equipment	**13**	10
Amortisation of intangible assets	**19**	15
Total operating expenses (excluding exceptional, other non-recurring items and regulatory charges)	**204**	164
Regulatory charges	**24**	25
Total operating expenses (excluding exceptional and other non-recurring items items)	**228**	189
Headline cost to income ratio*	**71%**	106%
Adjusted cost to income ratio**	**63%**	92%
Closing staff numbers***	**3,077**	2,483
Average staff numbers	**2,853**	2,348

*Defined as total operating expenses (excluding exceptional and other non-recurring items) divided by total operating income.
**Defined as total operating expenses (excluding exceptional, other non-recurring items, bank levy and regulatory charges) divided by total operating income.
***Closing staff numbers are calculated on a full time equivalent (FTE) basis.

Operating expenses

Staff costs

Total staff costs have increased by €22m (30%) from €74m for the period ended 30 June 2022 to €96m for the period ended 30 June 2023 primarily due to an increase in staff numbers driven by the transfer of staff from Ulster Bank from second half of 2022 along with increases in average salaries for staff during 2023.

General and administrative expenses

General and administrative expenses increased by €11m for the period ended 30 June 2023 to €76m due to the acceleration of investment in the digital transformation programme and cost inflation pressure.

Bank levy and other regulatory charges

Bank levy and other regulatory charges amounted to €24m for the period ended 30 June 2023. Other regulatory charges include €19m for the Deposit Guarantee Scheme (30 June 2022: €19m). The Single Resolution Fund fee for the period ended 30 June 2023 was €4m (30 June 2022: €5m).

Adjusted cost income ratio

Operating costs (excluding exceptional items, other non-recurring items, and bank levy and regulatory charges) of €204m and operating income of €164m for the period ended 30 June 2023 led to an adjusted cost income ratio of 63% for 2023, compared to an adjusted cost income ratio of 92% for the period ended 30 June 2022. The adjusted cost income ratio improved significantly year on year due to an increase in net interest income, partially offset by an increase in operating expenses.

Impairment (charge)/write-back

€(9)m

Table 4: Impairment

	Half year ended 30 June 2023 €m	Half year ended 30 June 2022 €m
Total impairment (charge)/write-back on loans and advances to customers	**(9)**	9

The impairment charge is €9m on loans and advances to customers for the period ended 30 June 2023, compared to a write-back of €9m for the period ended 30 June 2022. This charge reflects the impact of interest rates increases in the period and a more cautious outlook on future macroeconomic performance and the potential impact on portfolio quality

Exceptional and other non-recurring items

€60m

Table 5: Exceptional and other non-recurring items

	Half year ended 30 June 2023 €m	Half year ended 30 June 2022 €m
Exceptional items		
Costs incurred in relation to the Ulster Bank transaction	**29**	35
Impairment write-back arising from deleveraging of loans	**(2)**	(7)
Restructuring and other costs	**2**	2
Other non-recurring items		
Impairment charge on Ulster Bank transaction*	**29**	-
Impairment charge on deleveraging*	**1**	
Other items relating to Ulster Bank transaction**	**1**	-
Charges in relation to legacy legal cases	**-**	4
Exceptional and other non-recurring items	**60**	34

* included in IFRS impairment charge
** Included in IFRS administrative, staff and other expenses

Table 6: Reconciliation of underlying loss to operating loss on an IFRS basis

	Half year ended 30 June 2023 €m	Half year ended 30 June 2022 €m
Operating profit/(loss) per IFRS income statement	**26**	(36)
Exceptional items	**29**	30
Non-IFRS adjustments		
Other non-recurring items	**31**	4
Underlying profit/(loss) per management income statement	**86**	(2)

Management's definition of underlying profit excludes exceptional items and other items that Management view as non-recurring. In the current year, Non-recurring items include the Day 1 ECL booked as part of the purchase of the Ulster Bank transaction, and other one-off costs relating to the transaction that are included in IFRS administrative, staff and other expenses

Summary consolidated statement of financial position

	Table	30 June 2023 €m	31 December 2022 €m
Assets			
Home loans		**19,498**	18,370
Buy-to-let		**634**	657
Total residential mortgages		**20,132**	19,027
Commercial mortgages		**323**	199
Consumer finance		**413**	367
Total loans and advances to customers (net of provisions)	7	**20,868**	19,593
Debt securities	9	**3,274**	3,177
Remaining asset balance	10	**4,260**	3,163
Total assets		**28,402**	25,933
Liabilities and equity			
Current accounts		**9,484**	8,983
Retail deposits		**12,008**	11,589
Corporate & institutional deposits		**1,100**	1,158
Total customer accounts	11	**22,592**	21,730
Debt securities in issue	12	**1,801**	658
Remaining liability balances	13	**1,604**	1,158
Total liabilities		**25,997**	23,535
Total equity		**2,405**	2,398
Total equity and liabilities		**28,402**	25,933
Liquidity coverage ratio (1)		**186%**	178%
Loan to deposit ratio (2)		**92%**	90%
Net stable funding ratio (3)		**159%**	154%
Return on equity (4)		**7.59%**	0.55%

(1) Calculated based on the Commission Delegated Regulation (EU) 2015/61.
(2) Defined as the ratio of loans and advances to customers compared to customer accounts as presented in the statement of financial position.
(3) Defined as the ratio of available stable funding to required stable funding.
(4) Defined as annualised (loss)/profit for the period after tax (before exceptional and other non-recurring items) as a percentage of total average equity

Summary consolidated statement of financial position - key highlights

Loans and advances to customers (net of provisions) were €20,868m as at 30 June 2023, an increase of €1,275m from €19,593m at 31 December 2022, which is mainly due to the migration of the SME and remaining retail mortgage portfolios from Ulster Bank.

Remaining asset balances were €4,260 at 30 June 2023, an increase of €1,097m from €3,163m at 31 December 2022. This is primarily due to an increase in deposits held with the CBI as a result of two large MREL related debt issuances in the first half of 2023.

Customer accounts were €22,592m at 30 June 2023, an increase of €862m from 31 December 2022. This is due to an increase in customers as a result of the transfer of customer deposits from Bank's leaving the Irish market.

Debt securities in issue were €1,801m at 30 June 2023, an increase of €1,143m. The increase is driven by two debt issuances of €650m and €500m in April and June 2023.

Remaining other liabilities increased by €446m primarily due to additional repurchase agreements compared to 2022.

Table 7 (a): Summary of movement in loans and advances to customers

	30 June 2023 €m	31 December 2022 €m
Gross loans and advances to customers 1 January	**19,804**	14,745
New lending*	**1,328**	2,697
Loans acquired	**1,082**	5,063
Redemptions and repayments	**(1,085)**	(1,879)
Write-offs and restructures	**(10)**	(43)
Net movement from non-performing and other	**-**	(779)
Gross loans and advances to customers	**21,119**	19,804

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

Table 7 (b): Composition of loans and advances to customers

	30 June 2023 €m	31 December 2022 €m
Residential mortgages:		
Home loans	**19,488**	18,340
Buy-to-let	**806**	824
Total residential mortgages	**20,294**	19,164
Commercial	**376**	239
Consumer finance	**449**	401
Total measured at amortised cost	**21,119**	19,804
Of which are reported as non-performing loans	**691**	650
Deferred fees, discounts and fair value adjustments	**307**	310
Provision for impairment losses	**(558)**	(521)
Total loans and advances to customers	**20,868**	19,593

Total loans and advances to customers (net)

€20,868m

Total loans and advances to customers (after provisions for impairment) of €20,868m for period ended 30 June 2023 increased by €1,275m when compared to the year ended 31 December 2022. This increase is due to the migration of the SME and remaining mortgage portfolios from Ulster Bank during 2023.

Net new lending has increased by €361m at 30 June 2023 from €967m at 30 June 2022 to €1,328m, as a result of increased mortgage lending in 2023.

Total new lending

€1,421m

Total new lending at 30 June 2023 amounted to €1,421m, up 36% from €1,043m at 30 June 2022. New mortgage lending, which represented 92% of total new lending, increased by 41% compared to H1 2022. The increase in overall lending reflects the strong switcher market continuing from the end of Q4 2022 into the start of 2023 due to customers wishing to fix before further rate increases are applied. Mortgage applications and mortgage approvals continue to grow in H1 2023 due to the high volume of demand.

The Irish mortgage market activity in H1 2023 has improved driven by lending to first-time buyers and switchers. The BPFI has reported that re-mortgage/switching drawdown activity has grown by 19.1% year on year in Q1 2023 in the market. Housing supply has reduced based on most recent data showing there were 27,309 units commenced in the twelve months to March 2023, down 16% year on year.

SME Lending at 30 June 2023 is €60m, which is a 14% decrease compared to SME Lending at 30 June 2022. The decrease is largely driven by a decrease in the SME Market Size by 13% YoY.

The Group recorded gross new Term lending of €60m in H1 2023. This is a 20% increase compared to H1 2022.

NPLs	NPLs as a % of gross loans
€691m	**3.3%**

Table 8: NPLs

	30 June 2023 Total €m	31 December 2022 Total €m
Home Loans	**392**	342
Buy-to-let	**264**	270
Commercial	**19**	23
Consumer finance	**16**	15
Non-performing loans	**691**	650
NPLs as % of gross loans	**3.3%**	3.3%
Foreclosed assets*	**16**	18
Non-performing assets (NPAs)**	**707**	668
NPAs as % of gross loans	**3.3%**	3.4%

* Foreclosed assets are defined as assets held on the statement of financial position which are obtained by taking possession of collateral or by calling on similar credit enhancements.
** NPAs are defined as NPLs plus foreclosed assets.

The Gross NPL's increased moderately when compared to December 2022. NPL's as a percentage of gross loans was 3.3% at 30 June 2023. This is driven primarily by the acquisition of the retail mortgage business from Ulster Bank.

Debt securities

€3,274m

Table 9: Debt securities

	30 June 2023 €m	31 December 2022 €m
Government bonds	**3,259**	3,128
Corporate bonds	**15**	49
Total debt securities	**3,274**	3,177

Debt securities of €3,274m for period ended 30 June 2023 increased by €97m. This was due to the purchase of new Irish, French, Spanish and EU bonds offset by maturities.

Remaining asset balances

Table 10: Remaining assets balances

	30 June 2023 €m	31 December 2022 €m
Remaining asset balances		
Loans and advances to banks	**3,338**	2,123
Assets classified as held for sale	**45**	18
Other assets	**878**	1,022
Total	**4,261**	3,163

Loans and advances to banks increased by €1,215m during the first half of 2023 primarily due to increased balances held with the CBI, this increase is driven by debt issuance related to the Bank's MREL requirements.

Assets classified as held for sale has increased by €27m during 2023 due primarily to the classification of the Visa A shares as held for sale.

Other assets primarily consist of deferred tax asset, property and equipment and prepayments and accrued income. The balance decreased from 31 December 2022 primarily due to a decreased in prepayments and accrued income.

Customer accounts

€22,592m

Table 11: Customer accounts

	30 June 2023 €m	31 December 2022 €m
Current accounts	**9,484**	8,983
Retail deposits	**12,008**	11,589
Total retail deposits (including current accounts)	**21,492**	20,572
Corporate deposits	**1,100**	1,158
Total customer deposits	**22,592**	21,730
Loan to deposit ratio*	**92%**	90%

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

At 30 June 2023, customer accounts increased to €22,592m from €21,730m at 31 December 2022, mainly due to an increase in balances held in current accounts reflecting expected inflows as a result of Retail Banks exiting the Irish deposit market, partially offset by a decrease in corporate deposits.

The loan to deposit ratio has increased due to the increase in lending assets acquired as part of the Ulster Bank transaction.

Debt securities in issue

€1,801m

Table 12: Debt securities in issue

	30 June 2023 €m	31 December 2022 €m
Bonds and medium-term notes	**1,801**	658
Debt securities in issue	**1,801**	658

Debt securities in issue increased by €1,143m since 31 December 2022, as the Group issued €650m of Senior Unsecured Medium Term Notes in April and €500m June 2023.

The Group continues to hold sufficient liquidity resulting in a decreased requirement of secured financing.

Remaining liabilities
Table 13: Remaining liability balances

	30 June 2023 €m	31 December 2022 €m
Derivative financial liabilities	**4**	-
Deposits by banks	**1,097**	614
Accruals	**14**	6
Current tax liability	**1**	1
Provisions	**75**	80
Other liabilities	**158**	181
Derivative liabilities	**-**	13
Subordinated liabilities	**255**	252
Total	**1,604**	1,147

The remaining liability balances increased by €457m in the period ended 30 June 2023 primarily due to additional repurchase agreements.

Capital Management

Capital management objectives and policies

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

Regulatory Framework

The Group's regulatory requirements, more commonly known as CRD IV, are contained within EU Regulation 575/2013 ('the CRR'), which is directly applicable in all EU countries and Directive 2013/36/EU ('CRD IV') transposed into Irish law through S.I. No. 158 of 2014, as well as various technical standards and EBA guidelines. Under these requirements, the Group's total capital for Pillar 1 must be adequate to cover its credit, market and operational risks, including capital buffers. The Group must also hold sufficient capital to cover the additional risks identified under the Pillar 2 process including any add-on's imposed on the Group as part of the supervisory SREP assessment.

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

Regulatory capital developments

In October 2021, the European Commission published a legislative proposal, in the form of amendments to the CRR and CRD, to implement the final revisions to the Basel Framework which, amongst other things, will see changes to the Credit Risk and Operational Risk frameworks. The Commission expects that the new rules will ensure that EU banks become more resilient to potential future economic shocks while contributing to Europe's financial stability in the context of post-COVID19 recovery and the transition to climate neutrality. The amendments will implement the final Basel III standards, harmonise supervisory authority powers, introduce a lower bound for banks IRB approach and bring ESG considerations into risk assessment. The Council issued its common approach in November 2022 and legislative negotiations began in February 2023. The final legislation is expected to be applicable from 1st January 2025.

The Central Bank of Ireland review the Countercyclical Buffer ("CCyB") on a quarterly basis. According to the latest announcement from the Central Bank of Ireland, the CCyB has increased by +0.5% effective from 15th June 2023 and will further increase by +0.5% effective from 24th November 2023 followed by another increase of 0.5% effective from 7th June 2024. The gradual build-up of the CCyB is consistent with the Central Bank's objective of building up the CCyB to 1.5% when risk conditions are deemed to be neither elevated nor subdued.

In November 2022, the Governing Council of the ECB announced a revision to its floor methodology for assessing capital buffers in Other Systematically Important Institutions ("O-SII"). The revision increased the number of buckets to which O-SIIs are allocated from four to six and raised the floor level for the highest bucket to 1.50%. The revision increased macro-prudential capital buffers to strengthen resilience in the banking sector in the current challenging macro-financial environment and to increase consistency in the EU. The Group is not currently an OSII institution, however, this is reviewed by the Regulator on an annual basis.

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

Regulatory capital requirements

The Group's Common Equity Tier1 (CET1) minimum requirement of 9.44% (31 December 2022: 8.94%) is comprised of a Pillar 1 Requirement of 4.5%, Pillar 2 Requirement of 1.94%, Capital Conservation Buffer (CCB) of 2.5% and Countercyclical Buffer (CCyB) of 0.5%. The Group's Total Capital minimum requirement of 14.45% consists of a Pillar 1 CRR requirement of 8%, P2R of 3.45%, CCB of 2.5% and CCyB of 0.5%. The CCyB has increased by 0.5% effective from 15th June 2023 following the Financial Stability Review 2022.

These requirements exclude Pillar 2 Guidance (P2G) which is not publicly disclosed.

Capital ratios at 30 June 2023

At 30 June 2023, the regulatory transitional CET1 was 14.7% (31 December 2022: 16.2%) and Total Capital ratio 20.6% (31 December 2022: 22.3%), exceeding the Group's 2023 minimum requirements of 9.44% and 14.45% respectively.

The reduction in the transitional CET1 ratio (-1.5%) in the six months to June 2023 is primarily due to increasing RWAs as a result of net loan book growth and the migration of remaining Ulster Bank mortgages and SME Business and annual phase-in of transitional prudential filters: Deferred Tax Assets and IFRS9.

On a fully loaded basis, the CET1 ratio was 14.4% (31 December 2022: 15.2%) and the Total Capital ratio was 20.3% (31 December 2022: 21.3%).

The June 2023 leverage ratio on a transitional basis and fully loaded basis amounted to 7.1% and 7.0% respectively (31 December 2022: 8.0% and 7.7% respectively). The movement in the leverage ratio was primarily due to increasing balance sheet exposure primarily due to net loan book growth and cash placed with the Central Bank as a result of an increase in customer deposits and debt issuances.

The following table outlines the Group's regulatory (transitional) and fully loaded capital positions under CRDIV/CRR2. The following table outlines the Group's regulatory (transitional) and fully loaded capital positions under CRDIV/CRR.

Table 14: Regulatory capital

	30 June 2023		31 December 2022	
	Transitional	Fully Loaded	Transitional	Fully Loaded
	€m	€m	€m	€m
Capital Resources:				
Common Equity Tier 1	**1,654**	**1,624**	1,718	1,616
Additional Tier 1	**369**	**369**	369	369
Tier 1 Capital	**2,023**	**1,993**	2,087	1,985
Tier 2 Capital	**289**	**289**	282	282
Total Capital	**2,312**	**2,282**	2,369	2,267
Risk Weighted Assets	**11,245**	**11,245**	10,627	10,627
Capital Ratios:				
Common Equity Tier 1 Capital	**14.7%**	**14.4%**	16.2%	15.2%
Tier 1 Capital	**18.0%**	**17.7%**	19.6%	18.7%
Total Capital	**20.6%**	**20.3%**	22.3%	21.3%
Leverage Ratio*	**7.1%**	**7.0%**	8.0%	7.7%

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

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

Table 15: CET1 Capital

	30 June 2023		31 December 2022	
	Transitional	Fully Loaded	Transitional	Fully Loaded
	€m	€m	€m	€m
Total Equity	**2,404**	**2,404**	2,398	2,398
Less: AT1 Capital	**(369)**	**(369)**	(123)	(123)
Adjusted Capital	**2,035**	**2,035**	2,029	2,029
Prudential Filters:				
Intangibles	**(87)**	**(87)**	(86)	(86)
Deferred Tax	**(275)**	**(306)**	(247)	(309)
IFRS 9 (Transitional adjustment)*	**-**	**-**	41	-
Calendar Provisioning	**(11)**	**(11)**	(11)	(11)
AT1 Distribution Accrual	**(7)**	**(7)**	(7)	(7)
Others	**(1)**	**-**	(1)	-
Common Equity Tier 1	**1,654**	**1,624**	1,718	1,616

* The CET1 transitional impact to the Group as a result of EU Regulation 2017/2395 mitigating the impact of the introduction of IFRS 9 own funds.

Transitional (regulatory) capital
The June 2023 transitional CET1 capital reduced by €64m to €1,654m (31 December 2022: €1,718m). This reduction was primarily due to the phase-in of transitional prudential filters.

Fully loaded capital
The June 2023 fully loaded CET1 capital increased by €8m to €1,624m (31 December 2022: €1,616m).

Minimum Requirement for Own Funds and Eligible Liabilities (MREL)
The Group's interim binding MREL requirements, to be met by 30 June 2023, are 24.98% on RWA basis and 5.91% on a leverage basis (31 December 2022: 24.48% and 5.91% respectively). The MREL RWA requirement consist of a Single Resolution Board (SRB) target of 21.98% and the Group's Combined Buffer Requirement (CBR) of 3% on 30 June 2023 comprising of the Capital Conservation Buffer (CCB) of 2.5% and Countercyclical Buffer (CCyB) of 0.5%.

The SRB target is subject to annual review; while the CBR is dynamic, updating as changes in capital requirements become effective. Therefore the Group's MREL requirement is expected to increase to 28.65% in January 2024 to reflect the final 1 January 2024 MREL target and the CBR phase-in.

The Group's MREL position at 30 June 2023 is 36.6% on an RWA basis and 14.4% on a leverage basis. The Group completed the 2023 issuance plan and is on track to meet the final 1 January 2024 MREL target. The Group expects to maintain a buffer over its MREL requirements.

Risk weighted assets (RWAs)
The following table sets out the Group's risk weighted assets (RWAs) at 30 June 2023 and 31 December 2022.

Table 16: Risk weighted assets

	30 June 2023		31 December 2022	
	Transitional	**Fully Loaded**	Transitional	Fully Loaded
	€m	**€m**	€m	€m
RWAs				
Credit risk	**9,419**	**9,419**	8,742	8,742
Counterparty credit risk*	**188**	**188**	177	177
Securitisation Risk	**5**	**5**	11	11
Operational risk	**743**	**743**	700	700
Other**	**890**	**890**	997	997
Total RWAs	**11,245**	**11,245**	10,627	10,627

* Counterparty credit risk includes Treasury, Repo & CVA RWAs
** Other consists primarily of Property & Equipment, Intangible Assets and Prepayments

The June 2023 RWAs increased by €618m (on a transitional basis) to €11,245m (31 December 2022: €10,627m). This was primarily driven by the migration of remaining Ulster Bank mortgages and SME Business and net loan book growth in six months to June 2023.

Risk Management

1. Risk Management and Governance

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

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

The Group implements a Risk Management process, which consists of the following key aspects:

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

Enterprise Risk Management Framework

Within the Internal Control Framework (ICF), the Enterprise Risk Management Framework (ERMF) is the Group's overarching Risk Management Framework articulating the management process governing risks within the following key risk categories: Capital Adequacy Risk; Liquidity and Funding Risk; Market Risk; Credit Risk; Business Risk; Operational Risk; Information Technology ('IT') Risk; Model Risk; Compliance Risk (including AML); Conduct & Reputational Risk and Climate Risk.

The ERMF outlines the Group-wide approach to the identification; assessment and measurement; mitigation and control; monitoring and testing; and, reporting and escalation of breaches across the outlined risk categories. The Group manages, mitigates, monitors and reports its risk exposure through a set of risk management processes, activities and tools.

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

Risk Appetite and Strategy

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

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

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

The Group has a straight forward business model, with an exclusive focus in Ireland, delivering Retail and SME banking with a low risk appetite. In light of this, the risk appetite is not decomposed into individual business unit-specific statements of risk appetite.

Risk Governance

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

The responsibilities set out below relate to risk management activities. Further roles and responsibilities are documented in the ICF, the Board Manual and the committees 'Terms of Reference'.

The design of the Group's risk governance structure is informed by a set of risk governance principles which are based on relevant regulatory guidelines.

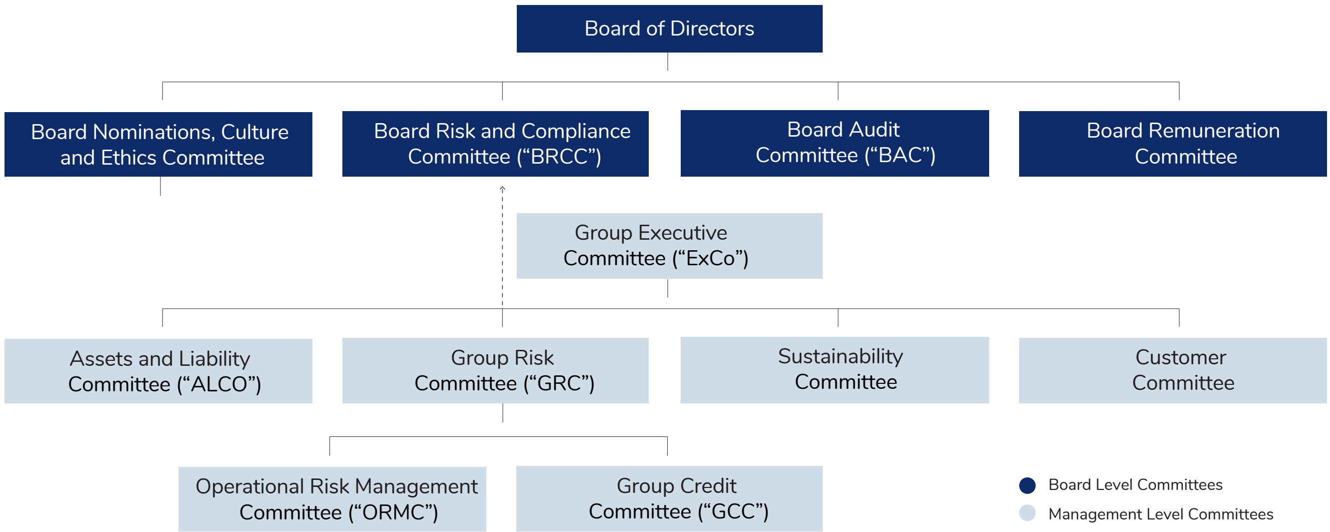
These principles include:

- **Committee Structure:** The number of committees at Board and Management levels reflects the nature and types of risk faced by the Group. Criteria for establishing risk sub-committees gives due consideration to the purpose of the committee; duration of the committee; proposed membership; committee reporting line and flight path for outputs from the committee.
- **Board Committees:** Made up of Non-Executive Directors (NEDs) whose role is to support the Board in overseeing risk management and overseeing and challenging Senior Management's decisions.
- **Management Committee:** Bring together Senior Managers in the Group who individually and collectively possess the requisite skills, expertise, qualifications, knowledge and experience to exercise sound, objective judgement, commensurate with the risk profile of the Group.

- **Independence Safeguards:** The risk governance structure features safeguards to protect the independence of key relationships between the Senior Executives and the Board. In this respect The ExCo may not override or modify decisions of the Asset and Liabilities Committee (ALCO), Group Risk Committee (GRC) or the Group Credit Committee (GCC), but may appeal decisions to the Board (or relevant Board committee). Additionally, the CRO is assigned the right to refer/appeal planned management action agreed by ExCo risk sub-committees, where the CRO considers such action to be inconsistent with adherence to the Board-approved risk appetite.
- **Flow of Risk Information:** The risk governance structure establishes independent reporting lines which facilitate effective risk oversight by the Board via the BRCC.
- **Communication of Risk Information**: Risk information is prioritised and presented in a concise, fully contextualised manner, to enable robust challenge and informed decision-making throughout the risk governance structure.
- **Appropriateness:** The number of overall governance committees/fora in the Group, the length of time per meeting, the number of meetings per year, and the number of meetings each Director/Executive attends is appropriate to the Group's resources and business model. This is reviewed on a regular basis and the feedback of the committee members sought.

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

Risk Governance Structure



Key Risk Governance Roles and Responsibilities

Committee/Role	Key Responsibilities
Board Responsible for the Group's business model and 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 ongoing management of material risks; and · Ensuring that there is a robust and effective ICF that includes well-functioning independent internal risk management, compliance and internal audit functions as well as an appropriate financial reporting and accounting framework.
Board Risk and Compliance Committee (BRCC) Oversees and provides guidance to the Board on risk governance and strategy. This guidance includes recommendations to the Board on current and future risk exposure, tolerance and appetite. The committee oversees Management's implementation of risk strategy including capital and liquidity strategy, the setting of risk and compliance policies and the embedding and maintenance throughout the Group of a supportive culture in relation to the management of risk and compliance.	The Committee supports the Board in carrying out its responsibilities of ensuring that risks are properly identified, assessed, mitigated, monitored and reported, and that the Group is operating in line with its approved Risk Appetite. Key activities of the BRCC include, but are not limited to: · Reviewing and making recommendations to the Board on the Group's risk profile, both current and emerging, encompassing all relevant risks categories as described in the Risk Management Framework (ERMF); · Reviewing and making recommendations to the Board in relation to the Group's ERMF, RAS and the Group Recovery and Resolution Plan; · Monitoring and escalating positions outside Risk Appetite to the Board, within agreed timeframes and approving and overseeing proposed Remediation Plans aimed at restoring the Group's risk profile to within the approved Risk Appetite; · Reviewing and approving the key components of the Group's Risk Management Architecture and relevant supporting documents; · Communicating all issues of material Group reputational and operational risk directly to the Board; · Reviewing and approving Credit Policy, Credit related strategy and any material amendments to Credit Policy; · Reviewing any changes to the risk strategy resulting from, changes in the business model, market developments or recommendations made by the risk management function; · Reviewing and making recommendations to the Board on the adequacy of capital and liquidity in the context of the Group's current and planned activities (via reviewing relevant outputs from Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), including in relation to proposed mergers, acquisitions or disposals; · Assess the impact of Climate Risk and Environmental Risk on the Bank's overall Risk Profile; and · Promoting a sound Risk Culture across the Group.

Committee/Role	Key Responsibilities
Executive Committee (ExCo) ExCo is the Senior Management Executive Committee for the Group, and is the custodian of the Group's collective Strategic Portfolio, Medium Term Plan and Risk Management Architecture as developed through the annual Integrated Planning Process (IPP). ExCo is the accountable body for the Group's operations, compliance and performance; defining the Group's organisational structure; ensuring the adoption, application and maintenance of all standards set by the Board; and a forum for Group-wide colleagues and other functional issues and ensuring that a robust and resilient operating framework exists within which the Group's activities are undertaken. The committee is chaired by the Chief Executive Officer (CEO) who is accountable to the Board.	In the context of Risk Management, ExCo is primarily responsible for: · Ensuring the Bank operates a sustainable business model with a focus on its Environmental, Social and Governance obligations; · The oversight of strategic risk associated with the development and execution of the Group's Strategic Portfolio and Financial Plans. The Group Risk Committee (GRC) is a Committee of ExCo with delegated responsibility for Group-wide risk management issues. The ExCo is the ultimate point of escalation for Group-wide specific issues saved for those matters reserved for the Board or its Committees; and · Ensuring that the operations, compliance and performance (through delivery of the Strategic Portfolio and Medium Term Plan, as well as policies, practices and decisions of the Group) are carried out appropriately, are correctly aligned to the Bank Purpose and Ambition and the interests of its stakeholders (customer, colleagues and shareholders) while operating within applicable regulatory and legal requirements.
Assets and Liabilities Committee (ALCO) ALCO reviews, and is responsible for overseeing, all activities relating to Asset & Liability Management (ALM), Treasury and Market Risks (including Liquidity Risk, Interest Rate Risk, Treasury Counterparty risk and Foreign Exchange (FX) Risk), and Capital Management. ALCO is the body accountable for the evaluation of other potential drivers of earnings volatility, including, but not limited to, competitive and external market pressures, and for approving optimisation and hedging strategies against those risks. ALCO is a sub-committee of ExCo.	Key activities of the ALCO include, but are not limited to: · Maintaining, monitoring and enforcing adherence to the Group's Risk Management Frameworks and Policies for all Liquidity, Market, and Capital related risks; · Overseeing and monitoring the ALM, Treasury and Market and Capital risks to which the Group is exposed and to consider and approve strategies to mitigate such risks; · Maintaining and assessing the ALM, Treasury and Market and Capital Risk profiles against set limits and propose remediation plans to restore Risk Appetite where required; · Monitoring the minimum capital requirements set by the Group's Regulators, and the Basel III minimum Solvency rules, as implemented by the CRD IV Directive and Regulations; · Approve Funds Transfer Pricing (FTP) methodology, and ensuring such process is economically fair, transparent and incentivises appropriate behaviour in accordance with FTP Policy; and · Responsible for overseeing Resolution Planning activity which includes delivering prescribed templates/annual submissions.

Committee/Role	Key Responsibilities
Group Risk Committee (GRC) GRC is an ExCo sub-committee chaired by the CRO, who has unfettered access to the BRCC. It serves as a forum for Group-wide risk management issues and maintains oversight across all of the Bank's key risk categories, excluding those which fall under the remit of the ALCO.	The GRC monitors and enforces adherence to the Group's Risk Frameworks, Risk Policies and Risk Limits. It is the guardian of the Group's Risk Register and Risk Appetite and is responsible for monitoring the total risk position of the Group. Key activities of GRC include, but are not limited to: · Measuring and monitoring the total risk position of the Group and maintaining a Risk Register of Top and Emerging risks facing the Group, together with an assessment of the probability and severity of those risks; · Monitoring and reporting on regulatory developments and upstream/horizon risk in relation to all relevant risk categories and communicating all material issues to the BRCC or the Board as appropriate; · Monitoring and assessing the Group's risk profile and action trackers against risk appetite and recommending remediation plans to restore risk appetite where required; · Reporting any breaches of approved thresholds in accordance with agreed protocol; · Recommending proposed changes to the Group's risk appetite for Board approval; and · Maintaining, monitoring and enforcing adherence to the ERMF, for all key risk categories excluding those which fall directly under the remit of the ALCO.
Customer Committee Customer Committee is a sub-committee of ExCo and is chaired by the Retail Banking Director. The purpose of the Committee is to support commercial growth while ensuring that fair customer outcomes remain at the forefront of decision making, in the context of building customer trust and executing a purpose-led, customer growth strategy.	To ensure that consideration of the customer is a key part of its decision making process, the Committee allocates sufficient time to facilitate meaningful discussions of the customer, with the aim of improving customer experience, delivering better outcomes and enabling relationship growth. It has a number of key remits, namely to: · Prioritise opportunities, resources and capabilities in order to deliver sustainable commercial growth; · Provide guidance to Executive Management (including ExCo and ExCo sub-committees) on business and commercial proposals which may have a material impact on customers and on the endorsement of such proposals; · Review and action, where required, customer performance indicators; · Review relevant significant customer events, issues and complaints, when escalated by relevant sub-committees and forums, in order to provide guidance on significant issues/events, and in order to delegate appropriate action by relevant sub-committees; · Review and action, where required, Conduct Risk indicators that exist within the Bank against the Board-approved Conduct Risk Appetite and Principles; and · Serve as the central oversight body for all significant customer matters ensuring fair treatment of customers.

Committee/Role	Key Responsibilities
Sustainability Committee (SusCo) Led by the Board, and on delegated authority from the ExCo, the Sustainability Committee is in place to provide oversight of all activity relating to the Environmental, Social and Governance (ESG) factors that are core to operating our business in a responsible and sustainable way. SusCo is chaired by the Corporate Development and HR Director and includes representation from both ExCo members, and Senior Leaders representing business units across the organisation.	The Sustainability Committee is responsible for the delivery of Permanent TSB's Sustainability Strategy by ensuring that there is sufficient governance, oversight, and challenge of activity across the key area of focus of the Bank's Sustainability Programme. Key activities of SusCo include, but are not limited to: · Supporting the execution of the Bank's Sustainability Strategy by ensuring that there is a comprehensive plan in place to deliver on strategy, objectives and sustainability regulatory requirements, including reporting; · Prioritising sustainability activity and ensuring that there is a focus on the ESG initiatives that will drive change and deliver lasting impact for our customers, colleagues, communities and environment; · Assigning business owners to manage and deliver sustainability programming across the material issues set out within the Sustainability Strategy; · Developing Sustainability KPIs and implementing processes that enable the Bank to effectively measure, manage and report progress against Sustainability objectives; and, · Monitoring and reporting progress to the Board and Executive Committees at regular intervals throughout the year.
Group Credit Committee (GCC) GCC oversees and is accountable for the execution and delivery of the Group's system of Portfolio Credit Risk Management, encompassing the identification, measurement, monitoring and reporting of Portfolio Credit Risks. GCC ensures that the appropriate operating frameworks governing the portfolio credit risk management activities of the Group are approved and are enforced. It operates as the forum for Group-wide Portfolio Credit Risk Management issues across the full Credit Risk Management Lifecycle. GCC is a sub-committee of GRC.	The GCC is responsible for developing and implementing portfolio credit policy within the Group. The policy addresses all material aspects of the full credit lifecycle, including Credit Risk assessment and mitigation, collateral requirements, collections and forbearance and the risk grading of individual credit exposures. Key activities of the GCC include, but are not limited to: Recommending the relevant portfolio credit risk elements of the Group's RAS for approval by the Board; · Recommending approval following challenge of the proposed impairment charge and approach to higher authorities (BRCC/BAC) for reporting periods; · Monitoring adherence to the Group's Credit Policy, including discretion limits and structure for underwriting, scoring, collections, recoveries and provisioning within the boundaries of the Group's RAS (as approved by the Board); · Monitoring the portfolio credit risks to which the Group is exposed; · Maintaining and assessing the portfolio credit risk profile against set limits and proposing remediation plans to restore risk appetite/limits where required; · Reporting any breaches of approved limits in accordance with agreed protocol; and · Acting as the gateway through which decisions required from higher authorities are reviewed prior to submission (e.g. BRCC/Board) and they are the forum review of Group-wide credit risk management issues.

Committee/Role	Key Responsibilities
Operational Risk Management Committee (ORMC) ORMC is a sub-committee of the Group Risk Committee (GRC) established with delegated authority to operate and make decisions in accordance with the Terms of Reference approved by GRC. GRC retains overall responsibility for the oversight of Operational and IT risks.	ORMC is responsible for supporting GRC in monitoring the Operational and IT risks to which the Bank is exposed and for overseeing risk mitigation performance and prioritisation related to the management and control of these risks. In fulfilling this role, the ORMC reviews and discusses the outputs and results of the Risk and Control Self-Assessment (RCSA) Process, Operational Risk Event Reporting and various other assessments (including New Product Approval (NPAP) and Third Party Risk Management (TPRM) assessments), monitoring and testing activities to create awareness of commonly experienced Operational and IT risk matters, to share learnings and to enhance the control environment across the Bank. The key responsibilities of the ORMC include, but are not limited to: · Oversee the implementation of the Bank's Operational and IT Risk Management Frameworks, including compliance with relevant Operational and IT risk policies and procedures; · Monitor the implementation of policies and ensure ongoing adherence through operational controls; · Review and approve Operational and IT policies, as agreed with the Chair of GRC, (via delegated authority from GRC) and recommend approval of Operational and IT Risk Frameworks to the GRC (and subsequently BRCC); · Appraise Material Operational and IT risk events, identify and report on the underlying root causes of these events, share lessons learned and ensure that measures or controls have been put in place to mitigate the occurrence and severity of any future risk events; · Develop, review and recommend approval of scenarios relating to potential Operational and IT risk events in order to inform the Group's capital assessment processes (e.g. ICAAP and Stress Testing) and submit these to the GRC for their review and approval; · Review and evaluate Operational and IT risk developments including peer, regulatory, and industry developments, and external incidents that may impact the Bank directly, or relate to potential risks.

Role of the CRO

The CRO has overall responsibility for overseeing the development and implementation of the Group's Risk function, including overseeing development of the risk management framework, supporting frameworks, policies, processes, models and reports and ensuring they are sufficiently robust to support delivery of the Group's strategic objectives and all of its risk-taking activities.

The CRO has independent oversight of the Group's risk management activities across all key risk categories. The CRO is responsible for independently assessing, monitoring and reporting all material risks to which the Group is, or may become, exposed. The CRO is a member of the ExCo and directly manages the Group's Risk function.

The CRO is accountable for developing and maintaining the Group's RAS, which the CRO submits to GRC for recommendation to BRCC, who in turn recommend approval to the Board. The CRO is responsible for translating the approved risk appetite into risk limits which cascade throughout the business. Together with Management, the CRO is actively engaged in monitoring the Group's performance relative to risk limit adherence and reporting this to the Board. The CRO's responsibilities also encompass independent review and participation in the Group's IPP, capital and liquidity planning and the development and approval of new products. Specifically, the CRO is tasked with:

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

In connection with these responsibilities, the CRO is assigned the right of appeal over planned management action agreed by ExCo Risk Sub-Committees (such as 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 as defined in the ICF for the effective oversight and management of risks across the Group.

Line Of Defence	High-Level Roles And Responsibilities
First Line of Defence First line functions and teams incur risks as they undertake frontline commercial and operational activities. They are responsible for identifying, owning, managing, monitoring and mitigating these risks through the effective design and operation of mitigating controls to ensure compliance with internal and external requirements. Critically, the First Line of Defence executes its business and operational activities in a manner consistent with the enterprise-wide appetite and managers take risks appropriately.	**First Line – Business Units** · Embedding the ICF and its supporting frameworks (e.g., Enterprise Risk Management Framework) and sound risk management practices into standard operating practices, including by creating explicit links between maintaining and delivering robust governance and risk and control processes to performance management; · Establishing appropriate governance structures to support the implementation of the ICF and achieve the Bank's strategic, business, operational, risk, and assurance objectives; · Complying in full and within the spirit and letter of relevant regulations and legal obligations applicable to business and operational activities; · Identifying, assessing, measuring, monitoring, mitigating, reporting and owning all risks associated with business and operational activities across the Bank's risk categories in a manner consistent with the Bank's Enterprise Risk Management Framework; · Cultivating a strong risk culture that encourages prompt identification and escalation of issues and fostering an environment of continuous improvement and open engagement; · Providing assurance to relevant governance bodies on the management of risk in their functions and the effective operation and reporting of relevant controls; and, · Ensuring fair customer outcomes in all aspects of the Bank's operation and decision-making.
Second Line of Defence The Group Risk Function is an independent Risk Management function, under the direction of the CRO, and is the key component of the Group's Second Line of Defence. The Group Risk Function is responsible for ensuring that all risks to which the Bank is, or may become, exposed to are identified, assessed, measured, monitored, mitigated, and reported on by the relevant units in the institution.	**Second Line – Group Risk Function** · Developing and monitoring the implementation of Enterprise Risk Management Framework, enterprise-wide Risk Appetite Statement and risk policies, systems, processes and procedures; · Assessing First Line Of Defence adherence to the enterprise risk management framework, risk appetite, and risk limits to determine whether first line of defence units meet the standards for their risk management roles and responsibilities; · Reviewing, assisting, and, as appropriate, challenging the first line of defence risk management activities, and escalating issues if risk management concerns are not adequately addressed by first line of defence; · Establishing, maintaining, and delivering a program of monitoring, testing, and selected validation; · Cultivating a strong risk culture that encourages prompt identification and escalation of issues and fostering an environment of continuous improvement and open engagement; and · Providing comprehensive and understandable information, independent of the First Line of Defence, to relevant governance bodies – through ongoing risk management committee updates – on the state of the Bank's overall risk and control environment and the effectiveness of risk management, including risk issues and risk management deficiencies, and adherence to the Bank's risk appetite, limits, and enterprise risk management framework.

Line Of Defence	High-Level Roles And Responsibilities
Third Line of Defence Group Internal Audit (GIA) comprises the Third Line of Defence. It plays a critical role by providing independent assurance to the Board over the adequacy, effectiveness and sustainability of the Group's internal control, risk management and governance systems and processes, thereby supporting both the Board and Senior Management in promoting effective and sound risk management and governance across the Group. All activities undertaken within, and on behalf of, the Group are within the scope of GIA. This includes the activities of risk and control functions established by the Group. The Head of GIA reports directly to the Chair of the Board Audit committee (BAC), thus establishing and maintaining independence of the function.	**Third Line – Group Internal Audit** · Developing a risk-based annual audit plan: developed in the final quarter of each year, this plan sets out the program of audit reviews to be undertaken in the following year, and is based upon a GIA's own risk assessment. This plan is cognisant of the bank's strategy and the risks both to this, and within this, strategy, and aims to provide meaningful input to assist in its controlled and well-governed execution. Accordingly, risk- based evaluation of the bank's risk identification, assessment and evaluation and risk management and mitigation approaches fall within this remit, as do assessments of adherence to policies and procedures (including methodologies and standards), along with the controls in place to ensure regulatory compliance; · Reporting on identified risk management, governance and control weaknesses: GIA reports on all identified issues to both business owners and Senior Management, and to the Board of Directors (via the Board Audit Committee); · Monitoring and reporting on the disposition of agreed remediating actions: As required under professional standards, GIA also monitors the status of all issues and actions previously raised, and reports on the progress being made by business units in implementing agreed action plans; and, · Providing insight into risk, governance and control measures which may strengthen the bank's system of internal control in a carefully structured manner such that GIAs independence is preserved.

2. Principal Risks and Uncertainties

Risk registers, containing details of current and emerging risks, from each of the Group Risk functions utilise the "top down" and "bottom up" Risk Identification / RCSA processes and form the basis of the Group's 'Top and Emerging Risks' report. The 'Top and Emerging Risks' report is presented to Board, BRCC and GRC and is used to ensure identification, measurement, management and monitoring of all material risks.

In addition to the Top & Emerging Risks update, the Risk function has also focused on reporting on 'Horizon' risks. The Horizon Risk report looks out to 25 years to try and identify long range risks e.g. Climate Risk. This report is included in the CRO report which is presented to the GRC, BRCC and Board.

The management of the risks associated with the Ulster Bank transaction is embedded and monitored across the suite of existing key risk categories.

The following describes the risk factors that could have a material adverse effect on the Group's business, financial condition, results of operations and prospects for the next 12 months and 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. There may be risks and uncertainties of which the Group is not aware or which the Group does not consider significant, but which may become significant.

The challenging conditions in global markets arise due to factors including the Ukraine-Russian war, high interest rate environment, inflationary pressures, COVID-19, the growing threat from cyber-attacks and other unknown risks. As a result the precise nature of all risks and uncertainties that the Group faces cannot be predicted as many of these are outside of the Group's control.

The Bank considers there are three emerging risks. The emerging risks are:

- **Global Crisis** – The one year anniversary of the Russian invasion of Ukraine was marked in February. The conflict continues as a war of attrition and tensions between hegemonic powers and between NATO and non-NATO states are raised. Finland has since joined NATO, with Sweden's membership currently under consideration. The expansion of the security alliance elevates the risk of war in the EU/EEA. Global conflict is not isolated to Russia-Ukraine with tensions between China and Taiwan, along the Korean Peninsula and in the Middle East also heightened. A conflict within the EU/EEA or between global powers would have severe negative consequences for the economy and the Bank.
- **Macro-Economic** – As more and more EU countries and other key economic face into slow or reduced growth, Ireland may also be faced with a possible lengthy recession. It will not be a question of 'if' Ireland's growth slows but rather whether the magnitude of the reduction would be such to induce a recessionary impact and/or of a longer duration. A recession can have severely negative impacts on the Bank as it can lead to drastically reduced growth, higher delinquency rates and higher loss rates.
- **Adverse Technological Advances** – Emerging technologies, such as industrial robots, artificial intelligence, and machine learning, are advancing at a rapid pace. These developments improve the speed and quality of services and the last two years has shown how businesses can mobilise and innovate quicker than one could have ever thought before. Lessons learned will play an important role when competing against competitors with greater technological advances. Emerging technologies including artificial intelligence, machine learning and deep fake systems will also create an even more volatile cyber environment. The growth and wide availability of these technologies will be followed by an increased knowledge of the technology and it's applications from consumers and hackers. Information asymmetries in this area will intensify the risk of cyber fraud for the Bank.

Business Risk

Business Risk is defined as the risk that volumes may decline, margins may shrink or management costs may increase, arising from an underperforming Business model and/or failure in the Group's strategic ambitions.

From the Group's perspective, Business Risk is further divided into two sub-risk categories, as follows:

- Business Model Risk, which is defined as the risk that the Group does not generate a short-term financial return to meet resolution tests ('viability') and/or is unable to deliver minimum acceptable returns to its shareholders ('sustainability').
- Strategic Risk, which is defined as the risk that results from a failure to prepare for, or respond to, changes in the external environment or market (usually linked to factors such as the activities of competitors, changing customer preferences, product obsolescence, technology developments and regulatory changes).

Business Model 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 a failure to develop and execute an appropriate strategy. Business Units are responsible for the delivery of their business plans and management of such factors as pricing, sales/lending volumes, operating expenses and other variables that may impact earnings volatility. Pricing decisions, and changes thereto, are reviewed and approved by the Bank's Assets and Liabilities Committee. The development of new markets, products and services and significant changes to existing ones is addressed under the Group's New Product Approval process.

Business Unit strategy is developed within the boundaries of the Group's Strategy as well as the Group's Risk Appetite. The Group reviews Business risk as part of the risk identification process.

Economic Outlook & Growth

Introduction

The first half of 2023 was characterised by continued global turbulence. The Central Bank highlights the difficult "adjustment to persistently high inflation and the necessary monetary policy response."

Inflation continues to erode real incomes, presenting cost of living challenges despite "the easing of energy price pressures and ongoing strength in the labour market." The Russian invasion of Ukraine is weighing on consumer and business confidence and rising interest rates will stretch borrowers' repayment capacity, "particularly in commercial real estate (CRE) markets" it warns.

The ESRI cautions that the "well documented undersupply of housing in Ireland, by contributing to higher housing costs, is adversely impacting competitiveness and household formation in the domestic economy."

Economic Outlook / Growth

The OECD notes that the "global economy is turning a corner but faces a long road ahead to attain strong and sustainable growth." While it sees "falling energy prices and headline inflation, easing supply bottlenecks and the reopening of China's economy, coupled with strong employment and relatively resilient household finances" all contributing to a projected recovery, it reckons that "the recovery will be weak by past standards" and projects global growth of 2.7% in 2023 and 2.9% in 2024, "both well below the average growth rate in the decade preceding the COVID-19 pandemic." The IMF expects global growth of 2.8% in 2023 and 3.0% in 2024. The ECB forecasts Euro area GDP growth of just 0.9% in 2023, down from 3.5% in 2022, following a 0.1% decline in Q1/23.

The CSO reported that Ireland entered technical recession in the first quarter of the year as a GDP decline of 0.1% in Q4/22 was followed by a 2.8% decline in Q1/23. However, modified domestic demand (MDD), which better reflects activity in the domestic economy, grew by 0.1% on the quarter. Despite the lacklustre performance in the early part of the year, Davy forecasts that GDP growth of 5.5% and MDD growth of 3.4% for 2023. The Central Bank forecasts MDD will "grow by 3.7% this year, and by 2.5% in 2024 and 2025." In contrast, the ESRI predicts that GDP will grow at a mere 0.1%, citing "economic headwinds such as rising interest rates, slower than expected global trade and persistent inflation." It cautions that "the decline in pharma-related exports" evident in Q1/23 "should be monitored closely".

Consumer confidence is returning after the severe price shock in 2022. The Credit Union Consumer Sentiment Index rose to 63.7 in June, up from 62.4 in May, to its highest level in 15 months. Likewise, the services sector continued to grow at a strong pace, with the Services PMI at 57.0 in May. The Manufacturing PMI, in contrast, fell further in May to 47.5 from 48.6 in April prompted by declines in output and new export orders.

Government Finances

Tax receipts of €41bn were up €4bn or 10.9% in H1 2023 compared to H1 2022. Corporate tax receipts increased by 20.1% to €10.5bn, income tax by 8.9% to €15.5bn and VAT by 13.5% to €10.3bn. The Government has once again highlighted its dependence "on the revenue streams of a small number of multinational firms headquartered in Ireland" and noted that "changes currently being negotiated at international level in relation to corporate tax policy have the potential to reduce this revenue stream." It notes that the projected €10bn underlying general government surplus turns into a €1bn deficit when "'excess' corporate tax receipts" are excluded.

The Central Bank comments: "The general government balance is estimated to have improved from -2.9% GNI* in 2021 to 3.0% last year (or from -€6.8bn to €8.0bn in nominal terms), the largest surplus the economy has recorded since 2006." The Government projects a cumulative surplus of €65bn over the 2023-26 period. It is planning on establishing a sovereign wealth fund to house longer-term savings and help to provide for future fiscal challenges. The Government has already invested €6bn in the National Reserve Fund to deal with the "consequences of an ageing population, the digital transition and climate change."

Because of the strong tax receipts, the NTMA will issue just €7bn in 2023 compared to over €15bn in 2019. The ECB's quantitative tightening programme, which it began in March and sees it reduce the percentage of the proceeds of maturing bonds which it reinvests, is likely to have little impact on the rate Ireland has to pay for new debt. By year-end, the NTMA will have repurchased all the bonds which were issued to refinance the IBRC promissory notes in 2013. It forecasts debt-to-GNI* of 78.8% by year-end compared to 95% in 2019 and a peak 165% in 2012. All the ratings agencies now have Ireland's debt rated in the AA category.

Employment
According to the CSO, 2.62 million people were employed in Ireland in Q1/23, up 4.1% on the figure a year earlier and 12% above pre-pandemic levels, while the number unemployed declined 12.7% from 126,700 to 110,700. This left the unemployment rate at 3.8%, the lowest on record and consistent with the economist definition of full employment. Likewise, it reported the employment rate rose to 73.6%, eclipsing the previous record of 72.5% in Q3/07. The labour force increased by 3.3% in Q1 2023, facilitated largely by high levels of net inward migration. The Central Bank commented: “Almost 80% of the 86,600 increase in the labour force was due to non-Irish workers, predominantly from countries outside the EU.”

Davy highlights the strong growth in the labour force – up 3.3% on the previous year to 2.73m – as it predicts 4.2% employment growth in 2023. This growth is predicted despite labour shortages which, the ESRI notes, were especially evident in “health and social work; public administration and defence; and the wholesale and retail trade”. According to the CSO, the vacancy rate was 1.4% in Q1/23, up from 1.3% in Q4/22 and an average of 1.0% in the 2018-2019 period. The Central Bank comments that the economy will become “increasingly reliant on net inward migration for further employment growth.”

Although there have been high-profile job cuts, employment in the ICT sector in Ireland is one-third higher than in 2019 according to the Department of Finance. Despite 3,000 layoffs, “employment in the sector continued to grow robustly, indicating that layoffs have been more than offset by demand elsewhere in the sector.” However, it cautions that “the capacity for the sector to offset any further layoffs is significantly eroded.”

Average weekly earnings were €923.48 in Q1 2023, up 4.3% on the previous year according to the CSO. The National Competitiveness & Productivity Council noted that labour costs in Ireland were “€38.8 per hour in 2022, higher than the euro area average of €34.4.”

Inflation Rates and Interest Rates
Having peaked at 9.1% in mid-2022, the annual inflation rate has fallen steadily to 6.1% in June 2023 according to the CSO. Nevertheless, it notes that June 2023 was the “twenty first straight month where the annual growth in the CPI has been at least 5.0%.” Of more concern to policymakers, core inflation increased to 7.1% in June 2023 from 6.8% the previous month.

However, much of the increase in core inflation was caused by higher mortgage rates which are linked to higher ECB rates. The ECB, like the central banks of the US, UK and elsewhere, has increased interest rates aggressively with a view to bringing inflation under control. The ECB has increased its repo rate from 0% at the start of July last year to 4.25% this July and the market expects a further increase to 4.5% in September. This has seen the euro appreciate by more than 16% from its lows against the dollar in Q3 2022.

Housing
Higher interest rates have prompted institutional investors to exit the build-to-let sector making development finance more expensive and harder to access. As previously noted by SCSI, buy-to-sell apartment development has been unviable since 2021. The Department of Finance has highlighted “the deteriorating viability of apartment construction” and noted that “there were approximately 100,000 units with planning permission which had not yet commenced construction” at the end of 2022.

The cost of building materials rose 9.1% in the year to May 2023 according to the CSO. The ESRI comments: “Apart from the materials costs, the construction sector is likely to be operating at or close to capacity at present given the extremely low unemployment rate and tight labour market. This is likely to put upward pressure on wages in the period ahead and could dampen output.” It notes: “Due to slower commencement activity in 2022, it is unlikely in 2023 that the level of completions will reach or surpass the almost 30,000 units achieved in 2022. … Given the balance of factors … we expect housing completions to number approximately 27,000 in 2023, rising to 30,000 in 2024.”

The inadequate supply of housing impacts the rental market also. As Daft notes: “For over a decade now, the rental market has been characterised by worsening availability and, as a consequence, higher and higher rents.” The increased rents reflect “an extraordinary mismatch between very strong demand, increased further by the arrival of tens of thousands of Ukrainian refugees, and weakening supply.” It also points out “that in the second half of 2022, almost 5,350 landlords gave notice of termination in order to sell the property. It is highly unlikely that these properties will stay in the rental segment, given the strong sales market and the paucity of buy-to-let mortgages.”

The RTB reports that the standardised average rent in new tenancies increased by 7.6% nationally in the year to Q4/22. However, many commentators point to the development of a two-tier rental market in which existing tenancies in rent pressure zones are subject to a 2% cap on rent increases. Daft reports that “market rents were on average 11.7% higher in the first quarter than a year previously” which it notes represented a “slight cooling … compared to the 14.1% seen in mid-2022.”

House Prices
House prices nationally have fallen by 1.5% from their December 2022 peak. However, this fall is entirely attributable to a decline in Dublin house prices which have fallen every month since their recent peak in September 2022 and are now 3.6% below that level. These movements mirror those seen internationally where falls from peak range from 5% in the UK to 12% in Finland as markets adjust to higher interest rates.

Daft highlights the reversal in house price declines in Q2/23: “Looking at the second quarter compared to the first, prices rise – and by an average of 2.4% nationally. This is not a trivial increase, almost matching the average quarterly increase in the covid surge between mid-2020 and mid- 2022. And it is the first time since mid-2022 that prices have increased quarter-on-quarter.”

Banking
The Central Bank notes: “Domestic banks currently have headroom above regulatory capital and liquidity requirements which provides capacity to absorb shocks, while profitability is expected to increase through the interest margin channel.” In Jun/24, the Central Bank will increase the countercyclical capital buffer (CCyB) from 1% to 1.5% to “contribute to the resilience of the banking system to adverse shocks.” It observes that banks have leverage ratios at “close to 7% … well above regulatory requirements.” It reports bank return on equity of 7% for 2022 and 11.4% in Q1/23 as “non-performing loans remain at decade-long lows”. It expresses concern about the risks from commercial real estate exposure though it notes the exposure is “small relative to the past”.

It comments: "A core business model of deposit-taking and lending leaves Irish domestic banks in a stronger position than many European peers to maintain high profitability levels amid rising interest rates." The risk factors which triggered the failure of US banks in March "do not appear prominently on balance sheets here. Securities holdings are modest relative to total assets and are largely hedged against interest rate risk. … Domestic banks currently have a weighted average Liquidity Coverage Ratio (LCR) of 192%. Importantly, relative to SVB where long-dated bonds formed an important share of the stock of liquid assets, domestic banks rely more on central bank reserves, the most risk-free form of liquid asset available. … Finally, 56% of deposits fall within the €100,000 limit for coverage under the Irish Deposit Guarantee scheme."

While the Central Bank reported that "the weighted average interest rate on new mortgage lending reached 3.63% in April 2023, the highest level since December 2015", it noted that mortgage rates in Ireland "remain amongst the lowest" in the euro area. It commented that Irish banks have been slow to pass on the higher rates to mortgage customers, increasing mortgage rates by less than 1% compared to the ECB rate increase of 3.5% by Apr/23. Banks' "net interest income grew by 75% in the year to March 2023", it noted.

The Central Bank assesses the impact of higher interest rates on bank customers is lessened because of the composition of Irish banks' mortgages. It comments: "As of March 2023, the banks' mortgage lending book was comprised of 24% tracker mortgage lending, 62% fixed rate lending, and 14% other floating rate lending. However, of new mortgage lending in March 2023, 94% had a fixed interest rate."

Banking and Payments Federation of Ireland (BPFI) data on drawdowns of new lending suggest a relative slowdown in the growth of mortgage lending. The Central Bank comments: "In Q1 2023, drawdowns increased 14% year-on-year in terms of the value, the lowest rate of growth since Q4 2021. Throughout 2022, new drawdowns were significantly boosted by re-mortgaging and switching activity, which has tempered somewhat in Q1 2023. Looking ahead at the pipeline of future mortgage lending, BPFI data on the number of new mortgage approvals show an annual decrease of 4.1% in the first quarter of the year."

Irish banks continue to see strong deposit growth: "Household savings continued to grow during the early months of 2023, with annual growth reaching 5.5% at end-April. While the pace of accumulation has moderated since the height of the pandemic, which saw growth rates peaking at 13.8% in February 2021, deposits are still being amassed at a rate exceeding pre-pandemic averages even as higher post-pandemic inflation reduces the real value of savings. The outstanding stock of household deposits stood at €151.7bn at the end of April 2023."

Deposit interest rates have also increased. "The average interest rate on new household term deposits rose to 1.59% in Apr/23, up from 0.11% in Jul/22. … The average outstanding interest rate on households' overnight deposits, which make up 94% of total household deposits, has risen by just 1 basis point since July 2022, up from 0.02% to 0.03%. For businesses, the overnight rate increased from -0.09% to 0.05% over the same period."

But the Central Bank doesn't see this savings pattern continuing: "Strong consumption growth will continue to bring down the savings ratio (the proportion of gross disposable income that goes unspent), which had been at historical highs since the outbreak of the Covid pandemic. The savings ratio in 2022 stood at 18%, compared with an average rate of approximately 12% from 2015 to 2020.

Conclusion

The Central Bank highlights the challenges posed by the changed interest rate environment: "After a decade of low interest rates, global financial markets remain vulnerable to the ongoing adjustment to a higher interest rate environment. … Vulnerabilities built up in segments of the global banking system over a number of years have been exposed, as evidenced by the failures of a number of regional US banks and Credit Suisse."

Nevertheless, it concludes: "Irish households and businesses have proven resilient to the inflationary shock so far. While real incomes have fallen for many, nominal income growth has been strong and will support debt service capacity of mortgage borrowers. … Households and businesses are, in aggregate, proving resilient to the inflationary shock so far, owing in part to the significant reduction in private indebtedness over the past decade. … Inflation has reduced the real incomes of households and interest rate increases have raised debt service burdens for some borrower cohorts." It opines that a number of factors will support household resilience, "including nominal income growth, substantial deleveraging and prudent mortgage lending over recent years, and strong aggregate levels of savings."

Climate-Related & Environmental Risk

PTSB is committed to the management of Climate-Related & Environmental (CR&E) Risk, aided by regulatory guidance, to play our part as corporate citizens. Understanding of how best to respond to climate change is continually evolving and with this our knowledge of associated risks continues to develop.

Managing CR&E Risk is a key area of focus under the 'Addressing Climate Change and Supporting the Transition to a Low Carbon Economy' Pillar of the Bank's Sustainability Strategy.

The management of CR&E risk is aligned to key processes and components set out in the Bank's Enterprise Risk Management Framework (ERMF), which identifies core risk management stages which collectively ensure that the Bank appropriately identifies and manages current and emerging risk the Bank is exposed to.

To support the measurement, management and monitoring of CR&E Risk in addition to ensuring adherence to Regulations, the Bank have developed a Climate-Related & Environmental (CR&E) Implementation Plan which continues to introduce more changes through the Bank as actions are delivered. Some actions that will be implemented as part of this plan include:

- The identification of climate risk factors relevant to the Bank and their high-level potential impacts
- The introduction of a suite of Climate Risk metrics
- Development of an approach to measure the impact Assessment of climate risk (including data requirements and identification of data proxies from external sources) on the business model.
- Monitoring the regulatory landscape and ensuring full alignment with it.
- Development of new products and a robust Climate-Related and Environmental risk strategy

We are conscious of the effect that climate change has on the Bank and view it as manifesting itself in two ways, firstly, through the operations of our business and secondly the financial risk it brings to the economy in the longer term. Climate Change presents both risks and opportunities for Permanent TSB and we are preparing for both.

The Bank sees a significant opportunity to meet new customer needs and drive the commercial agenda. In 2022 the Bank was proud to introduce their first Green Mortgage to the market which is envisaged to be the first in a suite of Sustainable Finance Product offerings, with proposition development continuing on future products for both the Retail and SME sectors.

CR&E Risk is defined as the risk of financial loss or an adverse outcome arising from the consequences, likelihoods and a lack of or inadequate responses to the impacts of climate change.

There are two CR&E risks, these are physical risk and transition risk. Both risk types may impact the financial services sector to varying degrees over the short, medium and long term. The extent to which the impact of physical and transition risk might impact a financial services firm will vary depending on the firm's business model, customer base, location as well as the transition process to a low-carbon economy.

Physical risk is the risk of economic costs and financial losses resulting from more extreme weather events brought about by climate change. For a financial institution, property values might be impacted depending on property location, for example, located in a low-lying coastal areas.

Transition risk is the risk of economic or policy changes resulting from the transition to a low-carbon economy. For example, certain sectors might be more vulnerable to transition risk as the economy and customer demand alters during the transition.

As CR&E risk continues to evolve the effect of Physical and Transition risk on the Bank will be considered across all other Risk Categories along with our business model as part of the continuous work being completed.

Credit Risk

Credit Risk is defined as the risk of financial loss due to the failure of a customer, guarantor or counterparty, to meet their financial obligations to the Bank as they fall due.

The Group's customer exposures are originated and managed in Ireland. The Group's principal exposure is to residential mortgages secured firstly by a first legal charge on the property. Economic uncertainty, as well as the socio-political environment and inflation 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. As losses from customer credit risk are the principal financial risk to which the Group is exposed more detailed analysis of the risks, risk management policies and current portfolio segmentation is provided in section 3.1 of the Risk Management Report.

Capital Adequacy Risk

Capital Adequacy Risk is the risk that the Group does not have sufficient capital to cover the risks of its business, support its strategy, and comply with regulatory capital requirements at all times.

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

- Materially worse than expected financial performance;
- Increases in Risk Weighted Assets;
- Excessive growth in asset volumes;
- Changes in the prescribed regulatory framework; or
- Sales of assets.

The core objective of the Group's capital management framework is to ensure it complies with regulatory capital requirements (Capital Requirements Regulation (CRR and CRR2), Capital Requirements Directive IV (CRD IV) and the Banking Recovery and Resolution Directive (BRRD)) and that it maintains sufficient capital to cover its business risks and strategy.

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

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

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

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 completion of the first phase of the Ulster Bank transaction, combined with the recent disposal of an additional 5% tranche, has further reduced the Minister for Finance's stake to c.57%.

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

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

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

Liquidity and Funding Risks

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

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

These risks are inherent in banking operations and can be heightened by other factors including changes in credit ratings or market dislocation. The level of Liquidity Risk further depends on the size and quality of the Bank's liquidity buffer, the maturity profile of funding, as well as broader market factors such as depositor and investor sentiment/behaviour.

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

Market Risk

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

From the Group's perspective, Market Risk consists of three components being Interest Rate Risk, Credit Spread Risk and FX Risk.

The Group's RAS and the associated Market Risk Framework set out the Group's approach to the management of market risk, including the Group's approach to market risk identification, assessment, measurement, monitoring, mitigation and reporting. The Market Risk Framework is approved by the BRCC on the recommendation of the ALCO.

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

Model Risk

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

In terms of risk appetite, the Group expects that all material models function as intended. The key factors which influence model risk within PTSB include:

- Macroeconomic risk – the Group's suite of models is built on data that spans the period immediately prior to the Global Financial crisis through the recent recovery. The degree to which the impacts of a new economic downturn will mirror the last is uncertain. The degree of risk increases with the speed and volatility of economic change;
- Regulatory change – the pace of evolution of regulation and guidance increases the burden of maintaining the Group's regulatory models;
- Competition for skills – significant competition exists within the Irish market for those with the experience and expertise to build, implement and interpret models; and
- Data – encouraging customers to share their data, particularly in the area of environment and sustainability is a strategic area of focus for the Group in enhancing model risk management.

Model risk is managed in accordance with the Group's Model Risk Framework. This framework provides the foundation for managing and mitigating model risk within the Group. Accountability is cascaded from the Board and senior management via the Group RMF. This provides the basis for the Group Model Risk Policy, which defines the mandatory requirements for models across the Group, including:

- the scope of models covered by the policy, including model materiality;
- roles and responsibilities, including ownership, independent oversight and approval;
- key principles and controls regarding data integrity, development, validation, implementation, ongoing maintenance and revalidation, monitoring, and the process for non-compliance; and
- The model owner taking responsibility for ensuring the fitness for purpose of the models and rating systems, supported and challenged by an independent specialist function within Risk that reports directly to the CRO.

The above ensures all models in scope of policy, including those involved in IFRS 9 and regulatory capital calculation, are developed consistently and are of sufficient quality to support business decisions and meet regulatory requirements.

The Group Model Governance Committee (MGC), a sub-committee of the GRC is the primary body for overseeing model risk. The Group RAS requires that key performance indicators are monitored for every model to ensure they remain fit for purpose or appropriate mitigation is in place. Material model issues are reported to Group and Board Risk Committees monthly with more detailed papers as necessary to focus on key issues.

Operational Risk and IT Risk

Operational Risk is defined as the risk of loss or unplanned gains resulting from inadequate or failed processes, people, and systems or from external events. This includes business continuity; outsourcing and third party; business process; fraud; legal; people; property; change and data management risk.

IT Risk is defined as the risk of loss due to a breach of confidentiality, failure of integrity of systems and data, inappropriateness or unavailability of systems and data or inability to change information technology (IT) within a reasonable time and with reasonable costs when the environment or business requirements change (i.e. agility). IT Risk includes risks associated with poor IT governance, oversight and risk management as well as security risks resulting from inadequate or failed internal processes or external events including cyber-attacks or inadequate physical security.

Risks from both these risk categories are inherently present in the Group's business. 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.

The Group has a low appetite for Operational Risk and IT Risk and aims to minimise the level of serious disruption or loss caused by Operational or IT issues to its customers, employees, brand and reputation.

Operational and IT risks are expected to remain elevated in the short to medium term due to both external and internal factors, most notably from the significant volume of change programmes in progress / planned across the Bank and the resourcing challenges (both staff retention and recruitment). In particular, the preparations and execution of the Ulster Bank transaction has added significantly to existing capacity and resource pressures on the Bank and its BAU activities

The ORMC monitors the Operational and IT Risks to which the Group is exposed to and oversees risk mitigation including performance and prioritisation related to the management and control of these risks. In fulfilling this role, The ORMC reviews and discusses the outputs and results of the Risk and Control Self-Assessment (RCSA) Process, control testing and Operational Risk Event Reporting and various other assessment, monitoring and testing activities to create awareness of commonly experienced Operational and IT risk matters, to share learnings and to enhance the control environment across the Group. Furthermore, the ORMC reviews and monitors Operational and IT risk RAS, the Operational and IT KRIs, emerging risks and other relevant Operational and IT risk metrics on an ongoing basis.

ORMC also monitors the oversight of new or amended Third Party/Outsourcing relationships, new products, and/or significant changes to existing products and Strategic Change that is implemented across the bank and highlight any risks where required.

Operational & IT Risk oversee change activity as part of formal engagement on key change initiatives to ensure that sound risk management practices are in place and followed to identify and manage risks and issues throughout the Programme/Project lifecycle and any residual Programme/Project risk is transitioned to the relevant Business Units RCSA as appropriate. Oversight consists of attendance at Project Direction Group (PDG) and Programme Steering as defined in the Bank's Strategic Change Framework. Operational & IT Risk roles are documented in Programme/Project Terms of Reference.

External Fraud is elevated with customers of Financial Institutions being targeted through fraudulent SMS messages, phone calls and accessing fake websites. Since 2020, there has been significant increase in fake Permanent TSB websites shut down. Also, PTSB along with other Irish Issuers and as part of a BPFI initiative continue to contribute to the Mobile Ecosystem Forum designed to reduce the impact of Smishing on customers. PTSB along with other Irish Issuers, and as part of a Banking & Payments Federation Ireland (BPFI) initiative, continue to contribute to the Mobile Ecosystem Forum (extended pilot) designed to reduce the impact of Smishing on customers by working with the Telecommunications providers.

While the PTSB cyber defences have proven robust to-date, the external threat environment is challenging and for this reason cyber risk is considered to be 'guarded'. Continuous improvement in our cyber defences is a strategic priority with investment accordingly to enhance the control environment.

In response to external events we are focussed on;

- Enhancements to Vulnerability Management and Penetration Testing;
- Information Security Awareness communications, including increased Board and ExCo-level communications and awareness;
- Enhanced monitoring for threats; and
- Increased Information Security Governance and associated reporting.

A new 2022-2024 Information and Cyber Security Strategy was approved at Board Risk and Compliance Committee in February 2022. This is to drive further improvements in the Bank's cyber defence and preparedness, along with associated governance.

Operational & IT Risk continuously review Group Technology IT incidents, including cyber, and there were no breaches of data security or cyber security that could significantly harm the Group's reputation and adversely affect the Group's operations or financial condition materially.

Scenario testing is performed on an annual basis, as outlined in the ERMF, for critical processes including but not limited to: Payments Systems Failure, Information Security, Cyber Security, Internal Fraud, Business Disruption and IT Resilience to ensure existing processes support timely recovery. Monitoring and incident management processes are in place to detect and recover from both cyber-attacks and IT issues which may affect the availability of critical IT systems. Regular disaster recovery testing of critical systems is conducted in order to test IT resilience. Any changes made to the Group's IT systems or applications are governed by a change management process.

From a people perspective, Enterprise Level programmes such as Individual Accountability Framework (IAF), Payment Centralisation, Branch Technology Refresh, Microsoft 365, Service a Need (SAN), Sun etc. are designed to ensure People Risk is an integral consideration. The development and embedding of the Change Risk Second Line Oversight continues with the creation of the new Material Change Risk Assessment (MCRA), enhanced Initial Impact Assessment (IIA) and the SLOD quarterly review of the Change Monthly ExCo Update, this is in line with the Strategic Portfolio project "Enterprise Change Enhancements" (ECE) which has been established following a Change Maturity Assessment undertaken in 2021.

This project focuses on change governance enhancements and to increase the Bank's change maturity. The project continues to progress and has delivered a number of items, including but not limited to;

- Project Stage Gates with required change artefacts
- Enhanced visibility and reporting of material Local Change deliverables
- Business & IT Change Readiness Forum (BCRF)
  - Prioritisation & Intervention (P&I) Forum,
  - Management Deign Authority, (MDA meeting)

An RCSA methodology is used to:

- Identify, measure and control Operational Risk, Information Technology (IT) Risk, Compliance Risk, Conduct and Reputational Risks across the Group which aids the consistent approach to risk management and aids the business in their decision making process.
- Support the ability to track any control design or operational effectiveness deficiencies that are identified through the process. This ensures that comprehensive remediation plans are created, monitored and tracked through to closure

We have enhanced our processes in this area as we progress plans and have embedded a new GRC system for the management of Operational and IT risk. The RCSA methodology outlines the actions, procedures, roles and responsibilities relating to the Group's RCSA process. The RCSA should cover all risks that could materialise/exist in the respective business unit in relation to their products, activities, people, processes, systems, suppliers and business objectives, including those detailed within relevant Bank wide policies.

The Group acts to mitigate potential risks found in existing procedures through the use of controls. A control is any process, policy, device, practice or other action that mitigate potential risks found in existing procedures.

Internal controls are tested on a continual basis to provide assurance on the design effectiveness and operating effectiveness of controls captured in the RCSA process. This system of internal control is designed to provide reasonable, but not absolute, assurance against the risk of material errors, fraud or losses occurring. Effective controls will work to reduce the likelihood of a risk occurring and/or the impact should the risk materialise.

Independent risk based control assurance reviews are also undertaken mainly in relation to key processes to provide an assessment of how effective associated risks are controlled and managed.

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.

Risk culture is a component of the Bank's culture. A sound risk culture drives and supports risk awareness, desired behaviours and judgements about risk-taking. It bolsters effective risk management, promotes prudent risk-taking, and ensures that any emerging risks or risk-taking activities beyond the Bank's risk appetite are identified, assessed, escalated and managed in a timely manner. A key objective of the Group's Risk Management approach is to create a culture of risk awareness where all staff have an understanding of Operational and IT risk and the role they each play in ensuring that any impacts/losses are minimised.

Third Party Service Providers

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 is defined as the risk of loss or reputational damage connected with the engagement and management of Third Parties contracted internally or externally (for example, for the purposes of customer engagement, data processing, systems development, Cloud services or ICT systems), including lack of third party diversification, inadequate third party business continuity plans or insufficient monitoring and oversight of the engagement.

The Group's Third Party Risk Management Policy sets out the minimum requirements and roles and responsibilities necessary to ensure consistent and continuous management of Third Party and Outsourcing risks across the Group, as defined in the Group's ERMF, and Operational and IT Risk Management Framework. The policy outlines the processes and controls required for identifying, assessing, mitigating and managing third party risks.

Conduct and Reputational Risk

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

- Conduct Risk can occur in every aspect of the Group's activities, including through:
- The strategy of the Group and how it is executed;
- The way the Group is run and managed;
- The existence of group think or localised cultures;
- The lack of psychological safety for staff in facilitating a robust speak freely process;
- The design type and pricing of products/services offered, the customers to whom they are offered and the distribution channels used;
- The way sales are made or transactions are executed;
- The post-sales fulfilment process throughout the life of the product;
- The impact of shifting business models, with wider developments in the economy and financial services, and ensuring products remain suitable in the current economic context;
- The way communication to customers is clear and easily understood so that it supports customers in making well-informed decisions;
- The management of different customer cohorts recognising that some customers may require additional assistance at a point in time or on a permanent basis; and
- Interactions with customers throughout the lifetime of the relationship, including when customers make complaints either directly or through the Financial Services and Pensions Ombudsman or where customer-impacting errors occur. See note 25 and note 31 to the financial statements for further information on legacy legal cases.

The Group recognises that the management and mitigation of Conduct Risk is fundamental and intrinsically linked to the achievement of our purpose 'To work hard every day to build trust with our customers - we are a community serving the community'. 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's Senior Management are responsible for the identification and management of Conduct Risk in their business areas and for ensuring fair customer outcomes, and the Regulatory Compliance and Conduct Risk function is responsible for second line Conduct Risk oversight. The Group is guided by a Conduct Risk Management Framework, including a Board-approved Risk Appetite and Conduct Risk Principles. Its purpose is to help ensure that the Group achieves its strategic objectives by acting honestly, fairly and professionally in the best interests of its customers and the integrity of the market, and acts with due skill, care and diligence. In doing so, the Group is placing the achievement of fair outcomes for its customers at the heart of its strategy, governance and operations.

Board and Senior Management have ensured that there is regular reporting of metrics and Key Risk Indicators against the Conduct Risk Appetite as well as events that could affect or have already impacted on customers. The primary governance body responsible for Conduct issues is the Customer Committee (a sub-committee of ExCo).

Reputational Risk is the risk of brand damage and/or financial loss arising from a failure to meet stakeholders' expectations of the Group or the failure of organisational structure and governance arrangements within the Group to embed desired behaviours and culture.

Reputational Risk can occur in many ways including the following:

- Directly, as the result of the actions of the Group itself;
- Indirectly, due to the actions of an employee or employees;
- Through other third parties, such as joint venture partners or suppliers; and
- External events which can impact on the reputation of the sector (financial) the Group operates in.

The reputation of PTSB is founded on trust from its employees, customers, shareholders, regulators and from the public in general. Isolated events can undermine that trust and negatively impact the Group's reputation. Negative public opinion can result from the actual or perceived manner in which the Group conducts its business activities, from the Group's financial performance, the level of direct and indirect Government support or actual or perceived practices in the banking and financial industry. It is often observed that reputational risk is in fact a consequence of other risks. Negative public opinion may adversely affect the Group's ability to keep and attract customers which in turn may adversely affect the Group's financial condition and operations. The Group cannot be sure that it will be successful in avoiding damage to its business from reputational risk.

Compliance Risk

Compliance risk is the risk of material financial loss or liability, legal or regulatory sanctions, or brand damage arising from the failure to comply with, or adequately plan for, changes to official sector policy, laws, regulations, major industry standards, compliance policies and procedures, or expectations of customers and other stakeholders.

As a financial services firm, the Group is subject to extensive and comprehensive legislation and regulation by a number of regulatory authorities. The Group is classed as a Less Significant Institution (LSI) and is directly supervised by the Central Bank of Ireland, as the National Competent Authority.

The Board is responsible for overseeing the management of compliance risk, with senior management having a primary responsibility to effectively manage compliance with applicable laws and regulations and for ensuring that the Group has and effectively employs the resources, procedures, systems and controls, including monitoring, necessary to ensure compliance with all existing and forthcoming legislation.

The Regulatory Compliance and Conduct Risk function is responsible for second line oversight, including the updating of the Regulatory Compliance Framework. This Framework supports the Group to achieve its strategic priorities while managing regulatory compliance risks within the Board-approved Regulatory Compliance risk appetite. In addition, it sets out how the Group manages current and emerging regulatory compliance risk, details the key principles, objectives, and primary components of the Group's approach to regulatory compliance risk management, and sets out regulatory compliance risk management responsibilities across the three lines of defence model.

- 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, distribution channels or markets;
- The risk that the Group is unable to respond to the scale of regulatory change and implement all required changes in full or on time, or the challenge of meeting regulatory changes will impact the Group's abilities to undertake other strategic initiatives;
- The level of costs associated with the regulatory overhead including, but not limited to, the industry funding levy, funding the resolution fund established under the Single Resolution Mechanism or levies in respect of applicable compensation schemes (including the Investor Compensation Scheme and the Deposit Guarantee Scheme (DGS));
- Non-compliance with organisational requirements, such as the requirement to have robust governance arrangements, effective processes to identify, manage, monitor and report the risks the Group is or might be exposed to, and internal control mechanisms, including sound administrative and accounting procedures and effective control and safeguard arrangements for information processing systems;
- The possibility of mis-selling financial products or the mishandling of complaints related to the sale of such products by or attributed to an employee of the Group, including as a result of having sales practices, complaints procedures and/or reward structures in place that are determined to have been inappropriate or the risk that previous practices are deemed inappropriate when assessed against current standards;

- Breaching laws and requirements relating to data protection, the detection and prevention of money laundering, terrorist financing, sanctions, bribery, corruption and other financial crime; and
- Non-compliance with legislation relating to unfair or required contractual terms or disclosures.

Regulatory Developments

The level of regulatory change remains high and continues to be an area of focus.

Sustainable Finance continues to be a key priority for Governments and regulators. The Corporate Sustainability Reporting Directive (CSRD) which introduces more detailed reporting requirements on companies in respect of the impact of their activities on the environment has been finalised, and European Sustainability Reporting Standards (ESRS) which are linked to the Directive are being developed. The Corporate Sustainability Due Diligence Directive is also progressing through the EU legislative process and will introduce requirements for companies to identify and prevent the potential impacts of their activities on the environment and on human rights abuses.

Legislative progress continues on the finalisation of the Basel III reforms, which are aimed at enhancing prudential regulatory standards, supervision and risk management of banks. In line with the objectives of the EU Digital Finance Strategy, the European Commission (EC) has finalised the Digital Operational Resilience Act (DORA) which will apply from January 2025. Also as part of this strategy the EC a regulation on Instant Payments is making its way through the EU legislative process and aims at increasing the availability and use of Instant Payments in Euro. A directive which amends the Consumer Credit Directive will be finalised by the EC in 2023.

The EC's package of legislative proposals designed to strengthen the EU's anti-money laundering and countering the financing of terrorism (AML/CFT) rules continue to be progressed. With the continued conflict in Ukraine and other geo-political developments, it is anticipated that the EU sanctions regime will continue to evolve in 2023 with further restrictive measures likely to be implemented including additional financial sanctions against individuals/ entities along with further restrictive measures on trade and certain financial transactions being introduced.

The Central Bank (Individual Accountability Framework) Act which introduces an Individual Accountability Regime for Banks and other regulated entities, via a Senior Executive Regime (SEAR) was passed earlier this year. The SEAR will also include Conduct Standards for Staff and enhancements to both the Fitness and Probity and the Administrative Sanctions Regimes. The Central Bank has launched a three month consultation on key aspects of the implementation of the Individual Accountability Framework (IAF), including the publication of draft Regulations and guidance. The Conduct Standards and enhancements to the F&P Regime will apply from December 2023. Regulations prescribing responsibilities of different roles within firms will apply from 1 July 2024.

In light of the significant changes in the retail banking landscape in Ireland the Irish Government undertook a Retail Banking Review. This Review issued 34 recommendations impacting the Department of Finance, the Central Bank and the sector itself.

The Central Bank has commenced a review of the Consumer Protection Code (CPC). A Discussion Paper was issued and responded to in March 2023. It is expected to be followed by a feedback statement and Consultation Paper containing draft requirements in late 2023.

Regulators continue to emphasise the importance of culture, conduct risk, diversity practices, financial literacy, operational and IT resilience, cyber security, financial crime, digitalisation, climate risk and artificial intelligence

Group Risks

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

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

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

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

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

3.1 Customer Credit Risk

Definition of Customer Credit Risk

Customer credit risk is defined as the risk of financial loss due to the failure of a customer, guarantor or counterparty, to meet their financial obligations to the Bank as they fall due. This risk includes but is not limited to default risk, concentration risk, migration risk, collateral risk and climate risk.

Default Risk

Credit Default Risk is the risk that a customer will not be able to meet the required payments on their debt obligation to the Bank when they become due. An increase in the risk of default may be as a result of one or a number of factors including, but not limited to:

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

Concentration Risk
Concentration Risk is the risk of excessive credit concentration to an individual, counterparty, group of connected counterparties, industry sector, geographic area, type of collateral or product type leading to above normal losses.

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

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

Climate Risk
Climate Risk is the risk of declines in the value of the Bank's collateral on customer loans due to the impacts from climate change, and the imposition of increased capital requirements if the Bank's borrowers do not comply with the Stakeholder, Regulatory and Legislative expectations to contribute to the transition to a low carbon economy.

Climate related risk modelling capabilities are still evolving and in it's infancy. However, the Bank currently has low exposure to SME lending when considering high risk sector exposure to Climate Risk, with the majority of the Bank's portfolio comprising Residential mortgages.

Lending officers do consider Climate and Sustainability Risks on each SME lending application, and assessment criteria for new Residential property lending incorporate an evaluation of potential physical risks including flood, subsidence, coastal and environmental risks as part of the valuation process. Lending should not proceed where the Valuer identifies risks at individual property level which might potentially restrict the customer's ability to obtain home insurance.

Governance
Credit Risk Appetite defines the Group's tolerance for risk and its willingness to grant credit based on product type, customer type, collateral concerns and various other risk factors. The Board is ultimately responsible for the governance of credit risk across the Group, setting the Risk Appetite and ensuring that there are appropriate processes, systems and reporting lines in place to monitor and manage risks against the appetite.

The BRCC, a sub-committee of the Board provides oversight to the Board on the setting and monitoring of the Risk Appetite and risk governance. The Group Credit Risk Management Framework specifies those Credit policies that require approval by the BRCC. Under the Group Credit Risk Management Framework the BRCC may also delegate to the GRC, who in turn delegates to the GCC, the authority to approve certain Credit policies, subject to these policies remaining within specified policy boundaries. Any amendment to policy which results in a policy breaching these boundaries requires the BRCC's approval.

The GCC is responsible for the execution and delivery of the Group's system of Portfolio Credit Risk Management. The Board has granted authority to the BRCC to approve a delegated framework of lending authority within which the GCC and Customer Credit function operate.

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

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

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

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

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

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

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

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

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

Residential property valuations are based on the CSO Residential Property Price Index (RPPI) or on a recent valuation from a professional valuer. In respect of residential property securing performing loan exposures of greater than €0.5m, the Group policy is to ensure an independent valuation is updated within the last 3 years. For residential property securing NPL exposures of greater than €0.3m, the Group policy is to ensure an independent valuation is updated within the last year.

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

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

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

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

Residential Mortgage Exposures by Indexed LTV
30 June 2023

	Home loans €m	Buy-to-let €m	Total €m
Less than 70%	**15,835**	**413**	**16,248**
71% to 90%	**3,288**	**172**	**3,460**
91% to 100%	**239**	**72**	**311**
Subtotal	**19,362**	**657**	**20,019**
Greater than 100%	**126**	**149**	**275**
Subtotal	**126**	**149**	**275**
Total Residential Mortgages	**19,488**	**806**	**20,294**
Commercial			**376**
Consumer Finance			**449**
Total loans and advances to customers			**21,119**
Deferred fees, discount fees and fair value adjustments			**307**
Gross loans and advances to customers			**21,426**

31 December 2022

	Home loans €m	Buy-to-let €m	Total €m
Less than 70%	15,602	414	16,016
71% to 90%	2,499	197	2,696
91% to 100%	103	61	164
Subtotal	18,204	672	18,876
Greater than 100%	136	152	288
Subtotal	136	152	288
Total Residential Mortgages	18,340	824	19,164
Commercial			239
Consumer Finance			401
Total loans and advances to customers			19,804
Deferred fees, discount fees and fair value adjustments			310
Gross loans and advances to customers			20,114

Credit Risk Monitoring

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

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

Arrears Management and Forbearance

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

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

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

Types of forbearance treatment currently offered by the Group include short term temporary arrangements (such as a payment moratorium) and term appropriate treatments (such as reduced payment, arrears capitalisation and term extension). Requests for concessions in recent years are arising as a result of temporary cash flow problems and an inability to repay at contractual maturity, whereas during the 2008 financial crisis such requests reflected more in-depth long-term affordability issues. This is further reflected in the change in the volume and nature of forbearance measures availed.

A request for forbearance is a trigger event for the Group to undertake an assessment of the customer's financial circumstances prior to any decision to grant a forbearance treatment. Where a borrower has been granted a forbearance treatment, the loan is considered to have experienced a significant increase in credit risk (SICR) and is classified as Stage 2 for Expected Credit Loss (ECL) assessment purposes under IFRS 9. The customer assessment may also result in the customer being classified as Stage 3, credit impaired as a result of the requirement for a specific impairment provision.

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

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

Credit Risk Measurement

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

Credit scoring plays a central role in the ratings process. Credit scoring combined with appropriate portfolio risk segmentation is the method used to assign grades, and in turn the PDs to individual exposures under each framework.
The Group, as approved by the Central Bank of Ireland, has adopted the standardised approach for calculation of Risk Weighted exposure amounts for the Buy-to-let non-standard mortgage, the Commercial, Corporate and SME portfolios.

Internal Ratings Based Models

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

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

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

Credit grading and scoring systems are used by the Group to assist in the identification of vulnerabilities in loan quality in advance of arrears. Changes in scoring information are reflected in the credit grade of the borrower and where there is a significant deterioration may result in a reclassification of the exposure into Stage 2 for ECL assessment purposes.
The Group's material scorecards and models used for risk origination and ongoing measurement purposes are subject to annual review by an independent model valuation team (MVT) to ensure that they remain fit for purpose.

Satisfactory and above can primarily be expected to be classified as IFRS 9 Stage 1

- Investment grade (IRB ratings 1 to 7) – includes very high quality exposures.
- Excellent risk profile (IRB ratings 8 to 16) – includes exposures whose general profiles are considered to be of a very low risk nature.
- Satisfactory risk profile (IRB ratings 17 to 21) – includes exposures whose general profiles are considered to be of a low to moderate risk nature. Accounts are considered satisfactory or above if they have no current or recent credit distress, are not more than 30 days in arrears and there are no indications they are unlikely to pay.

Fair can primarily be expected to be classified as Stage 2

- Fair risk profile (IRB ratings 22 to 24) – Accounts of lower quality and considered as less than satisfactory are categorised as fair and include the following;
- Emerging: Accounts exhibiting weakness and are deteriorating in terms of credit quality and may need additional management attention e.g. missed payments, deteriorating savings performance;
- Recovery: Includes accounts with recent default experience, accounts which are performing as a result of forbearance measures and need to complete a probationary period and accounts with significant terminal payments; and
- Latent: Accounts that are performing but exhibit underlying credit characteristics which could threaten recoverability should they become non-performing e.g. interest only accounts which are projected to be in negative equity at maturity

Non-performing will align to Stage 3

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

Credit Exposure

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

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

	Notes	30 June 2023	31 December 2022
		€m	€m
Cash at bank	10	**61**	58
Items in course of collection	10	**29**	40
Loans and advances to banks (including balances held with central banks)	11	**3,338**	2,123
Derivative financial instruments	12	**2**	-
Debt securities	15	**3,274**	3,177
Loans and advances to customers	17,18	**20,868**	19,593
		27,572	24,991
Commitments and contingencies	31	**1,378**	1,342
		28,950	26,333

Further detail on loans and advances to customers is provided in note 30, Financial Risk Management.

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

Debt securities

The Group is exposed to the credit risk on third parties where the Group holds debt securities (primarily sovereign debt). These exposures are subject to the limitations contained within the 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 the ratings prescribed by Moody's Investor Services Limited and Standard and Poor's for the EU. There are no impaired debt securities as at 30 June 2023 or at 31 December 2022, with the exception of the corporate bond.

Debt securities credit ratings

	30 June 2023 €m	31 December 2022 €m
Rating		
Aaa	**282**	49
Aa1	**-**	110
Aa2	**353**	250
Aa3	**1,551**	-
A1	**-**	1,734
Baa1	**550**	497
Baa2	**457**	456
Baa3	**81**	81
Total	**3,274**	3,177

All debt securities at 30 June 2023 are stage 1 apart from the corporate bond which is Purchased or Originated Credit Impaired (POCI).

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

	30 June 2023 €m	31 December 2022 €m
Country		
Ireland	**1,566**	1,783
Portugal	**457**	456
Spain	**550**	497
France	**353**	250
Italy	**81**	81
EU	**267**	110
Total	**3,274**	3,177

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 and Standard & Poors for the CBI.

	30 June 2023 €m	31 December 2022 €m
Rating		
Aaa	**2,842**	1,620
AA	**34**	-
Aa2	**150**	199
Aa3	**291**	286
A1	**7**	10
Ba1	**-**	8
Baa3	**14**	-
Total	**3,338**	2,123

Loan Impairment

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

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

Stage 1
Financial assets that have not had a SICR since initial recognition are classified as Stage 1. For these assets, 12-month ECL is recognised. 12-month ECL is the expected credit losses that result from default events that are possible within 12 months of the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months. Therefore all financial assets in scope will have an impairment provision equal to at least 12-month ECL.

Stage 2
Financial assets that have had a SICR since initial recognition but that do not have objective evidence of impairment are classified as Stage 2. For these assets, lifetime ECL is recognised, being the expected credit losses that result from all possible default events over the expected life of the financial instrument.

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

- **Delinquency** – greater than 30 days past due;
- **Forbearance** – reported as currently forborne in accordance with European Banking Authority (EBA) NPL guidelines;
- **Risk Grade** – accounts that migrate to a risk grade which the bank has specified as being outside its Risk Appetite for origination;
- **Change in remaining lifetime PD** – accounts that have a remaining lifetime PD that is in excess of the risk at which the bank seeks to originate risk. For the purposes of this assessment, credit risk is based on an instrument's lifetime PD, not the losses expected to be incurred; and
- **PD at maturity** - For interest only exposures, all home-loan and commercial exposures together with those buy-to-let exposures in excess of 70% LTV have been assessed as presenting an increased risk of default at maturity and are consequently classified as Stage 2.

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

Transition from Stage 3 to Stage 2
Movements between Stage 2 and Stage 3 are based on whether financial assets meet the definition of default as at the reporting date.

Certain long-term forbearance treatments may transition from Stage 3 to Stage 2 in line with the definition of default but would not be expected to transition from Stage 2 to Stage 1 without an unwind of the forbearance treatment e.g. part capital and interest treatments.

Transition from Stage 2 to Stage 1
No longer 30 days past due – transition automatically (i.e. without probation), where other criteria are met.

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

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

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

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

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

Key indicators of unlikely to pay include:

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

Exception to the general three stage impairment model
Purchased or Originated Credit Impaired (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 effective interest rate (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 2013, the NCU portfolio is accounted for on a POCI basis under IFRS 9.

Low credit risk exemption
A low risk exemption can be availed for financial instruments under IFRS 9 for which the Group can demonstrate objective evidence that these financial instruments are not subject to a SICR. The Group considers credit risk on a financial instrument low if it meets the following conditions:

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

Modified financial assets
Where a financial asset is modified or an existing financial asset is replaced with a new one, an assessment is made to determine if the financial asset should be derecognised. If the terms are substantially different, the Group derecognises the original financial asset and recognises a new asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a SICR has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition. If the terms are not substantially different, the modification does not result in derecognition and the date of origination continues to be used to determine SICR.

ECL Framework
The Group's IFRS 9 models leverage the systems and data used to calculate expected credit losses for regulatory purposes. In particular, key concepts such as the definition of default and measurement of credit risk (i.e. ranking of exposures for risk) have been aligned across the impairment (accounting) and regulatory frameworks. IFRS 9 models, however, differ from regulatory models in a number of conceptual ways (e.g. the use of 'through the cycle' (TTC) (regulatory) versus 'point in time' (IFRS 9) inputs, 12 month ECL (regulatory) versus lifetime ECL (IFRS 9)) and as a result the Group did not leverage the outputs of its regulatory models, but instead developed statistical models tailored to the requirements of IFRS 9.

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

IFRS 9 PD
For estimating 12 month and lifetime default, the Group uses a statistical model methodology that allows the Group to estimate the risk that a loan will default at a given point in time, through grouping exposures with similar risk characteristics and measuring the historic rate of default for exposures of this type. This technique effectively provides a TTC measure of likelihood of default. To translate this TTC probability to a Point in Time probability and to reflect forward looking information (FLI) at the balance sheet date, the Group calibrates the starting point for the projection to the current Observed Default Rate (ODR). The Group then uses an economic response model to reflect future expected macroeconomic conditions.

Behavioural scorecards, containing key loan performance indicators for each customer are used for the purpose of grouping exposures with similar risk characteristics as described above. A PD is calculated for each group (internally referred to as risk grades) which drives the PD used for the ECL process. All components of PD, risk grade, ODR and economic response model are independently monitored by the Group's MVT to confirm ongoing fitness for purpose.

IFRS 9 LGD
For the Group's key mortgage portfolios, LGD assumes that the Group will have recourse to collateral in the event that an exposure fails to return to a performing state. The LGD model incorporates the probability of each defaulted account returning to performing together with the estimated loss rate should they return to performing and the estimated loss rate should they not return to performing. The Group uses a consistent approach for LGD estimation for both 12 month and lifetime.

IFRS 9 EAD
For performing loans, the EAD is calculated for each future period based on the projected loan balance (after expected capital and interest payments) at that future period. A Credit Conversion Factor (CCF) is then applied to calculate the percentage increase in balance from the point of observation to the point of default including accrued missed interest payments and any related charges. The CCF is segmented by the accounts' repayment type.

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

For certain revolving credit facilities that do not have a fixed maturity (e.g. credit cards and overdrafts), the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by Management actions. For instruments in Stage 2 or Stage 3, loss allowances will cover expected credit losses over the expected remaining life of the instrument.

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

Write-off policy
The Group writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery or on foot of a negotiated settlement. Indicators that there is no prospect of recovery include the borrower being deemed unable to pay due their financial circumstances or the cost to be incurred in seeking recovery is likely to exceed the amount of the write-off. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further

recovery, write-off may be earlier than collateral realisation. Write-off on those financial assets subject to enforcement activity will take place on conclusion of the enforcement process.

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

Governance

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

The GCC is responsible for oversight of changes to credit policies, data or post model adjustments that would affect model outcomes. The Impairment Reporting Review Forum (IRRF), a sub-committee of the GCC, is accountable for the review and recommendation for approval of the monthly and cumulative year-to-date actual impairment charge for the Group.

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

Forward looking information (FLI)

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

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

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

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

The process to determine the FLI applied in the ECL models leverages existing ICAAP processes while recognising that IFRS 9 scenarios are not stress scenarios. The methodology to incorporate multiple economic scenarios into the ECL models considers, amongst other things, the Group's IPP 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 RPPI, unemployment, interest rates and publically available external macroeconomic forecasts including from the Department of Finance (DoF), the CBI and ESRI. The Group employs the services of an independent economist to determine forecast macroeconomic scenarios. The governance and oversight process includes the review and challenge by ALCO of FLI and its onward recommendation to the BRCC for approval.

In general, a review and update of macroeconomic variables takes place at least bi-annually. Macroeconomic scenarios were most recently updated in June 2023. There are two main changes from forward looking indicators utilised in December 2022: a marginal downgrading of HPI for 2023 and an improvement in unemployment in the first three years of the forecast to reflect a continued strength in the employment market.

The Group has adopted three macroeconomic scenarios for ECL purposes. The Group's approach applies extreme-but-plausible economic scenarios (i.e. underpinned by historical evidence) to estimate the distribution of ECL to which the Group is exposed. The central scenario is at the 50th percentile of the distribution of scenarios (implying a 50% probability that the actual outcome is worse than the central forecast and a 50% probability that the outcome is better). The Upside scenario is at the 5th percentile and the Downside scenario is at the 95th percentile. ALCO reviewed the scenario probabilities and recommended them to the BRCC, where they were approved. Using statistical techniques combined with expert credit judgement, the Group then formulates an unbiased probability weighted estimate of ECL at the reporting date (see note 1, Critical accounting estimates and judgements for further detail).

Expert Credit Judgement

The Group's ECL accounting framework methodology, in line with the requirements of the standard, requires the Group to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting period dates (see note 1, Critical estimates and judgements for further detail).

At 30 June 2023, the impairment provision included €118m of Management's adjustments to modelled outcomes (December 2022: €137m).

3.2 Funding and Liquidity Risk

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

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

The level of risk is dependent on the composition of the balance sheet, the maturity profile and the quantum and quality of the liquidity buffer. It is likely that these risks would be further exacerbated in times of stress. Given the nature of the Group's retail focus which stems from its business model, Liquidity and Funding risk will arise naturally due to the maturity transformation of primarily short term contractual deposits (albeit recognising behavioural stickiness) into longer term loans (predominantly mortgage lending). With 80% of the balance sheet being deposit funded, exposure to a potential deposit run represents the primary liquidity and funding risk.

(i) Regulatory Compliance
The Group is required to comply with the liquidity requirements of the CBI and the full spectrum of European regulatory requirements including CRR, CRD IV and associated Delegated Acts such as the LCR Delegated Act.

The primary ratios calculated and reported are the LCR and the NSFR. In addition, supplementary liquidity and funding metrics are measured and monitored on a regular basis.

Under the Bank Recovery and Resolution Directive (BRRD), the Group is required to adhere to an MREL target. The Group has proactively engaged with the CBI to determine the Group's MREL requirement, which represents a quantification of the eligible liabilities required to act as a buffer in the event of a resolution scenario. MREL targets have been communicated and compliance with the intermediate target became binding on 1 January 2022. The final target becomes binding on 1 January 2024. The Group has a senior unsecured issuance strategy to meet the MREL target.

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

Liquidity risk is measured on a daily basis using a range of metrics against the internally as well as regulatory prescribed limit framework. The Group primarily monitors its liquidity position through the LCR. The objective of the LCR is to promote the short-term resilience of the liquidity risk profile of banks. It achieves this by ensuring that banks have an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted easily and immediately in private markets into cash in order to meet the liquidity needs for a 30-calendar day liquidity stress scenario.

NSFR and Liquidity Stress Survivability constitute additional core liquidity and funding metrics within the overarching Liquidity and Funding Risk Management framework that are measured, monitored and reported within the Group.

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

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

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

The full suite of liquidity metrics and stress test results are regularly reported to the ALCO, the BRCC and the Board. In addition, the Group Internal Liquidity Adequacy Assessment (ILAAP) provides a holistic view of the Group's liquidity adequacy. The ILAAP examines both the short and long term liquidity position relative to the internal and regulatory limits. Through the ILAAP process, the Board attests to the adequacy of the Group's liquidity position and risk management processes on an annual basis.

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

The Liquidity and Funding Risk Management Framework outlines the mechanisms by which liquidity and funding risk is managed within the Board approved Risk Appetite and is in line with the overarching liquidity and funding risk principles as follows:

- Liquidity: maintain a prudent liquid asset buffer above the internally determined or regulatory mandated (whichever is greater) liquidity requirement such that the Group can withstand a range of severe yet plausible stress events; and
- Funding: develop a stable, resilient and maturity-appropriate funding structure, with focus on customer deposits augmented by term wholesale funding sources

(iv) Minimum Liquidity Levels
The Group maintains a sufficient liquidity buffer comprising both unencumbered High Quality Liquid Assets (HQLA) and non-HQLA liquidity capacity to meet LCR and stress testing requirements.

The Group measures and monitors the NSFR which is designed to limit over-reliance on short-term funding and promote longer-term stable funding sources.

(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 its loan portfolio. The ongoing availability of these deposits may be subject to fluctuations due to factors such as the confidence of depositors in the Group, and other certain factors outside the Group's control including, for example, macroeconomic conditions in Ireland, confidence of depositors in the economy in general and the financial services industry, specifically the competition for deposits from other financial institutions.

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

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

The Group maintains a significant liquidity buffer split between HQLA sovereign bonds, deposits placed with the Central Bank and ECB eligible retained securitisations which can be monetised quickly to safeguard against a liquidity event. While the quantum of the buffer is sufficient to provide capacity to withstand a significant liquidity stress event there is a concentration in Irish based assets which could reduce overall capacity in the event of an idiosyncratic Irish stress event.

Significant progress has been made in reducing the encumbrance levels that were reached in the period following the Financial crisis. Following the successful Non-Performing Loan (NPL) deleveraging programme and the execution of the Treasury Funding Plan, encumbrance is now at a low base historically and well within the target level. A clear and defined strategy has been developed to ensure an encumbrance level consistent with its economic plan is maintained by the Group. Disruption to unsecured funding sources and a requirement to revert to an overreliance on secured funding channels could potentially pose a threat to this ratio and unsecured creditors.
A series of liquidity and funding EWIs are in place in order to alert the Group to any potential liquidity trigger event therefore allowing sufficient time for mitigating actions to be taken.

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

During 2023, Standard & Poor's upgraded PTSB Plc's and PTSB Group Holdings senior unsecured credit ratings. These upgrades reflect: the continued progress on reducing the stock of NPLs; and the potential material opportunities following the completion of the Ulster Bank transaction.

The ratings for PTSB plc are as follows:

- Standard & Poor's (S&P): Long-Term Rating "BBB+" with Outlook "Stable";
- Moody's: Long-Term Rating "A2" with Outlook "Stable";
- Fitch: Long-Term Rating "BBB-" with Outlook "Positive"; and
- DBRS: Long-Term Rating "BBBL" with Outlook "Stable".

The ratings for PTSB Group Holdings plc are as follows:

- Standard & Poor's (S&P): Long-Term Rating "BB+" with Outlook "Positive";
- Moody's: Long-Term Rating "Baa2" with Outlook "Positive";
- Fitch: Long-Term Rating "BB+" with Outlook "Positive"; and
- DBRS: Long-Term Rating "BBH" with Outlook "Stable".

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

The Group's RAS and the associated Market Risk Framework set out the Group's approach to management of market risk. The Framework is approved annually by the BRCC on the recommendation of 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 on a regular basis. Group Treasury is responsible for the management of market risk exposures on the balance sheet. Group Risk and GIA provide further oversight and challenge of Group Treasury's compliance with the Market Risk framework and associated Policies.

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

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

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

In defining the level of interest rate risk the Group applies the most severe of the six scenarios prescribed by the Basel and EBA Guidelines on the Management of IRRBB, for EV and applies the most negative of a 200bps upwards or downwards shock for EAR models, with both calculations subject to interest rate flooring assumptions. The results are measured and reported against the Board approved risk limits.

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

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

The 30 June 2023 interest rate risk level, based on the EVE calculation (more severe than EAR), was calculated as €89m (31 December 2022: €116m). The risk position has decreased as the Bank has executed €1.2bn of interest rate swaps, reducing the exposure to downwards movements in EAR, meaning the largest exposure is now on an EVE basis in the Parallel Up scenario. Based on the internally derived Basis Risk calculation methodology, the 30 June 2023 risk level stands at €25m (31 December 2022: €19m). Basis Risk has increased due to the execution of interest rate swaps. The following interest rate floors are applied in calculating EAR and Basis Risk: 0% for the ECB Refinance Rate and Retail Deposits; -50bps for the ECB Deposit Rate and -100bps for other positions. The Bank executed €1.2bn of fair value interest rate swaps in H1 2023 hedging certain issued senior and subordinated debt. These swaps reduced the Bank's exposure to downward shocks from an EAR perspective.

(ii) Foreign Exchange Risk

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

Derivatives (FX swaps and forwards) are executed to minimise the FX exposure. Overnight FX positions are monitored against approved notional limits. It is the responsibility of both Group Treasury and Group Risk to measure and monitor exchange rate risk and maintain the exposure within approved limits. The aggregate euro denominated 30 June 2023 FX position was €2.1m (31 December 2022: €0.8m).

(iii) Credit Spread Risk

Credit Spread Risk is defined as the risk of a decline in the value of an asset due to changes in the market perception of its creditworthiness. The Bank measures this risk on the portion of the Group's bond portfolio which is classified as Hold to Collect and Sell (HTC&S) under IFRS9 classifications.

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

The Group held no HTC&S bonds as at 30 June 2023 (31 December 2022: nil) and as such had no exposure to credit spread risk. For further details on market risk see note 30.

Directors' Responsibility Statement

The Directors are responsible for preparing the interim report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 ("Transparency Directive"), and the Transparency Rules of the Central Bank of Ireland.

In preparing the condensed set of consolidated financial statements included within the interim report, the directors are required to

- prepare and present the condensed set of consolidated financial statements in accordance with IAS 34 Interim Financial Reporting as adopted by the EU, the Transparency Directive and the Transparency Rules of the Central Bank of Ireland;
- ensure the condensed set of consolidated financial statements has adequate disclosures;
- select and apply appropriate accounting policies; and
- make accounting estimates that are reasonable in the circumstances.
- assess the Group'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 to cease operations, or have no realistic alternative but to do so.

The directors are responsible for designing, implementing and maintaining such internal controls as they determine is necessary to enable the preparation of the condensed set of consolidated financial statements that is free from material misstatement whether due to fraud or error.

We confirm that to the best of our knowledge:

1. the condensed set of consolidated financial statements included within the interim report of Permanent TSB Group Holdings plc for the six months ended 30 June 2023 ("the interim financial information") which comprises the consolidated condensed income statement, consolidated condensed statement of comprehensive income, consolidated condensed statement of financial position, consolidated condensed statement of changes in equity, consolidated condensed statement of cash flows and the related explanatory notes, have been presented and prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU, the Transparency Directive and Transparency Rules of the Central Bank of Ireland.
2. The interim financial information presented, as required by the Transparency Directive, includes:
   a. an indication of important events that have occurred during the first 6 months of the financial year, and their impact on the condensed set of consolidated financial statements;
   b. a description of the principal risks and uncertainties for the remaining 6 months of the financial year
   c. related parties' transactions that have taken place in the first 6 months of the current financial year and that have materially affected the financial position or the performance of the enterprise during that period; and
   d. any changes in the related parties' transactions described in the last annual report that could have a material effect on the financial position or performance of the enterprise in the first 6 months of the current financial year.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Julie O'Neill
Chairperson

Eamonn Crowley
Chief Executive

Nicola O'Brien
Chief Financial Officer

Conor Ryan
Company Secretary

1 August 2023

Independent Review Report
to Permanent TSB Group Holdings plc

Conclusion
We have been engaged by Permanent TSB Group Holdings plc ("the Group") to review the Group's condensed set of consolidated financial statements in the interim report for the six months ended 30 June 2023 which comprises a condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows, a summary of significant accounting policies and other explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the interim report for the six months ended 30 June 2023 is not prepared, in all material respects in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as adopted by the EU, the Transparency (Directive 2004/109/EC) Regulations 2007 ("Transparency Directive"), and the Central Bank (Investment Market Conduct) Rules 2019 ("Transparency Rules of the Central Bank of Ireland").

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

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

We read the other information contained in the interim report to identify material inconsistencies with the information in the condensed set of consolidated financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the review. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Conclusions relating to going concern
Based on our review procedures, which are less extensive than those performed in an audit as described in the 'Basis for conclusion' section of this report, nothing has come to our attention that causes us to believe that the directors have inappropriately adopted the going concern basis of accounting, or that the directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (Ireland) 2410. However, future events or conditions may cause the Group to cease to continue as a going concern, and the above conclusions are not a guarantee that the Group will continue in operation.

Directors' responsibilities
The interim report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Transparency Directive and the Transparency Rules of the Central Bank of Ireland.

The Directors are responsible for preparing the condensed set of consolidated financial statements included in the interim report in accordance with IAS 34 as adopted by the EU.

As disclosed in note 1, the interim financial statements of the Group for the period ended 30 June 2023 are prepared in accordance with International Financial Reporting Standards as adopted by the EU.

In preparing the condensed set of consolidated financial statements, the Directors are responsible for assessing the Group'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 to cease operations, or have no realistic alternative but to do so.

Our responsibility
Our responsibility is to express to the Group a conclusion on the condensed set of consolidated financial statements in the interim report based on our review.

Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the 'Basis for conclusion' section of this report.

The purpose of our review work and to whom we owe our responsibilities
This report is made solely to the Group in accordance with the terms of our engagement to assist the Group in meeting the requirements of the Transparency Directive and the Transparency Rules of the Central Bank of Ireland. Our review has been undertaken so that we might state to the Group those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group for our review work, for this report, or for the conclusions we have reached.

KPMG
Chartered Accountants
1 Harbourmaster Place
IFSC
Dublin 1
Ireland
1 August 2023

Condensed Consolidated Income Statement (Unaudited)

For the half year ended 30 June 2023

	Note	**Half year ended 30 June 2023 €m**	Half year ended 30 June 2022 €m
Interest income calculated using effective interest method	4	**348**	177
Interest expense	4	**(50)**	(22)
Net interest income		**298**	155
Fees and commission income		**43**	34
Fees and commission expense		**(20)**	(15)
Net trading income		**2**	1
Net other operating income		**-**	3
Total operating income		**323**	178
Administrative, staff and other expenses (excluding exceptional items)	5	**(173)**	(143)
Regulatory charges	6	**(24)**	(25)
Depreciation of property and equipment		**(13)**	(10)
Amortisation of intangible assets		**(19)**	(15)
Exceptional items			
Restructuring and other costs	7	**(2)**	(2)
Costs incurred in relation to the Ulster Bank transaction	7	**(29)**	(35)
Total operating expenses		**(260)**	(230)
Operating profit/(loss) before charge for credit impairment and taxation		**63**	(52)
Credit impairment			
Loans and advances to customers	18	**(39)**	9
Exceptional impairment reversal arising from deleveraging of loans	7	**2**	7
Total credit impairment (charge)/write-back		**(37)**	16
Operating profit/(loss) before taxation		**26**	(36)
Taxation	8	**(1)**	1
Profit/(loss) for the period		**25**	(35)
Attributable to:			
Equity holders of the parent		**25**	(35)
Profit/(loss) per ordinary share		**€ Cent**	**€ Cent**
Basic Profit/(loss) per share of €0.5 ordinary shares	9	**0.7**	(8.8)
Diluted Profit/(loss) per share of €0.5 ordinary shares	9	**0.7**	(8.8)

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the half year ended 30 June 2023

	Note	Half year ended 30 June 2023 €m	Half year ended 30 June 2022 €m
Profit/(loss) for the period		**25**	(35)
Items that will not be reclassified to the income statement in subsequent periods			
Fair value reserve (equity instruments)			
Change in fair value of equity instruments	27	**4**	(1)
Tax relating to items that will not be reclassified to the income statement	8	**(1)**	
Items that may be reclassified to the income statement in subsequent periods			
Fair value reserve (debt instruments)			
Change in fair value of debt instruments	27	**-**	-
Tax relating to items that will not be reclassified to income statement	8	**-**	-
Other comprehensive income/(expense) for the period, net of tax		**3**	(1)
Total comprehensive income/(expense) for the period, net of tax		**28**	(36)
Attributable to:			
Equity holders of the parent		**28**	(36)
		28	(36)

Condensed Consolidated Statement of Financial Position (Unaudited)

As at 30 June 2023

	Notes	30 June 2023 €m	31 December 2022 €m
Assets			
Cash at bank	10	**61**	58
Items in the course of collection	10	**29**	40
Loans and advances to banks	11	**3,338**	2,123
Loans and advances to customers	17, 18	**20,868**	19,593
Derivative financial instruments	12	**2**	-
Other assets	13	**1**	1
Assets classified as held for sale	14	**45**	18
Debt securities	15	**3,274**	3,177
Equity securities	16	**5**	30
Prepayments and accrued income		**77**	207
Interests in associated undertakings	19	**14**	13
Property and equipment		**214**	204
Intangible assets		**167**	160
Deferred taxation	20	**307**	309
Total assets		**28,402**	25,933
Liabilities			
Deposits by banks	21	**1,097**	614
Customer accounts	22	**22,592**	21,730
Derivative financial instruments	12	**4**	13
Debt securities in issue	23	**1,801**	658
Other liabilities	24	**158**	181
Accruals		**14**	6
Current tax liability		**1**	1
Provisions	25	**75**	80
Subordinated liabilities	26	**255**	252
Total liabilities		**25,997**	23,535
Equity			
Share capital	27	**273**	273
Share premium	27	**804**	804
Other reserves	27	**(788)**	(791)
Retained earnings	27	**1,748**	1,744
Ordinary Shareholders' equity		**2,037**	2,030
Other equity instruments	27	**368**	368
Total equity		**2,405**	2,398
Total liabilities and equity		**28,402**	25,933

On behalf of the Board:

Julie O'Neill
Chairperson

Eamonn Crowley
Chief Executive

Nicola O'Brien
Chief Financial Officer

Conor Ryan
Company Secretary

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the half year ended 30 June 2023

	Attributable to equity holders of the parent							
	Share capital	Share premium	Revaluation reserve*	Fair value reserve*	Other capital reserve*	Retained earnings	Other equity instruments	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Balance as at 1 January 2023	**273**	**804**	**49**	**16**	**(856)**	**1,744**	**368**	**2,398**
Profit for the half year ended 30 June 2023	**-**	**-**	**-**	**-**	**-**	**25**	**-**	**25**
Other comprehensive income, net of tax (note 28)	**-**	**-**	**-**	**3**	**-**	**-**	**-**	**3**
Total comprehensive income for the period	**-**	**-**	**-**	**3**	**-**	**25**	**-**	**28**
Transactions with owners, recorded directly in equity:						**-**		
Contributions by and distributions to owners								
Redemption of other equity instruments			**-**	**-**	**-**	**-**	**-**	**-**
AT1 coupon paid (note 27)	**-**	**-**	**-**	**-**	**-**	**(21)**	**-**	**(21)**
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**-**	**(21)**	**-**	**(21)**
Balance as at 30 June 2023	**273**	**804**	**49**	**19**	**(856)**	**1,748**	**368**	**2,405**

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

Condensed Consolidated Statement of Changes in Equity (Unaudited)
For the half year ended 30 June 2022

	Attributable to owners of the holding company							
	Share capital €m	Share premium €m	Revaluation reserve* €m	Fair value reserve* €m	Other capital reserve* €m	Retained earnings €m	Other equity instruments €m	Total €m
Balance as at 01 January 2022	227	333	55	14	(856)	1,893	123	1,789
Loss for the half year ended 30 June 2022	-	-	-	-	-	(35)	-	(35)
Other comprehensive expense, net of tax (note 28)	-	-	-	(1)	-	-	-	(1)
Total comprehensive (expense) for the period	-	-	-	(1)	-	(35)	-	(36)
Transactions with owners, recorded directly in equity:								
Contributions by and distributions to owners								
AT1 coupon paid	-	-	-	-	-	(5)	-	(5)
Total contributions by and distributions to owners	-	-	-	-	-	(5)	-	(5)
Balance as at 30 June 2022	227	333	55	13	(856)	1,853	123	1,748

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

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the period ended 30 June 2023

	Half year ended 30 June 2023 €m	Half year ended 30 June 2022 €m
Cash flows from operating activities:		
Operating profit/(loss) before taxation	**26**	(36)
Adjusted for non-cash items and other adjustments:		
Depreciation, amortisation and impairment of property, equipment and intangibles	**32**	25
Impairment charge/(write-back) in period:		
- Loans and advances to customers	**37**	(16)
Unrealised (gains)/losses on financial assets	**(1)**	(1)
Other mortgage related adjustments	**31**	13
Other provisions	**6**	1
Visa equity share	**-**	1
Other non-cash items	**20**	4
	151	(9)
(Increase)/ decrease in operating assets:		
Derivative financial instruments	**3**	2
Other assets	**3**	316
Debt securities	**35**	8
Prepayments and accrued income	**133**	147
Loans and advances to customers	**(271)**	(173)
Increase/(decrease) in operating liabilities:		
Deposits by banks	**469**	475
Customer accounts	**850**	983
Debt securities in issue	**1,126**	274
Derivative liabilities	**(1)**	(3)
Other liabilities and accruals	**15**	(12)
Provisions	**(9)**	(8)
	2,353	2,009
Net cash inflow from operating activities before tax	**2,504**	2,000
Tax paid	**(1)**	1
Net cash inflow from operating activities	**2,503**	2,001
Maturities of debt securities - HTC	**534**	99
Purchase of debt securities - HTC	**(649)**	(598)
Purchase of property and equipment	**(11)**	(26)
Purchase of intangible assets	**(16)**	(14)
Cash transferred for Business Combinations	**(1,129)**	-
Investment in associated undertakings	**(1)**	-
Net cash flows from investing activities	**(1,272)**	(539)
Payment of lease liabilities	**(3)**	(3)
AT1 coupon payment	**(21)**	(5)
Net cash flows from financing activities	**(24)**	(8)
Increase in cash and cash equivalents	**1,207**	1,454
Cash and cash equivalents as at 1 January	**2,221**	4,251
Increase in cash and cash equivalents	**1,207**	1,454
Cash and cash equivalents as at 30 June*	**3,428**	5,705

* Due to an IFRIC decision, restricted cash held by the Groups securitisation entities, which was excluded from cash and cash equivalents in prior years is now included in cash and cash equivalents for 2023, 2022 and 2021. See note 10.

Reconciliation of liabilities arising from financing activities

	Half year ended 30 June 2023 €m	Half year ended 30 June 2022 €m
01 January 2023	**290**	283
Lease liability	**(3)**	(3)
Non-cash movements	**6**	3
At end of period	**293**	283

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

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

1.1 Corporate information

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

The Group's condensed consolidated interim financial statements include the financial statements of the Company and its subsidiaries (together referred to as 'the Group') and are prepared for the period up to the end of the half year, 30 June 2023. The condensed consolidated interim financial statements for the half year ended 30 June 2023 are unaudited, but have been reviewed by the independent auditor whose report is set out earlier in this interim report.

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

These condensed consolidated interim financial statements were approved by the Board and authorised for issue by the Directors on 1 August 2023.

The accounting policies applied in the preparation of the condensed consolidated interim financial statements for the half year ended 30 June 2023 are set out below.

1.2 Basis of preparation

Statement of compliance

These condensed consolidated interim financial statements comprise the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and the related notes have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Transparency (Directive 2004/109/EC) Regulations 2007, as amended and Part 2 (Transparency Requirements) of the Central Bank (Investment Market Conduct) Rules 2019, as issued under the 2014 Act (the "IMC Rules").

This report should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2022 which was prepared in accordance with International Financial Reporting Standards (IFRS) and the IFR Interpretations Committee (IFRIC) interpretations as adopted by the EU and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS and EU (Credit Institutions: Financial Statements) Regulations 2015.

The consolidated financial statements of the Group for the year ended 31 December 2022 are available at www.permanenttsbgroup.ie.

Basis of measurement

The condensed consolidated and Company financial statements have been prepared on the historical cost basis as modified to include the fair valuation of certain financial instruments classified as HTC&S, equity securities classified as FVOCI, derivative financial instruments, assets classified as held for sale, financial assets and liabilities designated as hedged items in qualifying fair value hedge relationships, and land and buildings accounted for using the revaluation model.

The accounting policies applied in the preparation of the condensed consolidated interim financial statements for the half year ended 30 June 2023 are consistent with those used by the Group as described in note 1 of the Group's consolidated financial statements for the year ended 31 December 2022. Management have considered the impact of the new accounting standards and pronouncements, please see details on page 62.

Since the condensed consolidated interim financial statements do not include all of the annual financial statement disclosures required under IFRS, this report should be read in conjunction with the audited annual consolidated financial statements and accompanying notes for the year ended 31 December 2022.

Statutory accounts

These condensed consolidated interim financial statements do not comprise statutory financial statements within the meaning of the Companies Act 2014. The statutory accounts for the year ended 31 December 2022 were approved by the Directors on 28 February 2023, contained an unqualified audit report and will be filed with the Companies Registration Office on or before 30 September 2023.

Functional and presentation currency

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

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

Use of estimates and judgements

The preparation of the condensed consolidated interim financial statements, in conformity with IFRS, requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, expenses and related disclosures.

The significant judgements made by Management in applying the Group's accounting policies and key sources of uncertainty remain relevant to those applied to the Group's consolidated financial statements for the year ended 31 December 2022.

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

The critical accounting estimates are consistent with those described in the 2022 Annual Report.

Allowance for credit losses under IFRS 9

IFRS 9 requires an impairment allowance to be recorded for ECL on financial assets, regardless of whether there has been an actual loss event. There is a requirement to track and assess changes in credit risk on financial instruments since origination and determine whether the credit risk on those financial instruments has increased significantly since initial recognition.

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

Determination of significant increase in credit risk (SICR)

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

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

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

At 30 June 2023, management judgement has been applied to specified non-standard mortgages (on which a bullet at maturity is due) classified as Stage 1 by Impairment models and these loans were transferred to Stage 2 with a lifetime impairment loss allowance applied. The impact of this staging adjustment is a c. €137m increase in Stage 2 volumes.

Forward-looking information (FLI)

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

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

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

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

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

Three scenarios are currently considered in the Group's calculation of ECL. The base scenario is used for financial planning purposes. The Group considers one scenario that represents a macroeconomic environment that is more favourable to the central scenario and one scenario that represents a macroeconomic environment that is less favourable to the central scenario. Three scenarios are currently considered in the Group's calculation of ECL at the reporting date.

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

The following table details the key macroeconomic variables applied to model credit losses together with the associated percentiles and probability weightings for Stages 1 and 2 at 30 June 2023. Macroeconomic scenarios were most recently updated in June 2023. The update in the Base Case Scenario reflects a deterioration in the outlook for the Irish economy in future years as a result of higher inflation, with lower forecast HPI and GDP growth.

IFRS 9 Upside and Downside scenarios have been updated to present extreme '1-in-20' scenarios relative to the updated Base scenario. Given the severity of these scenarios (5th Percentile upside and 95% Percentile downside), their combination captures the macroeconomic uncertainty arising from the current economic environment.

	30 June 2023				31 December 2022			
	Central (Base Case) Scenario		Upside Scenario	Downside Scenario	Central (Base Case) Scenario		Upside Scenario	Downside Scenario
	Average value over year 1	Average value over 5 year forecast period	Average value over 5 year forecast period	Average value over 5 year forecast period	Average value over year 1	Average value over 5 year forecast period	Average value over 5 year forecast period	Average value over 5 year forecast period
Percentile		**50th**	**5th**	**95th**		50th	5th	95th
Scenario Probability Weighting		**54%**	**23%**	**23%**		54%	23%	23%
Irish Residential House Prices	**-1%**	**1%**	**12%**	**-10%**	0%	2%	12%	-10%
Irish Unemployment	**5%**	**5%**	**4%**	**11%**	7%	5%	4%	11%
Irish GDP	**4%**	**3%**	**6%**	**-2%**	4%	3%	6%	-2%
Consumer Price Index	**5%**	**3%**	**2%**	**4%**	6%	3%	2%	4%
ECB Base Rate	**4%**	**3%**	**1%**	**4%**	3%	3%	1%	3%

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

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

If the Group were to only use its Base Case Scenario for the measurement of ECL for the secured mortgage portfolio, excluding Management's adjustment to modelled outcomes, the ECL impairment allowance would be €131m less than the weighted result reported at 30 June 2023 (31 December 2022: €98m less).

Similarly, excluding Management's adjustment to modelled outcomes, if the Group were to only use its Upside Scenario for the measurement of ECL for the secured mortgage portfolio, the ECL impairment allowance would be €162m less than the weighted result reported at 30 June 2023 (31 December 2022: €126m less), whereas if the Group were to only use its Downside Scenario the ECL impairment allowance would be €440m greater than the weighted result reported at 30 June 2023 (31 December 2022: €336m greater).

Management's adjustment to modelled outcomes

The adequacy of ECL allowance is reviewed by the BAC on a half-yearly basis. At 30 June 2023, the total impairment provision included €118m of management's adjustments to modelled outcomes (31 December 2022: €137m) which primarily comprises the following:

- €39m of Management's adjustment in respect of Stage 3 residential mortgage loans that are in default for a prolonged period and for which Management consider the modelled impairment to be insufficient to cover resolution (31 December 2022: €39m); €235m of which are in default for greater than seven years (31 December 2022: €280m);
- A Management adjustment of €3m to reflect the tail risk of payment at maturity of a cohort of residential mortgages which cannot be reflected in the residential mortgage model due to lack of empirical data (31 December 2022: €3m);
- Management are of the view that the modelled impairment allowance may not fully reflect expected credit losses for certain cohorts of borrowers. The Groups IFRS9 models are constructed based on a single economic cycle covering a period of low and stable inflation rates. In addition, post pandemic demand as a result of government-led supports and economic stimulus has weakened the relationships between model inputs and outputs. At the reporting date, a €28m management overlay is held for this risk (31 December 2022: €26m);
- €8m overlay to reflect limitations associated with using internal models in the calculation of impairment allowance on recently acquired SME portfolio (31 December 2022: nil); and
- €40m overlay to reflect the uncertainty associated with the current economic headwinds as a result of accelerated inflation and the increasing interest rate environment (31 December 2022: nil). The overlay comprises of €20m in respect of the residential mortgage portfolio, €18m in respect of the commercial portfolio, and €2m in respect of the consumer portfolio. At June 2023, model results capture a greater degree of uncertainty risk. CPI remains elevated with the ECB rates rising by 1.5% in the year with a further increase expected in H2 2023.

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

1.3 Going Concern

In considering Management's assessment of the Group's ability to continue as a going concern, Management considered the principal risks and uncertainties as they might pertain to the going concern assumption, particularly the liquidity, profitability, and capital position. Management considered these items over the course of the year to date and into 2024, 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 assumptions becoming invalid over the period of assessment, being twelve months from the date of the approval of the financial statements for the period ended 30 June 2023. Management considered realistic alternatives, including downside scenarios applied by the Group to test assumptions and potential outcomes.

Assessment Basis

The time 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 30 June 2023 is a period of twelve months from the date of approval of these financial statements (1 August 2023).

In making this assessment, the Directors and Management have considered the Group's 2023-2027 MTP, profitability forecasts, funding and capital resource projections. These projections include both base and stress scenarios applied by the Group, together with a number of factors such the Irish Economy, Government fiscal policies, the availability of collateral to access funding through third parties and the euro-system, and on-going changes in the regulatory environment.

Economic and political environment

The Irish economy continues to perform strongly with a rapid recovery after the pandemic. Growth is continued to be forecast albeit at a lower rate. Consumer price inflation has risen due to increases in energy prices along with price pressures for other goods and services. To manage inflation, the ECB increased interest rates on a number of occasions during 2022 and 2023 with further rate increases anticipated during 2023.

Further to this, the Group continues to be materially reliant on Government and EU policy, and impacted by geopolitical events; such as the on-going war in Ukraine, the continuing uncertainty around the Northern Ireland Protocol and the introduction of the global minimum corporation tax rate to a sector of the Irish market.

The Group reassessed the financial impacts of the economic and political environment through the Group's integrated planning process and believes it is reasonably well positioned to withstand any volatility from economic events, particularly given the Group's acquisition of certain elements of the Ulster Bank business in 2022 and continued management of its financial position through NPL reduction and capital management.

Funding & Liquidity

The Group continued to have sufficient liquidity throughout the first half of 2023, and continues to undertake initiatives to improve its liquidity position in the areas of deposits, collateral optimisation, and wholesale markets activity. The Directors and Management have also considered forecasts of the liquidity position over the going concern period, under a range of stress scenarios.

The Group continues to hold a significant liquidity buffer at 30 June 2023 that can be easily and readily monetised in a period of stress. The Directors and Management are aware that the Group's ability to effectively utilise its contingent counterbalancing capacity is dependent on the underlying collateral remaining eligible. However, the Directors and Management are satisfied, based on a review of funding plans, interaction with wholesale markets and deposit trends that the required liquidity and funding will be available to the Group during the period of assessment.

There are no 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 a profit for the period ended 30 June 2023 and expects continued profitability in the medium term. Directors and Management have reviewed the MTP and based on this, the near-term macro-economic conditions of the country and the resolution of legacy issues, the Directors and Management are satisfied that the Group is well positioned to deliver profits in future years.

The Directors and Management have also considered the Group's forecast capital position, including the potential impact of a deterioration in economic conditions as might arise from an uncertainty from the Bank's principal risks. Based on the above considerations, the Directors and Management have assessed and concluded that this does not give rise to a material uncertainty, which would cast significant doubt on the ability of the Group to continue on a going concern basis for the period of assessment.

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

Conclusion

As required by IFRS as adopted by the EU, the Directors and Management have considered the principal risks and uncertainties facing the Group as outlined above. Based on the latest and projected financial performance and position, and the options available to the Group, the Directors have concluded that the Group has no material uncertainties, which would cast significant doubt on the going concern assumption and have considered it appropriate to prepare the financial statements on a going concern basis.

1.4 Comparative information

The comparative information for 2022 has been prepared on a consistent basis.

1.5 Changes in significant accounting policies

The condensed consolidated interim financial statements should be read in conjunction with the Group's consolidated financial statements for 2022. The significant accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the Group's consolidated financial statements for 2022 (note 1).

1.6 Impact of other accounting standards effective periods beginning on or after 1 January 2023

Accounting Standard Update	Description of Change	Key impacts for PTSB	Effective Date
IFRS 17 'Insurance Contracts'	Clarifies how to measure insurance liabilities in order to achieve a consistent basis of accounting for insurance contracts.	This amendment had no material impact on current or future reporting.	Annual periods beginning on or after 1 January 2023.
Amendments to IFRS 17 (Insurance contracts)	Amendments are intended to clarify some of the implementation challenges faced in the implementation of IFRS 17 Insurance contracts.	This amendment had no material impact on current or future reporting.	Annual periods beginning on or after 1 January 2023.
Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)	Amendment changes the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments.	This amendment had no material impact on current or future reporting.	Annual periods beginning on or after 1 January 2023.
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	Amendments are intended to help preparers in deciding which accounting policies to disclose in their financial statements.	This amendment had no material accounting policy impact on current or future reporting.	Annual periods beginning on or after 1 January 2023.
Amendments to IAS 8 – Definition of Accounting Estimates	The amendment updates the definition of accounting estimates "accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty".	This amendment had no material impact on current or future reporting.	Annual periods beginning on or after 1 January 2023.
Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.	This amendment had no material impact on current or future reporting.	Annual periods beginning on or after 1 January 2023.
Amendments to IAS 12 – International Tax Reform — Pillar Two Model Rules	Provide a temporary exception to the requirements regarding deferred tax assets and liabilities related to pillar two income taxes.	This amendment had no material impact on current or future reporting.	Annual periods beginning on or after 1 January 2023.

2. Business combination

On 7 November 2022 the Group achieved business combination accounting when €5.2bn of the Retail business assets and significant processes were acquired by the Bank from Ulster Bank Ireland DAC ('Ulster Bank') thereby legally binding the Bank to acquire the remaining Retail, Asset Financing and SME assets. The remaining assets to be transferred were recognised initially as Forward Contract Derivatives as the Group had committed to purchase these as part of the business combination.

The Group also recognised a contingent liability to pay an equity cash consideration amount based on 4.04% of the Banks ordinary shares (after the issuance of shares on the acquisition date of 7 November 2022) using a volume weighted average price (VWAP) of the Banks ordinary shares for a period of 60 days post the acquisition date. This liability was settled in January 2023 when cash of €41m was paid to NatWest Group plc ('NatWest'). This resulted in a loss recognised in Net other operating income in 2023 of €2m.

The following transfers of assets from Ulster Bank occurred during the interim period ending 30 June 2023. This resulted in the derecognition of the associated Forward Contract Derivatives and a loss of €2m was recognised in Net other operating income.

- The Branch Properties (including associated employees) transferred in January 2023 and €9m cash was paid to NatWest. This resulted in an increase in Property, Plant and Equipment of €9m.
- The SME business assets (including associated employees) transferred in February and June 2023 and €164m cash was owed to NatWest of which €162m has been paid with the remaining amount paid in July 2023. This resulted in an increase in Loans and Advances to Customers of €154m.
- The remaining Retail business assets transferred in May 2023 and €923m was owed to NatWest of which €917m has been paid with the remaining amount paid in July 2023. This resulted in an increase in Loans and Advances to Customers of €921m.

The amounts owed of €8m to NatWest is included within Other liabilities.

As at 30 June 2023 the fair value of the Forward Contract Derivative relating to the asset finance assets is an asset of €2m (31 December 2022: liability of €2m). The gross fair value of assets to be acquired is €491m and fair value of the consideration to be transferred is €489m. The Forward Contract Derivatives are measured as the net of the fair value of the assets based on a discounted cash flow model and the fair value of the consideration to be transferred i.e. the gross outstanding balance. This resulted in a gain in Net other operating income of €4m.

The Ulster Bank asset finance business (including associated employees and processes) transferred in July 2023 and cash of €499m was owed to NatWest of which €490m was paid. The transfer of the asset finance assets completes the business combination transaction. The remaining amount will be settled in the second half of 2023. This resulted in an increase in Loans and Advances to Customers of €501m and derecognition of the associated derivative asset of €2m subsequent to the period end.

3. Operating segments

The Group reports one operating segment which is in accordance with IFRS 8 'Operating segments'.

In line with IFRS 8, the Group also reports revenue from external customers for each major group of products and services. The amount of revenue reported is based on the financial information used to produce the Group's financial statements. The Group also reports revenue and non-current assets on a geographical basis; Ireland and Isle of Man (IOM).

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

3.1 Revenue from external customers split by products and services

The sources from which the Group earns external revenue are: interest income, fee and commission income, net trading income, and other operating income. Total revenue from external customers was €393m (30 June 2022: €215m). The main products from which the Group earns external revenue include: mortgages; consumer finance; and treasury assets. The interest income from these products is set out in the table below. Net interest income from external customers split by product.

	30 June 2023 €m	30 June 2022 €m
Mortgages	**278**	154
Consumer finance*	**21**	16
Treasury assets	**16**	4
Wholesale funding	**33**	3
Total	**348**	177

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

3. Operating segments (continued)

3.2 Profit for the year based on geographical location

During the half year ended 30 June 2023 and 30 June 2022, the majority of the Group's profit/ (loss) was incurred in Ireland. Immaterial losses (less than €1m) were incurred outside of Ireland in the Group's IOM subsidiary PBI Ltd during the years ended 30 June 2023 and 30 June 2022.

3.3 Assets and liabilities based on geographical location

30 June 2023	Ireland €m	IOM* €m	Of which inter-group balances €m	Total €m
Assets				
Held for sale	**45**	**-**	**-**	**45**
Other assets	**28,355**	**2**	**(58)**	**28,357**
Total segment assets	**28,400**	**2**	**(58)**	**28,402**
Total segment liabilities	**25,997**	**1**	**(58)**	**25,998**
		-	**-**	
Capital expenditure for the half year ended 30 June 2023	**47**	**-**	**-**	**47**

*This is based on geographical locations and reflects Group intercompany activity with PBI Ltd.

31 December 2022	Ireland €m	IOM* €m	Of which inter-group balances €m	Total €m
Assets				
Held for sale	18	-	-	18
Other assets	25,914	1	(56)	25,915
Total segment assets	25,932	1	(56)	25,933
Total segment liabilities	23,536	1	(56)	23,537
	-	-		
Capital expenditure for the financial year ended 31 December 2022	112	-	-	112

*This is based on geographical locations and reflects Group intercompany activity with PBI Ltd.

4. Net interest income

	Half year ended 30 June 2023 €m	Half year ended 30 June 2022 €m
Interest income calculated using effective interest method		
Loans and advances to customers	**299**	170
Deposits from banks	**-**	3
Debt securities and other fixed-income securities	**15**	4
Loans and advances to banks	**34**	-
	348	177
Interest expense		
Due to customers	**(12)**	(5)
Interest on debt securities in issue	**(19)**	(4)
Loans and advances to banks	**-**	(9)
Deposits from banks	**(15)**	-
Interest on subordinated liabilities	**(4)**	(4)
	(50)	(22)
Net interest income	**298**	155

Net interest income includes a charge of €14m (30 June 2022: €13m) in respect of deferred acquisition costs and €12m (30 June 2022: €0m) amortisation on the day 1 gain generated by the migration of the mortgages as a result of the Ulster Bank business combination.

4. Net interest income (continued)

Debt securities and other fixed-income securities contain €1 million net interest on derivatives that are in hedge relationships (30 June 2022: €0m).

All interest bearing financial instruments, interest income and interest expense is recorded using the effective interest method.

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

	Half year ended 30 June 2023 €m	Half year ended 30 June 2022 €m
Staff costs (as detailed below)	**96**	74
Other general and administrative expenses	**77**	69
Administrative, staff and other expenses (excluding exceptional items)	**173**	143

Administrative, staff and other expenses (excluding exceptional items) include costs of €1m relating to legacy legal cases. (30 June 2022: €4m)

Staff costs

	Half year ended 30 June 2023 €m	Half year ended 30 June 2022 €m
Wages and salaries (including commission payable to sales staff)	**79**	61
Social insurance	**9**	7
Pension costs (payments to defined contribution pension schemes)	**8**	6
Total staff costs	**96**	74

Staff numbers

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

	Closing staff numbers*		Average staff numbers	
	Half year ended 30 June 2023	Half year ended 30 June 2022	Half year ended 30 June 2023	Half year ended 30 June 2022
Ireland	**3,077**	2,483	**2,853**	2,348
Total number of staff	**3,077**	2,483	**2,853**	2,348

* Closing staff numbers are calculated on a FTE basis.

6. Regulatory charges

	Half year ended 30 June 2023 €m	Half year ended 30 June 2022 €m
Single Resolution Fund (SRF) fees	**4**	5
Deposit Guarantee Scheme (DGS)	**19**	19
Other regulatory charges	**1**	1
Regulatory charges	**24**	25

Other regulatory charges include payments to the Financial Services and Pensions Ombudsman, the Competition and Consumer Protection Commission and the Irish Banking Culture Board.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) (continued)

7. Exceptional items

	Half year ended 30 June 2023 €m	Half year ended 30 June 2022 €m
Costs incurred in relation to the Ulster Bank transaction (a)	**29**	35
Other costs (b)	**2**	2
Impairment arising from deleveraging of loans (c)	**(2)**	(7)
Total exceptional cost	**29**	30

(a) During 2023, the Group incurred costs of €29m in relation to the Ulster Bank transaction.

The Group incurred costs of €92m and €28m on the transaction in 2022 and 2021 respectively, these costs were also recognised as exceptional costs in the income statement.

As at 30 June 2023, the Group has incurred total costs of €149m on the Ulster Bank transaction.

(b) Other costs of €2m (30 June 2022: €2m) relate to additional costs arising in respect of a previous disposal of a business.

(c) During 2023, provisions and accruals of €2m (30 June 2022: €7m) were released in relation to loan deleveraging transactions that the Group executed pre 31 December 2021.

The Group considers the expired provisions and accrual release as exceptional as the provisions and accruals were previously recorded through exceptional impairment.

8. Taxation

(a) Analysis of taxation charge

	Half year ended 30 June 2023 €m	Half year ended 30 June 2022 €m
Current taxation		
Charge for current period	**-**	2
	-	2
Deferred taxation		
Origination and reversal of temporary differences	**1**	(3)
Taxation credited to income statement	**1**	(1)
Effective tax rate	**3%**	3%

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

The Group taxation charge for the half year ended 30 June 2023 was €1m (30 June 22: €1m credit). This credit relates wholly to deferred tax and arises primarily due to:

i. A charge of €3m in relation to deferred tax on utilisation of tax losses carried forward; and

ii. A credit of €2m in relation to timing differences on fixed assets

(b) Tax effects of each component of other comprehensive income
Half year ended 30 June 2023

	Gross €m	Tax €m	Net €m
Fair value reserve:			
· Change in fair value reserve	**4**	**(1)**	**3**
Balance as at 30 June 2023	**4**	**(1)**	**3**

8. Taxation (continued)

Half year ended 30 June 2022

	Gross €m	Tax €m	Net €m
Fair value reserve:			
· Change in fair value reserve	(1)	-	(1)
Balance as at 30 June 2022	(1)	-	(1)

9. Profit per ordinary share

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

	Half year ended 30 June 2023	Half year ended 30 June 2022
Weighted average number of ordinary shares in issue and ranking for dividend excluding treasury shares	**545,584,539**	454,690,912
Profit/(loss) for the period attributable to equity holders	**€25m**	(€35m)
Less AT1 coupon paid (see note 27)	**(€21m)**	(€5m)
Profit/(loss) for the period attributable to equity holders less AT1 coupon paid	**€4m**	(€40m)
Basic earnings/loss per ordinary share (€ cent)	**0.7**	(8.8)

(b) Diluted earnings/(loss) per ordinary share

	Half year ended 30 June 2023	Half year ended 30 June 2022
Weighted average number of ordinary shares excluding treasury shares held under employee benefit trust used in the calculation of diluted earnings per share	**545,584,539**	454,690,912
Diluted earnings/(loss) per ordinary share (€ cent)	**0.7**	(8.8)

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

No adjustment to the weighted average number of ordinary shares for the effects of dilutive potential ordinary shares was required for the period end 30 June 2023 or 30 June 2022 as the AT1 securities issued in 2020 and 2022 have no conversion features.

Weighted average number of ordinary shares*

	2023	2022
Number of ordinary shares in issue at 1 January (note 27)	**545,589,119**	454,695,492
Treasury shares held (note 27)	**(4,580)**	(4,580)
Weighted average number of ordinary shares at 30 June	**545,584,539**	454,690,912

* 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.

10. Cash and cash equivalents

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

	30 June 2023 €m	31 December 2022 €m
Cash at bank	**61**	58
Items in the course of collection	**29**	40
Loans and advances to banks repayable on demand (maturity of less than 3 months) (note 11)	**3,338**	2,123
Cash and cash equivalents per statement of cash flows	**3,428**	2,221

10. Cash and cash equivalents (continued)

As at 30 June 2023, within loans and receivables to banks repayable on demand is restricted cash of €343m (31 December 2022: €408m) comprised cash of €303m (31 December 2022: €405m) held by the Group's securitisation entities and €40m (31 December 2022: €1m) which relates to cash collateral placed with counterparties in relation to derivative positions and repurchase agreements.

The following contractual restrictions apply to our securitisation vehicles cash balances:

- Each vehicle must hold an amount equal to a percentage of the outstanding notes in a reserve account on demand as part of the credit enhancement and liquidity support rules. These funds can only be used to fund any revenue shortfall for contractual payments and must be replenished as soon as additional funds are available. When the notes are fully repaid these reserve funds can be used to pay outstanding principal on the subordinated loan.

As a result of these restrictions, the group excluded these balances from cash and cash equivalents in prior period cash flow statements.

However, the group reviewed this treatment on foot of a decision taken by IFRIC in 2022. This IFRIC decision clarified that such balances should be included in cash and cash equivalents and removed inconsistencies in accounting treatment in the market place. As a result, the group are including these balances in cash and cash equivalents in the cash flow statement for both 2023 and 2022.

11. Loans and advances to banks

	30 June 2023 €m	31 December 2022 €m
Held at amortised cost		
Placed with central banks	**2,842**	1,619
Placed with other banks	**496**	504
Loans and advances to banks	**3,338**	2,123

Placements with other banks includes restricted cash of €343m (31 December 2022: €408m) of which €303m (31 December 2022: €405m) is held by the Group's securitisation entities and €40m (31 December 2022: €3m) which relates to cash collateral placed with counterparties in relation to derivative positions and repurchase agreements. The fair value of collateral pledged by counterparties in relation to reverse repurchase agreements at 30 June 2023 is €260m (31 December 2022: €8m).

Loans and advances to banks amounting to €3,338m (31 December 2022: €2,123m) have a maturity of less than three months and therefore have been treated as cash and cash equivalents.

12. Derivative financial instruments

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

Certain derivative instruments, while being economic hedges, do not fulfil the hedge accounting criteria under IFRS 9 and are consequently classified as held for trading (HFT). 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 involve the exchange of fixed and variable rate interest payments between two parties at specified times based on a common nominal amount and maturity date.

As noted in note 2 the Forward Contract Derivatives represent the Asset Financing assets that will not be transferred until July 2023. The forward contract derivatives are measured as the net of the fair value of the assets based on a discounted cash flow model and the fair value of the consideration to be transferred i.e. the gross outstanding balance. The forward contract derivative was valued at €2m as at 30 June 2023. See note 2 for further detail.

Further details on the Group's risk management policies are set out in the Risk Management Report.

12. Derivative financial instruments (continued)

Derivatives held by the Group are analysed as follows:

	30 June 2023			31 December 2022		
	Contract/ notional amount	Fair value asset	Fair Value liability	Contract/ notional amount	Fair value asset	Fair Value liability
	€m	€m	€m	€m	€m	€m
Fair value hedges						
Interest rate swaps	**1,200**	**-**	**4**	-	-	-
	1,200	**-**	**4**	-	-	-
Held for trading						
Forwards	**44**	**-**	**-**	82	-	1
Business combination forwards	**489**	**2**	**-**	1,520	-	12
	533	**2**	**-**	1,602	-	13
Derivative financial instruments as per the statement of financial position	**1,733**	**2**	**4**	1,602	-	13

Fair value hedges

The Group uses fair value hedge accounting for hedge relationships to protect against changes in the fair value of financial assets and financial liabilities due to movements in interest rates. The financial instruments that are currently hedged for interest rate risk are fixed rate debt securities in issue. The Group uses interest rate swaps to hedge interest rate risk. All hedging instruments are included within derivative financial instruments on the balance sheet and hedge ineffectiveness is included within net trading income on the income statement (€nil million).

13. Other assets

	30 June 2023	31 December 2022
	€m	€m
Other	**1**	1
	1	1

Other assets includes accruals for miscellaneous debtors of €1m at 30 June 2023 (31 December 2022: €1m).

14. Assets classified as held for sale

At 30 June 2023, assets classified as held for sale amounted to €45m (31 December 2022: €18m). This consists of the following:

- €16m relates to collateral in possession, these properties are expected to be sold within the next 12 months (31 December 2022: €18m).
- €29m relates to Series A preference shares in Visa Inc (31 December 2022: €nil), see note 34 for further details.

15. Debt securities

	30 June 2023	31 December 2022
	Total HTC	Total HTC
	€m	€m
Government bonds	**3,259**	3,128
Corporate bonds	**15**	49
Gross debt securities	**3,274**	3,177

As at 30 June 2023, all unpledged debt securities are available to be used and are eligible as collateral (though eligibility will depend on the criteria of the counterparty) in sale and repurchase agreements.

Debt securities that are managed on a Hold to Collect (HTC) business model basis are accounted for at amortised cost.

15. Debt securities (continued)

Government bonds of €3.3bn (31 December 2022: €3.1bn) comprise Irish, Spanish, Portuguese, French, Italian and EU government bonds which are classified as HTC. Corporate bonds of €15m (31 December 2022: €49m) comprise Residential Mortgage Backed Securities (RMBS) and are designated as HTC. The HTC securities represent a portfolio of securities purchased for the purpose of collecting contractual cashflows to maturity. The Group has no HTC&S securities as at 30 June 2023 (31 December 2022: €nil).

At 30 June 2023, debt securities at amortised cost with a fair value of €1,404m (31 December 2022: €654m) had been pledged to third parties in sale and repurchase agreements. The Group has not derecognised any securities delivered in such sale and repurchase agreements on the statement of financial position.

All debt securities at 30 June 2023 are stage 1 for ECL purposes.

(A) HTC

The movement in HTC securities is classified as follows:

	30 June 2023	31 December 2022
	HTC	HTC
	€m	€m
As at 1 January	**3,177**	2,494
Additions	**650**	972
Maturities/disposals	**(534)**	(251)
Interest net of cash receipts	**(11)**	3
Amortisation of premium/(discount)	**(8)**	(41)
Total	**3,274**	3,177

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

Held at amortised cost

As at 30 June 2023, the amount arising from ECL on debt securities measured at amortised cost is €0.6m (31 December 2022: €0.6m). The ECL on debt instruments measured at amortised cost is offset against the carrying amount of the assets in the statement of financial position.

16. Equity securities

	30 June 2023	31 December 2022
	€m	€m
As at 1 January	**30**	26
Revaluation	**4**	4
*Transfer to assets held for sale	**(29)**	-
Total equity investments	**5**	30

* The Series A preferred stock have been classified as assets held for sale as at 30 June 2023 (refer to note 14 for details).

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

	30 June 2023	31 December 2022
	€m	€m
Unlisted	**5**	30
Total equity investments	**5**	30

PTSB Group holds Series A and Series B preferred stock in Visa Inc. at 30 June 2023 with a value of €34m. The Series A preferred stock was initially acquired during 2020 upon the conversion of Series B preferred stock by Visa Inc (the latest conversion occurred in July 2022). These were fair valued at €29m and €5m respectively at 30 June 2023 (31 December 2022: €26m and €4m) and are recognised in the statement of financial position at FVOCI.

The fair value of the preferred stock Series A is classified as Level 1 and the fair value of the preferred stock Series B is classified as Level 3, as the valuation of these preferred stock includes inputs that are based on unobservable data (refer to note 29 for details).

17. Loans and advances to customers

Loans and advances by category are set out below:

	30 June 2023 €m	31 December 2022 €m
Residential mortgages		
Held through special purpose entities	**6,708**	7,915
Held directly	**13,586**	11,249
	20,294	19,164
Commercial mortgage loans	**376**	239
Consumer finance (term loans/other)	**449**	401
Gross loans and advances to customers	**21,119**	19,804
Less: provision for impairment (note 18)	**(558)**	(521)
Deferred fees, discount fees and other adjustments	**307**	310
Net loans and advances to customers	**20,868**	19,593

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	
	30 June 2023 €m	31 December 2022 €m	30 June 2023 €m	31 December 2022 €m
Tracker rate	**3,825**	4,378	**3,540**	4,099
Variable rate	**3,153**	2,788	**3,012**	2,665
Fixed rate	**14,141**	12,638	**14,009**	12,519
	21,119	19,804	**20,561**	19,283
Deferred fees, discounts and fair value adjustments	**307**	310	**307**	310
Total	**21,426**	20,114	**20,868**	19,593

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

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

	30 June 2023 €m	31 December 2022 €m
Residential mortgages held through special purpose entities	**6,708**	7,915
Notes issued by special purpose entities		
- rated	**5,482**	6,793
- unrated	**1,242**	1,242

17. Loans and advances to customers (continued)

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

	30 June 2023 €m	31 December 2022 €m
Held by other banks and institutions as part of collateralised lending or sale and repurchase agreements (note 21)	**544**	290
Available collateral*	**4,039**	5,604
Rated notes, unavailable for collateral	**899**	899
Unrated notes	**1,242**	1,242
	6,724	8,035

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

Loans and advances balance movement for the half year ended 30 June 2023 and the year ended 31 December 2022 is set out in the following tables:

	Non-credit impaired		Credit impaired		
	Stage 1 €m	Stage 2 €m	Stage 3 €m	POCI €m	Total €m
Balance as at 1 January 2023	**17,455**	**1,699**	**649**	**1**	**19,804**
					-
New assets originated*	**1,270**	**58**	**-**	**-**	**1,328**
Loans Acquired	**1,082**	**-**	**-**	**-**	**1,082**
					-
Stage Transfers:					**-**
Transfer from Stage 1 to Stage 2	**(837)**	**837**	**-**	**-**	**-**
Transfer to Stage 3	**(62)**	**(72)**	**134**	**-**	**-**
Transfer from Stage 2 to Stage 1	**500**	**(500)**	**-**	**-**	**-**
Transfer from Stage 3	**-**	**57**	**(57)**	**-**	**-**
Net movement arising from transfer of stage	**(399)**	**322**	**77**	**-**	**-**
Redemptions and repayments	**(925)**	**(134)**	**(26)**	**-**	**(1,085)**
Decrease due to write offs	**-**	**-**	**(10)**	**-**	**(10)**
Disposals	**-**	**-**	**-**	**-**	**-**
Balance as at 30 June 2023	**18,483**	**1,945**	**690**	**1**	**21,119**

* Loan originations are net of repayments in the period

17. Loans and advances to customers (continued)

	Non-credit impaired Stage 1 €m	Non-credit impaired Stage 2 €m	Credit impaired Stage 3 €m	Credit impaired POCI €m	Total €m
Balance as at 1 January 2022	11,689	2,239	815	2	14,745
New assets originated*	2,586	111	-	-	2,697
Loans Acquired	5,063	-	-	-	5,063
Stage Transfers:					
Transfer from Stage 1 to Stage 2	(296)	296	-	-	-
Transfer to Stage 3	(16)	(119)	135	-	-
Transfer from Stage 2 to Stage 1	344	(344)	-	-	-
Transfer from Stage 3	2	155	(157)	-	-
Net movement arising from transfer of Stage	34	(12)	(22)	-	-
Redemptions and repayments	(1,575)	(242)	(62)	-	(1,879)
Decrease due to write offs	(1)	(2)	(40)	-	(43)
Disposals	(341)	(395)	(42)	-	(778)
Other movements	-	-	-	(1)	(1)
Balance as at 31 December 2022	17,455	1,699	649	1	19,804

* Loan originations are net of repayments in the period

18. Impairment provisions

Loans and advances to customers

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

The non-performing loan balance as at 30 June 2023 was €691m (31 December 2022: €650m). Refer to note 30 for further details.

30 June 2023

	Loans and advances to customers €m	NPLs €m	NPL % of total loans %	ECL provisions Stage 1 €m	ECL provisions Stage 2 €m	ECL provisions Stage 3 €m	ECL provisions Total €m	Total ECL provisions as % of total loans %
Residential:								
· Home loans	**19,488**	**392**	**2.0%**	**126**	**59**	**113**	**298**	**1.5%**
· Buy-to-let	**806**	**264**	**32.8%**	**3**	**70**	**99**	**172**	**21.3%**
Commercial	**376**	**19**	**5.1%**	**11**	**33**	**10**	**54**	**14.4%**
Consumer finance:								
· Term loans / other	**449**	**16**	**3.6%**	**8**	**13**	**13**	**34**	**7.6%**
Total gross loans	**21,119**	**691**	**3.3%**	**148**	**175**	**235**	**558**	**2.6%**
Impairment provision	**(558)**							
Deferred fees, discounts and fair value adjustments	**307**							
Balance as at 30 June 2023	**20,868**							

18. Impairment provisions (continued)

31 December 2022

	Loans and advances to customers	NPLs	NPL % of total loans	ECL provisions Stage 1	Stage 2	Stage 3	Total	Total ECL provisions as % of total loans
	€m	€m	%	€m	€m	€m	€m	%
Residential:								
· Home loans	18,340	342	1.9%	127	50	103	280	1.5%
· Buy-to-let	824	270	32.8%	3	68	96	167	20.3%
Commercial	239	23	9.6%	1	30	9	40	16.7%
Consumer finance:								
· Term loans / other	401	15	3.7%	5	15	14	34	8.5%
Total gross loans	19,804	650	3.3%	136	163	222	521	2.6%
Impairment provision	(521)							
Deferred fees, discounts and fair value adjustments	310							
Balance as at 31 December 2022	19,593							

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

30 June 2023

	Residential mortgages	Commercial	Consumer finance	Total
	€m	€m	€m	€m
Total by portfolio				
ECL as at 1 January 2023	**447**	**40**	**34**	**521**
Redemptions and repayments	**(9)**	**-**	**-**	**(9)**
Net remeasurement of loss allowance	**10**	**(8)**	**(2)**	**-**
Loan originations	**11**	**11**	**1**	**23**
Loans acquired	**16**	**11**	**3**	**30**
Net movement excluding derecognition	**28**	**14**	**2**	**44**
Derecognition-disposals	**-**	**-**	**-**	**-**
Derecognition-repossessions	**-**	**-**	**-**	**-**
Derecognition-write offs*	**(5)**	**-**	**(2)**	**(7)**
Derecognition	**(5)**	**-**	**(2)**	**(7)**
ECL as at 30 June 2023	**470**	**54**	**34**	**558**
Net movement excluding derecognition (from above)				**44**
Interest income booked but not recognised				**(5)**
Write offs net of recoveries				**-**
Impairment charge on customer loans and advances for the half year ended 30 June 2023				**39**

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

18. Impairment provisions (continued)

31 December 2022

	Residential mortgages €m	Commercial €m	Consumer finance €m	Total €m
Total by portfolio				
ECL as at 1 January 2022	525	53	26	604
Redemptions and repayments	(18)	(9)	(1)	(28)
Net remeasurement of loss allowance	(41)	(16)	5	(52)
Loan originations	34	13	7	54
Loans acquired	37	-	-	37
Net movement excluding derecognition	12	(12)	11	11
Derecognition-disposals	(64)	-	-	(64)
Derecognition-repossessions	(3)	-	-	(3)
Derecognition-write offs*	(23)	(1)	(3)	(27)
Derecognition	(90)	(1)	(3)	(94)
ECL as at 31 December 2022	447	40	34	521
Net movement excluding derecognition (from above)				11
Income booked but not recognised.				(8)
Write offs net of recoveries				4
Impairment charge on loans and advances to customers for the year ended 31 December 2022.				7

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

18. Impairment provisions (continued)

	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m
Total by Stage				
ECL as at 1 January 2023	136	163	222	521
Transfer to Stage 1	19	(19)	-	-
Transfer to Stage 2	(17)	26	(9)	-
Transfer to Stage 3	(9)	(9)	18	-
Stage Transfers	(7)	(2)	9	-
Redemptions and repayments	(3)	(5)	(1)	(9)
Net remeasurement of loss allowance	(22)	10	12	-
Loan originations	14	9	-	23
Loans Acquired	30	-	-	30
Net movement excluding derecognition	19	14	11	44
Derecognition-disposals	-	-	-	-
Derecognition-repossessions	-	-	-	-
Derecognition-write offs*	-	-	(7)	(7)
Derecognition	-	-	(7)	(7)
ECL as at 30 June 2023	148	175	235	558
Net movement excluding derecognition (from above)				44
Interest income booked but not recognised				(5)
Write offs net of recoveries				-
Impairment charge on customer loans and advances for the half year ended 30 June 2023				39

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

18. Impairment provisions (continued)

	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m
Total by Stage				
ECL as at 1 January 2022	61	238	305	604
Transfer to Stage 1	13	(13)	-	-
Transfer to Stage 2	(3)	39	(36)	-
Transfer to Stage 3	-	(19)	19	-
Stage transfers	10	7	(17)	-
Redemptions and repayments	(5)	(11)	(12)	(28)
Net remeasurement of loss allowance	-	(34)	(18)	(52)
Loan originations	34	20	-	54
Loan acquired	37	-	-	37
Net movement excluding derecognition	66	(25)	(30)	11
Derecognition-disposals	(1)	(56)	(7)	(64)
Derecognition-repossessions	-	-	(3)	(3)
Derecognition-write offs*	-	(1)	(26)	(27)
Derecognition	(1)	(57)	(36)	(94)
ECL as at 31 December 2022	136	163	222	521
Net movement excluding derecognition (from above)				11
Write offs net of recoveries				(8)
Income booked but not recognised.				4
Impairment charge on customer loans and advances for the year ended 31 December 2022				7

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

Modified Financial Assets

There have been no significant modified financial assets for which the loss allowance has changed from lifetime to 12-month ECL at 30 June 2023 and 31 December 2022.

19. Interest in associated undertakings

	30 June 2023 €m	31 December 2022 €m
Synch Payments and Clearpay	**4**	3
First Home Scheme Ireland	**10**	10
	14	13

The Group owns a non-controlling interest in Synch Payments DAC (25%) and Clearpay DAC (33%). These investments are accounted for under the equity method in the consolidated financial statements and have a carrying value of €4m at 30 June 2023 (31 December 2022: €3m). Post-acquisition costs of €1m have been capitalised in the first half year of 2023.

These investments will be increased or decreased by the Group's share of the profit or loss which will be assessed annually.

On 1 July 2022, The Group entered into a joint venture with First Home Scheme Ireland DAC. This investment is accounted for under the equity method in the consolidated financial statements and have a carrying value of €10m (31 December 2022: €10m).

20. Deferred taxation

	30 June 2023 €m	31 December 2022 €m
Deferred tax liabilities	**(26)**	(25)
Deferred tax assets	**333**	334
Net deferred tax assets	**307**	309

	30 June 2023 €m	31 December 2022 €m
At 1 January	**309**	350
Recognised through Income statement (note 8)	**(1)**	(42)
Recognised in equity	**(1)**	(1)
Recognised in other comprehensive income	**-**	2
30 June/31 December	**307**	309

At 30 June 2023, the Group had a net deferred tax asset of €307m.

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 €331m at 30 June 2023. It should be noted that the full deferred tax asset on tax losses relates to tax losses generated in the 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 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 losses, in accordance with IAS 12, there must be convincing other evidence to underpin this assessment.

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

- The current macroeconomic environment and external forecasts for the Irish economy particularly in light of the geopolitical environment, interest rate rises and inflationary risks;
- The significant progress made on the Group's NPL strategy in recent years;
- The current expected trajectory of the Group's financial performance;
- The impairment performance;
- The Group's projected liquidity and capital position;
- The 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 global political uncertainty, the level of competition and disruptors to the market and market size;
- Consideration of the assumptions underpinning the Group's financial projections (on which analysis of the recoverability of the deferred tax asset on tax losses are based). The key relevant assumptions considered being:
  - No material change to the Group's business activities in the medium term;
  - Further progress in addressing the Group's legacy, non-performing assets;
  - NIM, which has benefited from increasing interest rates, is also 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;
  - Continued focus on cost management; and
  - The cost of risk will continue its return to normalised levels reflecting the Group's assessment of the medium to long term average; and
- Consideration of forecasting risks, including sensitivity analysis on the financial projections, such sensitivity analysis including the effect of higher than expected impairments, cost of funds or operating expenditure, and lower than expected asset yields, new lending or ECB rates.

20. Deferred taxation (continued)

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 €331m of a deferred tax asset on tax losses on the statement of financial position as at 30 June 2023.

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 2027 and assuming a level of profitability growth consistent with GDP growth of approximately 2.5%, it will take c.9 years for the deferred tax asset on tax losses of €331m 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. While the geopolitical uncertainty has significantly impacted GDP in the short-term it is expected that, over the medium-term, GDP will recover and 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 remained consistent with that at 31 December 2022 (utilisation expected by 2032 in both periods). Assumptions underpinning the deferred tax asset recoverability analysis are broadly in line with prior periods.

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.

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

21. Deposits by banks (including central banks)

	30 June 2023	31 December 2022
	€m	€m
Placed by other banks and institutions on repurchase agreements	**1,095**	611
Other deposits	**2**	3
Deposits by banks	**1,097**	614

Securities which are sold under agreements to repurchase are secured by Irish and other eligible Government bonds. These agreements are completed under market standard Global Master Repurchase Agreements. The fair value of the financial assets pledged under existing agreement to repurchase is €1,404m at 30 June 2023 (31 December 2022: €654m).

Other deposits include €2m (31 December 2022: €3m) of cash collateral placed in relation to derivative positions and repurchase agreements.

22. Customer accounts

	30 June 2023	31 December 2022
	€m	€m
Term deposits	**1,931**	1,509
Demand deposits	**9,034**	8,871
Current accounts	**9,484**	8,983
Notice and other accounts	**2,143**	2,367
Customer accounts	**22,592**	21,730

At 30 June 2023, the Group held corporate deposits of €1,100m (31 December 2022: €1,158m).

An analysis of the contractual maturity profile of customer accounts is set out in the liquidity risk section of note 30 of the 2023 Interim report.

23. Debt securities in issue

	30 June 2023 €m	31 December 2022 €m
At amortised cost		
Bonds and medium-term notes	**1,801**	658
	1,801	658

Maturity analysis

	30 June 2023	31 December 2022
Repayable in less than 1 year	**14**	10
Repayable in greater than 1 year but less than 5 years	**1,290**	648
Repayable in greater than 5 years	**497**	–
	1,801	658

Bonds and medium-term notes

In H1 2023, PTSBGH issued €650m of Senior Unsecured Medium Term Notes at a fixed rate of 6.625% per annum, maturing on 25 April 2028 and €500m of Senior Unsecured Medium Term Notes at a fixed rate of 6.625% per annum, maturing on 30 June 2029. Interest is payable on the nominal amount annually in arrears on the coupon date.

24. Other liabilities

	30 June 2023 €m	31 December 2022 €m
Amounts falling due within one year		
PAYE and social insurance	**7**	5
Other taxation including deposit interest retention tax (DIRT)	**1**	-
Creditor Accruals	**94**	84
Other*	**18**	54
Lease liability	**7**	6
Total amounts falling due within one year	**127**	149
Amounts falling due greater than one year		
Lease liability	**31**	32
Total amounts falling due greater than one year	**31**	32
Total other liabilities	**158**	181

* Other includes liability of €8m payable for the Ulster Bank business in relation to remaining residential mortgages in May 2023 and SME in June 2023 and other miscellaneous. In 2022, other includes €38m relating to additional cash consideration payable for the Ulster Bank business acquired by the Group in 2022 and other miscellaneous.

25. Provisions

	2023				2022			
	Restructuring costs	**Provision for legacy, legal and compliance liabilities**	**Other**	**Total**	Restructuring costs	Provision for legacy, legal and compliance liabilities	Other	Total
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
As at 1 January	**4**	**23**	**53**	**80**	6	28	21	55
Provisions made during the period	**-**	**1**	**5**	**6**	2	8	39	49
Write-back of provisions during the period	**-**	**-**	**(2)**	**(2)**	-	(3)	(6)	(9)
Provisions used during the period	**(1)**	**(8)**	**-**	**(9)**	(4)	(10)	(1)	(15)
As at 30 June/31 December	**3**	**16**	**56**	**75**	4	23	53	80

The provision at 30 June 2023 is €75m (31 December 2022: €80m) which is comprised of the following:

Restructuring costs
During 2020, the Group announced an Enterprise Transformation programme. At 31 December 2020, a provision for restructuring of €27m was recognised based on the estimate of the costs of this programme. During 2021 an additional provision of €7m was made and an amount of €29m was utilised as part of this programme. During 2022 a further provision of €2m was made and an amount of €4m was utilised. The remaining provision of €2m is based on an estimate of the remaining costs to bring the programme to a conclusion. This programme is expected to conclude within the next 10 months.

The Group remains a lessee on a number of non-cancellable leases over properties that it no longer occupies following a restructure in 2013. The remaining provision of €1m relates to dilapidation costs associated with the remaining properties.

Provision for legacy, legal and compliance liabilities
As at 30 June 2023, the Group has provisions of €16m relating to legal, compliance and other costs of on-going disputes in relation to legacy business issues (31 December 2022: €23m).

In 2022 Provisions totalling €8m and a release of €3m was made in respect of legal, compliance and other costs in relation to legacy business issues. A further provision of €1m was made during 2023 in relation to same.

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

Other
As at 30 June 2023, the provision of €56m (31 December 2022: €53m) primarily relates to indemnities and sureties provided by the Group, together with further costs, relating to the purchasing and deleveraging of various asset portfolios.

At 31 December 2022, a provision relating to Stamp Duty arising as a result of the Ulster Bank asset acquisition was recognised for €25m. This was increased further by €3m in 2023.

A provision of €2m relating to on-going disputes in relation to legacy business issues and a release of €2m for previous deleveraging transactions were also made during 2023.

26. Subordinated liabilities

	30 June 2023 €m	31 December 2022 €m
At amortised cost:		
€250m Tier 2 capital notes due August 2031, Callable 2026	**255**	252
	255	252

Maturity date

	30 June 2023 €m	31 December 2022 €m
Repayable in less than 1 year	**6**	3
Repayable in greater than 1 year but less than 5 years	**-**	-
Repayable in greater than 5 years	**249**	249
	255	252

Tier 2 capital notes – PTSBGH

In May 2021, PTSBGH issued €250m of Tier 2 capital notes at a fixed rate of 3% per annum. The notes mature on 19 August 2031 with a call date of any date from and including 19 May 2026 to and including 19 August 2026. The call is subject to approval by the regulatory authorities, with approval conditional on meeting the requirements of the Capital Requirements Regulation.

The interest rate will be reset, in the event that the securities are not called, on 19 August 2026 to Euro 5 year Mid Swap rate plus a margin of 3.221% per annum. The loan is subordinated and ranks as Tier 2 capital with interest paid annually in arrears on 19 August (short first coupon period). The loan may be subject to the exercise of Irish Statutory loss absorption powers by the relevant resolution authority.

In the event of winding up of PTSBGH, the Tier 2 capital notes will be:

- junior in right of payment to all Senior Claims;
- pari passu with all other subordinated claims against PTSBGH which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 capital notes or that rank or are expressed to rank pari passu with the obligations of PTSBGH under Tier 2 capital notes; and
- in priority to PTSBGH ordinary shares, preference shares and junior subordinated obligations or other securities of PTSBGH which by law rank, or by their terms are expressed to rank, junior to the Tier 2 capital notes.

27. 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.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Bank.

All ordinary shares rank equally with regard to the Bank's residual assets.

Authorised share capital
30 June 2023

	Number of shares	€m
Ordinary shares of €0.50 each	**1,550,000,000**	**775**

31 December 2022

	Number of shares	€m
Ordinary shares of €0.50 each	1,550,000,000	775

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

Issued share capital

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

Balance as at 30 June 2023

	€0.50 Ordinary shares	Total €m
As at 1 January 2023	**545,589,119**	
Movement	**-**	
As at 30 June 2023	**545,589,119**	
Issued share capital (€m)	**273**	**273**
Shares held under employee benefit trust	**4,580**	
% of Authorised capital issued		**35%**

Balance as at 31 December 2022

	€0.50 Ordinary shares	Total €m
As at 1 January 2022	454,695,492	
Movement	90,893,627	
As at 31 December 2022	545,589,119	
Issued share capital (€m)	273	273
Shares held under employee benefit trust	4,580	
% of Authorised capital issued		35%

Share premium

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

Other reserves

Revaluation reserve (Non-distributable)

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

Fair value reserve (Non-distributable)

The fair value reserve comprises:

- the cumulative net change in the fair value of equity securities measured at FVOCI; and
- the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are derecognised or reclassified. This amount is increased by the amount of loss allowance.

Other capital reserves (Non-distributable)

Other capital reserves includes €1,087m capital issued by the Company net of €7m capital redemption reserve arising from the repurchase and cancellation of shares and €224m incurred in the cancellation of the share capital and share premium of PTSB on the incorporation of the Company.

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.
€21m (31 December 2022: €10m) coupon interest on the AT1 securities was paid from this reserve during 2023.

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

Other equity instruments - Non-distributable

	30 June 2023 €m	31 December 2022 €m
As at 1 January	**368**	123
Issued during the period		
Additional Tier 1 securities - net of the transaction costs	**-**	245
Redemption during the period		
Additional Tier 1 securities	**368**	368

The Bank has issued two distinct sets of AT1 securities, in November 2020 and October 2022
On 25 November 2020, permanent tsb Group holdings plc ('Company') issued €125,000,000 nominal value of AT1 Perpetual Temporary Write Down securities as part of a capital raise. The transaction costs incurred were €2m. The first reset date for the fixed rate is 25 May 2026.

The AT1 securities are perpetual and redeemable financial instruments with a semi-annual coupon of 7.875% paid in arrears on 25 May and 25 November. On the first reset date on 25 May 2026, in the event the securities are not redeemed, interest will be reset to Euro 5 year Mid Swap rate plus a margin of 8.468% (converted from an annual to a semi-annual rate). The Company 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.

On 26 October 2022, PTSBGH issued additional €250m AT1 Fixed Rate Reset Perpetual Temporary Write Down Securities. The transaction costs incurred were €5m. The first reset date for the fixed rate is 26 April 2028.

The AT1 securities are perpetual and redeemable financial instruments with a semi-annual coupon of 13.25% paid in arrears on 26 April and 26 October of each year, commencing on 26 April 2023. On the first reset date on 26 April 2028, in the event the securities are not redeemed, interest will be reset to Euro 5 year Mid Swap rate plus a margin of 10.546% (converted from an annual to a semi-annual rate). The Company 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.
The Company 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 the Company.

Although the AT1 securities are perpetual, the Company may, in its sole discretion, redeem the AT1 securities in full on any day falling in the period commencing 25 November 2025 and the first reset date above and on every interest payment date thereafter (subject to the approval of the Supervisory Authority) at the prevailing principal amount together with accrued but unpaid interest. In addition, the securities are redeemable at the option of the Company for certain regulatory or tax reasons, subject to regulatory approval.

Under the EU (Bank Recovery and Resolution) Regulations 2015, these securities are loss absorbing at the point of non-viability. On the occurrence of a trigger event, at any time, any accrued and unpaid interest up to (but excluding) the write down date shall be automatically and irrevocably cancelled, and the then Prevailing Principal Amount of each Security shall be automatically and irrevocably reduced by the write down amount. This will occur if the CET1 Capital Ratio of PTSB or the Group at any time falls below 7%. Subsequent to any write-down event the Company may, at its sole discretion, write-up some or all of the written-down principal amount of the AT1 instrument provided regulatory capital requirements and certain conditions are met.

28. Analysis of other comprehensive income

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

Six months to 30 June 2023

	Revaluation reserve €m	Fair value reserve €m	Retained earnings €m	Total €m
Other comprehensive income (net of tax)				
Revaluation of property	-	-	-	-
Fair value reserve (equity instruments):				
· Change in fair value of equity instruments	-	3	-	3
Fair value reserve (debt instruments):				
· Change in fair value of debt instruments	-	-	-	-
Total other comprehensive income	**-**	**3**	**-**	**3**

Twelve months to 31 December 2022

	Revaluation reserve €m	Fair value reserve €m	Retained earnings €m	Total €m
Other comprehensive income (net of tax)				
Revaluation of property	(6)	-	-	(6)
Fair value reserve (equity instruments):				
· Change in fair value of equity instruments	-	2	-	2
Fair value reserve (debt instruments):				
· Change in fair value of debt instruments	-	-	-	-
Total other comprehensive income/(expense)	(6)	2	-	4

Six months to 30 June 2022

	Revaluation reserve €m	Fair value reserve €m	Retained earnings €m	Total €m
Other comprehensive income (net of tax)	-	-	-	-
Revaluation of property	-	-	-	-
Fair value reserve (equity instruments):				
· Change in fair value of equity instruments	-	(1)	-	(1)
Fair value reserve (debt instruments):				
· Change in fair value of debt instruments	-	-	-	-
Total other comprehensive expense, net of tax	-	(1)	-	(1)

29. Measurement basis and fair values of financial instruments

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

(a) Measurement basis and fair value of financial instruments

30 June 2023

	Note	Held at amortised cost €m	At fair value through OCI €m	At fair value through profit or loss €m	Designated as fair value hedges €m	Total carrying value €m	Fair value €m
Financial assets							
Cash at bank	10	**61**	**-**	**-**	**-**	**61**	**61**
Items in course of collection	10	**29**	**-**	**-**	**-**	**29**	**29**
Loans and advances to banks	11	**3,338**	**-**	**-**	**-**	**3,338**	**3,338**
Derivative financial instruments	12	**-**	**-**	**2**	**-**	**2**	**2**
Debt securities	15	**3,274**	**-**	**-**	**-**	**3,274**	**3,048**
Equity securities	14,16	**-**	**34**	**-**	**-**	**34**	**34**
Loans and advances to customers	17,18	**20,868**	**-**	**-**	**-**	**20,868**	**20,669**
Financial liabilities							
Deposits by banks	21	**1,097**	**-**	**-**	**-**	**1,097**	**1,097**
Customer accounts	22	**22,592**	**-**	**-**	**-**	**22,592**	**22,569**
Derivative financial instruments	12	**-**	**-**	**4**	**-**	**4**	**4**
Debt securities in issue	23	**1,805**	**-**	**-**	**(4)**	**1,801**	**1,804**
Subordinated liabilities	26	**255**	**-**	**-**	**-**	**255**	**222**
Other financial liabilities	24	**120**	**-**	**38**	**-**	**158**	**158**

31 December 2022

	Note	Held at amortised cost €m	At fair value through OCI €m	At fair value through profit or loss €m	Designated as fair value hedges €m	Total carrying value €m	Fair value €m
Financial assets:							
Cash at bank	10	58	-	-	-	58	58
Items in course of collection	10	40	-	-	-	40	40
Loans and advances to banks	11	2,123	-	-	-	2,123	2,123
Derivative financial instruments	12	-	-	-	-	-	-
Debt securities	15	3,177	-	-	-	3,177	2,929
Equity securities	16	-	30	-	-	30	30
Loans and advances to customers	17,18	19,593	-	-	-	19,593	20,059
Financial liabilities:							
Deposits by banks	21	614	-	-	-	614	614
Customer accounts	22	21,730	-	-	-	21,730	21,726
Derivative financial instruments	12	-	-	13	-	13	13
Debt securities in issue	23	658	-	-	-	658	634
Subordinated liabilities	26	252	-	-	-	252	204
Other financial liabilities	24	143	-	38	-	181	181

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 inputs including quoted prices of financial instruments themselves or quoted prices of similar instruments in either active or inactive markets.
- Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data inputs.

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

The following table sets out the fair value of financial instruments that the Group holds at 30 June 2023. It categorises these financial instruments into the relevant level on the fair value hierarchy.

Basis and fair value of financial instruments
30 June 2023

	Note	**Total carrying value €m**	**Level 1 €m**	**Level 2 €m**	**Level 3 €m**	**Total fair value €m**
Financial assets:						
Cash at bank	10	**61**	**61**	**-**	**-**	**61**
Items in the course of collection	10	**29**	**-**	**29**	**-**	**29**
Loans and advances to banks	11	**3,338**	**-**	**3,338**	**-**	**3,338**
Derivative financial instruments	12	**2**	**-**	**-**	**2**	**2**
Debt securities	15	**3,274**	**3,048**	**-**	**-**	**3,048**
Equity securities	14,16	**34**	**29**	**-**	**5**	**34**
Loans and advances to customers	17,18	**20,868**	**-**	**-**	**-**	**-**
Financial liabilities:						
Deposits by banks	21	**1,097**	**-**	**1,097**	**-**	**1,097**
Customer accounts	22	**22,592**	**-**	**22,592**	**-**	**22,592**
Derivative financial instruments	12	**4**	**-**	**4**	**-**	**4**
Debt securities in issue	23	**1,801**	**1,804**	**-**	**-**	**1,804**
Subordinated liabilities	26	**255**	**222**	**-**	**-**	**222**
Other financial liabilities	24	**158**	**-**	**158**	**-**	**158**

31 December 2022

	Note	Total carrying value €m	Level 1 €m	Level 2 €m	Level 3 €m	Total fair value €m
Financial assets:						
Cash at bank	10	58	58	-	-	58
Items in course of collection	10	40	-	40	-	40
Loans and advances to banks	11	2,123	-	2,123	-	2,123
Derivative financial instruments	12	-	-	-	-	-
Debt securities	15	3,177	2,929	-	-	2,929
Equity securities	14,16	30	26	-	4	30
Loans and advances to customers	17,18	19,593	-	-	20,059	20,059
Financial liabilities:						
Deposits by banks	21	614	-	614	-	614
Customer accounts	22	21,730	-	21,726	-	21,726
Derivative financial instruments	12	13	-	1	12	13
Debt securities in issue	23	658	634	-	-	634
Subordinated liabilities	26	252	204	-	-	204
Other financial liabilities	24	181	-	181	-	181

(b) Fair value measurement principles

The Group's accounting policy on valuation of financial instruments is described in note 1 and note 2 of the consolidated financial statements for 2022 and contains details on the critical accounting estimates and judgements made by management in relation to the fair value measurement of financial instruments. The fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Where possible, the Group calculates fair value using observable market prices in an active market. 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 HTC&S debt securities, derivative financial instruments and equity securities, all other financial assets and liabilities are not measured at fair value at the reporting date. A description of the methods and assumptions used to calculate fair values of these assets and liabilities is set out below.

Cash at bank

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

Items in course of collection

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

Loans and advances to banks

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

Loans and advances to customers

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

Debt securities

Debt securities at 30 June 2023 are €3,274m (31 December 2022 €3,177m) and consist of HTC securities. The fair values of HTC securities are based on quoted market prices through independent sources such as Bloomberg.

Deposits by banks/customer accounts

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

Debt securities in issue/subordinated liabilities

The fair values of debt securities in issue/subordinated liabilities are estimated using market prices of instruments that are substantially the same as those issued by the Group. The fair values of debt securities in issue are based on quoted market prices through independent sources such as Bloomberg.

Financial assets and financial liabilities subsequently measured at fair value

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

Derivative financial instruments

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.

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

Equity securities

PTSB Group holds Series A and Series B preferred stock in Visa Inc. at 30 June 2023. The Series A preferred stock was acquired during 2020 upon the conversion of Series B preferred stock by Visa Inc. These were fair valued at €34m at 30 June 2023 (31 December 2022: €30m) and are recognised in the statement of financial position at FVOCI.

The fair values of the Series A preferred stock in Visa Inc. is classified as Level 1 and the fair value of the Series B preferred stock is classified as Level 3, as the valuation of these preferred stock includes inputs that are based on unobservable data.

Fair value measurements recognised in the statement of financial position
30 June 2023

	Note	**Level 1 €m**	**Level 2 €m**	**Level 3 €m**	**Total €m**
Financial assets measured at fair value					
Derivative financial instrument	**12**	**-**	**-**	**2**	**2**
Equity instruments*	**14,16**	**29**	**-**	**5**	**34**

*The Series A preferred stock have been classified as assets held for sale as at 30 June 2023 (refer to note 14 for details).

	Note	**Level 1 €m**	**Level 2 €m**	**Level 3 €m**	**Total €m**
Financial liabilities measured at fair value					
Derivative financial instrument	**12**	**4**	**-**	**-**	**4**

31 December 2022

	Note	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets measured at fair value					
Derivative financial instrument	12	-	-	-	-
Equity instruments	16	26	-	4	30
Financial liabilities measured at fair value					
Derivative financial instrument	12	-	1	12	13

Reconciliation of level 3 fair value measurements of financial assets

	30 June 2023 €m	31 December 2022 €m
Equity instruments		
As at 1 January	**4**	9
Revaluation movement in OCI – Fair value reserve (equity instruments)	**1**	-
Conversion of Series B preferred stock to Series A preferred stock	**-**	(5)
As at 30 June/31 December	**5**	4

There were no transfers between level 1, level 2 or level 3 of the fair value hierarchy during 2023 or 2022 for financial assets.

Level 3 fair value measurements of financial liabilities

There were no transfers between level 1, level 2 or level 3 of the fair value hierarchy during 2023 or 2022 for financial liabilities. The level 3 of €12m relates to business combination forwards in December 2022. The fair value of the forward derivative at the acquisition date was a liability of €16m. This is calculated as the difference between the fair value of the consideration to be paid and the fair value of the assets to be acquired. See notes 2 and 3 of the 2022 Annual report for further detail.

Level 3 sensitivity analysis

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

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

30 June 2023

	Valuation technique	Significant unobservable inputs	Range of estimates for unobservable inputs	Fair Value	Ranges of estimates Changes in the fair value
Visa Inc. Series B Preferred Stock	**Quoted market price (Discounted)***	**Final share conversion rate**	**0 - 90%**	**5**	**0 - 90%**

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

31 December 2022

	Valuation technique	Significant unobservable inputs	Range of estimates for unobservable inputs	Fair Value	Ranges of estimates Changes in the fair value
Visa Inc. Series B Preferred Stock	Quoted market price (Discounted)*	Final share conversion rate	0-90%	4	0-90%

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

Significant unobservable inputs

Visa Inc. Series A and Series B preferred stock

The Visa Inc. Series A preferred stock held by PTSB was acquired during 2020 upon the partial conversion of Series B preferred stock by Visa Inc. These Series A and B preferred stock were fair valued at €29m and €5m respectively at 30 June 2023 (31 December 2022: €26m and €4m) and are recognised in the statement of financial position at FVOCI.

Valuation Methodology: The Visa Inc. Class A Common stock price and conversion ratios were applied to the PTSB shareholding of Visa Inc. Series A and Series B preferred shares at 30 June 2023 and 31 December 2022. Future conversions are calculated using discounted cash follows. The stock was revalued at the year-end exchange rate.

Unobservable input: The unobservable inputs are the discount factor used to discount the future conversions of Series B preferred stock.

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

The Visa Inc. Series A and Series B preferred stock is denominated in US dollars and is exposed to FX risk.

Business combination forwards

As at 30 June 2023 the fair value of the Forward Contract Derivative relating to the asset finance assets is an asset of €2m (31 December 2022: liability of €2m). The gross fair value of assets to be acquired is €491m and fair value of the consideration to be transferred is €489m. The Forward Contract Derivatives are measured as the net of the fair value of the assets based on a discounted cash flow model and the fair value of the consideration to be transferred i.e. the gross outstanding balance. This resulted in a gain in Net other operating income of €4m.

There was an allocation in to Level 3 per the fair value hierarchy of €12m during 2022. The remaining movement in this balance is due to the closure of the Forward Contract Derivatives on the other tranches as a result of the realisation of the SME and retail mortgages businesses. As noted in note 2 the business combination became binding on 7 November 2022.

Valuation Methodology: The fair value of the forward derivative at 30 June 2023 was an asset of €2m (31 December 2022: liability of €12m). This is calculated as the difference between the fair value of the consideration to be paid and the fair value of the assets to be acquired.

Unobservable input: The unobservable inputs are the prepayment rate, redemption rate, transition rate (from fixed to variable rates and vice versa), probability of default (PD) and loss given default assumptions, servicing cost, risk weights based on the asset characteristics and a discount rate based on cost of funding, capital and targeted capital ratio. Taking account of the various uncertainties, Management estimate the range of changes in fair value on the receive leg (loans acquired) to be 95% to 105%, with no material change expected on the pay leg (the consideration).

30. Financial risk management

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

Credit risk

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

The Group manages credit risk through detailed credit policies for each business unit which outline relevant conditions under which a loan can be made covering collateral credit assessment risk grading and compliance. Credit policies establish coherent limit systems for credit risk. There are various limit structures which are in place to manage credit default risk, concentration risk, settlement risk and counterparty risk.

The GCC, as created by the Board of Directors, oversees the overall exposure to credit risk and the arrangements put in place to minimise credit risk in line with regulatory and statutory requirements.

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

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

	Notes	30 June 2023 €m	31 December 2022 €m
Cash at bank	10	**61**	58
Items in course of collection	10	**29**	40
Loans and advances to banks (iii)	11	**3,338**	2,123
Derivative financial instruments (ii)	12	**2**	-
Debt securities (i)	15	**3,274**	3,177
Loans and advances to customers (iv)	17	**20,868**	19,593
		27,572	24,991
Commitments and contingencies	31	**1,378**	1,342
		28,950	26,333

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

(i) Debt securities

The Group is exposed to the credit risk on third parties where the Group holds debt securities (primarily 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.

30. Financial risk management (continued)

The following table gives an indication of the level of the credit worthiness of the Group's debt securities and is based on the Group's internal rating policy which was approved by the CBI. The inputs to the ratings used in the table below are those prescribed by Moody's Investor Services Limited.

	30 June 2023 €m	31 December 2022 €m
Rating		
Aaa	**282**	49
Aa1	**-**	110
Aa2	**353**	250
Aa3	**1,551**	-
A1	**-**	1,734
Baa1	**550**	497
Baa2	**457**	456
Baa3	**81**	81
Total	**3,274**	3,177

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

	30 June 2023 €m	31 December 2022 €m
Country		
Ireland	**1,566**	1,783
Portugal	**457**	456
Spain	**550**	497
France	**353**	250
Italy	**81**	81
EU	**267**	110
Total	**3,274**	2,123

(ii) Derivative financial instruments

The Group has executed standard ISDA agreements with all of its counterparties, with the exception of the Ulster Bank business combination derivative. The Group has also executed CSAs with all of 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. FX forward derivatives are settled gross. The Group manages its collateral derivative positions with counterparties on a net basis. The uncollaterised derivative positions are all held with investment grade counterparties. The cumulative positive market value of derivative assets at 30 June 2023 was €2m which relate to the Asset Financing assets that will not be transferred until July 2023 (31 December 2022: €nil). See note 2 for further detail.

(iii) Loans and advances to banks

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

30. Financial risk management (continued)

	30 June 2023 €m	31 December 2022 €m
Rating		
AAA	2,842	1,620
AA	34	-
Aa2	150	199
Aa3	291	286
A1	7	10
Ba1	-	8
Baa3	14	-
Total	3,338	2,123

The following sections detail additional disclosures on Asset Quality.

(iv) Loans and advances to customers
Gross customer loans and advances
The tables below outline total loans and advances to customers for the Group analysed by home loan, buy-to-let, commercial and consumer finance.

Measured at amortised cost

	30 June 2023 €m	31 December 2022 €m
Residential mortgages:		
Home loan	**19,488**	18,340
Buy-to-let	**806**	824
Total residential mortgages	**20,294**	19,164
Commercial	**376**	239
Consumer finance	**449**	401
Total measured at amortised cost	**21,119**	19,804
Analysed by ECL staging:		
Stage 1	**18,483**	17,455
Stage 2	**1,945**	1,699
Stage 3	**690**	649
POCI	**1**	1
Total measured at amortised cost	**21,119**	19,804
Of which at the reporting date:		
Neither past due nor Stage 3	**20,365**	19,118
Past due but not Stage 3	**63**	36
Stage 3	**691**	650
Total measured at amortised cost	**21,119**	19,804
Of which are reported as non-performing loans	**691**	650
Deferred fees, discounts & fair value adjustments	**307**	310

30. Financial risk management (continued)

Asset Quality: 30 June 2023*

	Home loan €m	Buy-to-let €m	Total Residential Mortgages €m	Commercial €m	Consumer €m	Total €m
Stage 1						
Excellent	**13,389**	**66**	**13,455**	**9**	**139**	**13,603**
Satisfactory	**4,325**	**144**	**4,469**	**45**	**44**	**4,558**
Fair	**23**	**5**	**28**	**11**	**22**	**61**
Standardised	**-**	**-**	**-**	**110**	**151**	**261**
	17,737	**215**	**17,952**	**175**	**356**	**18,483**
Stage 2						
Excellent	**274**	**29**	**303**	**1**	**4**	**308**
Satisfactory	**386**	**85**	**471**	**7**	**16**	**494**
Fair	**699**	**213**	**912**	**169**	**27**	**1,108**
Standardised	**-**	**-**	**-**	**5**	**30**	**35**
	1,359	**327**	**1,686**	**182**	**77**	**1,945**
Stage 3						
Default	**392**	**264**	**656**	**19**	**16**	**691**
Total measured at amortised cost	**19,488**	**806**	**20,294**	**376**	**449**	**21,119**

* The information in the shaded box has not been subject to review by the Group's independent auditor. See detail on the asset quality categories in the credit risk management section on page 40.

Asset Quality: 31 December 2022*

	Home loan €m	Buy-to-let €m	Total Residential Mortgages €m	Commercial €m	Consumer €m	Total €m
Stage 1						
Excellent	12,826	65	12,891	11	143	13,045
Satisfactory	4,064	141	4,205	17	61	4,283
Fair	22	-	22	-	21	43
Standardised	-	-	-	-	84	84
	16,912	206	17,118	28	309	17,455
Stage 2						
Excellent	79	44	123	-	5	128
Satisfactory	296	107	403	27	21	451
Fair	711	197	908	161	26	1,095
Standardised	-	-	-	-	25	25
	1,086	348	1,434	188	77	1,699
Stage 3						
Default	342	270	612	23	15	650
Total measured at amortised cost	18,340	824	19,164	239	401	19,804

* The information in the shaded box has not been subject to review by the Group's independent auditor.

30. Financial risk management (continued)

Past due but not Stage 3

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

30 June 2023

	Home loans €m	Buy-to-let €m	Commercial €m	Total €m
0-30 days	**30**	**7**	**2**	**39**
31-60 days	**7**	**2**	**1**	**10**
61-90 days	**7**	**1**	**-**	**8**
Total past due not Stage 3	**44**	**10**	**3**	**57**
Fair value of collateral held	**44**	**10**	**3**	**57**

Fair value of collateral held

	Home loans €m	Buy-to-let €m	Commercial €m	Total €m
0-30 days	**30**	**7**	**2**	**39**
31-60 days	**7**	**2**	**1**	**10**
61-90 days	**7**	**1**	**-**	**8**
Total past due not Stage 3	**44**	**10**	**3**	**57**

31 December 2022

	Home loans €m	Buy-to-let €m	Commercial €m	Total €m
0-30 days	16	2	-	18
31-60 days	4	1	-	5
61-90 days	5	-	-	5
Total past due not Stage 3	25	3	-	28
Fair value of collateral held	25	3	-	28

Fair value of collateral held

	Home loans €m	Buy-to-let €m	Commercial €m	Total €m
0-30 days	16	2	-	18
31-60 days	4	1	-	5
61-90 days	5	-	-	5
Total past due not Stage 3	25	3	-	28

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

Non-performing loans

Non-performing loans (NPLs) are loans which are credit impaired or loans which are classified as defaulted in accordance with the Group's definition of default. The Group's definition of default considers objective indicators of default including the 90 days past due criterion, evidence of exercise of concessions or modifications to terms and conditions is designed to be consistent with European Banking Authority (EBA) guidance on the definition of forbearance.

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

30. Financial risk management (continued)

Non-performing assets are defined as NPLs plus foreclosed assets.

30 June 2023

	Stage 3				
	Home loans	**Buy-to-let**	**Commercial**	**Consumer finance**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
NPL is < 90 days	**181**	**100**	**11**	**3**	**295**
NPL is > 90 days and < 1 year past due	**64**	**26**	**1**	**4**	**95**
NPL is 1-2 years past due	**39**	**43**	**1**	**2**	**85**
NPL is 2-5 years past due	**54**	**66**	**-**	**1**	**121**
NPL is > 5 years past due	**54**	**29**	**6**	**5**	**94**
POCI	**-**	**-**	**-**	**1**	**1**
Non-performing loans	**392**	**264**	**19**	**16**	**691**
Foreclosed assets	**3**	**13**	-	-	**16**
Non-performing assets	**395**	**277**	**19**	**16**	**707**
NPLs as % of gross loans	**2.0%**	**32.8%**	**5.1%**	**3.6%**	**3.3%**

31 December 2022

	Stage 3				
	Home loans	Buy-to-let	Commercial	Consumer finance	Total
	€m	€m	€m	€m	€m
NPL is < 90 days	175	118	17	2	312
NPL is > 90 days and < 1 year past due	31	15	-	3	49
NPL is 1-2 years past due	31	80	-	2	113
NPL is 2-5 years past due	51	28	-	2	81
NPL is > 5 years past due	54	29	6	5	94
POCI	-	-	-	1	1
Non-performing loans	342	270	23	15	650
Foreclosed assets	3	15	-	-	18
Non-performing assets	345	285	23	15	668
NPLs as % of gross loans	1.9%	32.8%	9.6%	3.7%	3.3%

Non-performing loans as a percentage of total loans and advances was 3.3% at 30 June 2023 (31 December 2022: 3.3%).

Total portfolio loss allowance: statement of financial position

The tables below outline the ECL loss allowance total at 30 June 2023 and 31 December 2022 in respect of total customer loans and advances.

The impairment charge in respect of the total loans and advances for half year ended 30 June 2023 was €39m, compared to a charge of €7m for the year ended 31 December 2022.

	30 June 2023	31 December 2022
	€m	€m
Loss allowance - statement of financial position		
Stage 1	**148**	136
Stage 2	**175**	163
Stage 3	**235**	222
Total loss allowance	**558**	521

30. Financial risk management (continued)

	30 June 2023 %	31 December 2022 %
Provision coverage ratio*		
Stage 1	**0.8%**	0.8%
Stage 2	**9.0%**	9.6%
Stage 3	**34.0%**	34.1%
Total provisions/total loans	**2.6%**	2.6%

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

Loan-to-value profile

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

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

Actual and average LTVs across principal mortgage portfolios:

The tables below outline the weighted average LTVs for the total residential mortgage portfolios analysed across home loan and buy-to-let facilities by value. The weighted average LTV on the existing residential mortgage portfolios is 53% at 30 June 2023 compared to 54% at 31 December 2022.

The Group's residential mortgage lending LTVs at June 2023 reflect updated valuations obtained on high-exposure NPLs (largely impacting on high-exposure buy-to-let properties).

30 June 2023

	Home loans %	Buy-to-let %	Total %
Less than 50%	**43%**	**32%**	**43%**
50% to 70%	**38%**	**19%**	**37%**
71% to 90%	**17%**	**22%**	**17%**
91% to 100%	**1%**	**9%**	**2%**
Subtotal	**99%**	**82%**	**99%**
101% to 110%	**1%**	**4%**	**1%**
111% to 120%	**-**	**4%**	**-**
121% to 130%	**-**	**2%**	**-**
131% to 140%	**-**	**2%**	**-**
141% to 150%	**-**	**1%**	**-**
151% to 160%	**-**	**1%**	**-**
161% to 170%	**-**	**1%**	**-**
171% to 180%	**-**	**1%**	**-**
Greater than 180%	**-**	**2%**	**-**
Subtotal	**1%**	**18%**	**1%**
Total	**100%**	**100%**	**100%**
Weighted average LTV:			
Stock of existing residential mortgages	**53%**	**72%**	**53%**
New residential mortgages	**71%**	**58%**	**70%**
Acquired residential mortgages	**50%**	**43%**	**49%**
Stage 3 mortgages	**70%**	**102%**	**83%**

30. Financial risk management (continued)

31 December 2022

	Home loans %	Buy-to-let %	Total %
Less than 50%	44%	32%	44%
50% to 70%	40%	18%	39%
71% to 90%	14%	24%	14%
91% to 100%	1%	8%	1%
Subtotal	99%	82%	98%
101% to 110%	1%	5%	1%
111% to 120%	-	4%	-
121% to 130%	-	3%	-
131% to 140%	-	1%	-
141% to 150%	-	2%	-
151% to 160%	-	1%	-
161% to 170%	-	-	-
171% to 180%	-	-	-
Greater than 180%	-	2%	1%
Subtotal	1%	18%	2%
Total	100%	100%	100%
Weighted average LTV:			
Stock of existing residential mortgages	53%	76%	54%
New residential mortgages	68%	58%	68%
Acquired residential mortgages	47%	39%	47%
Stage 3 mortgages	74%	100%	85%

Forbearance arrangements

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

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

Residential mortgages

The tables below set out the volume of loans for which the Group has entered formal temporary and permanent forbearance arrangements with customers as at 30 June 2023 and 31 December 2022.

(i) Residential home loan mortgages:

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

30 June 2023

	All loans		Stage 3	
	Number	Balances €m	Number	Balances €m
Interest only	**25**	**3**	**20**	**3**
Reduced payment (less than interest only)	**40**	**7**	**25**	**4**
Reduced payment (greater than interest only)	**1,479**	**203**	**755**	**113**
Payment moratorium	**30**	**5**	**14**	**3**
Arrears capitalisation	**933**	**98**	**421**	**45**
Term extension	**579**	**39**	**230**	**18**
Hybrid*	**264**	**40**	**169**	**25**
Split mortgages**	**163**	**27**	**163**	**27**
Total	**3,513**	**422**	**1,797**	**238**

* Hybrid is a combination of two or more forbearance arrangements.
** Split mortgage is where a portion of outstanding debt is deferred until financial ability or circumstances improve.

30. Financial risk management (continued)

31 December 2022

	All loans		Stage 3	
	Number	Balances €m	Number	Balances €m
Interest only	21	6	19	3
Reduced payment (less than interest only)	34	3	22	2
Reduced payment (greater than interest only)	1,369	192	782	120
Payment moratorium	32	5	19	3
Arrears capitalisation	433	53	252	31
Term extension	428	32	209	17
Hybrid*	277	41	178	26
Split mortgages**	153	26	153	26
Total	2,747	358	1,634	228

* Hybrid is a combination of two or more forbearance arrangements.
** Split mortgage is where a portion of outstanding debt is deferred until financial ability or circumstances improve.

The tables above reflect an increase of 766 cases in the year to 30 June 2023 for the Group in the number of residential home loan mortgages in forbearance arrangements, an increase of €64m. The average balance of forborne loans is €0.120m at 30 June 2023 (31 December 2022: €0.130m).

(ii) Residential buy-to-let mortgages:

The incidence of the main type of forbearance arrangements for residential buy-to-let mortgages is analysed below:

30 June 2023

	All loans		**Stage 3**	
	Number	**Balances €m**	**Number**	**Balances €m**
Interest only	**20**	**8**	**19**	**8**
Reduced payment (less than interest only)	**2**	**-**	**1**	**-**
Reduced payment (greater than interest only)	**88**	**26**	**69**	**23**
Payment moratorium	**7**	**2**	**4**	**1**
Arrears capitalisation	**31**	**8**	**14**	**4**
Term extension	**18**	**5**	**9**	**2**
Hybrid*	**64**	**33**	**46**	**21**
Split mortgages**	**22**	**7**	**22**	**7**
Total	**252**	**89**	**184**	**66**

* Hybrid is a combination of two or more forbearance arrangements.
** Split mortgage is where a portion of outstanding debt is deferred until financial ability or circumstances improve.

31 December 2022

	All loans		Stage 3	
	Number	Balances €m	Number	Balances €m
Interest only	19	8	17	7
Reduced payment (less than interest only)	-	-	-	-
Reduced payment (greater than interest only)	99	29	76	24
Payment moratorium	1	-	-	-
Arrears capitalisation	18	8	10	4
Term extension	27	6	12	3
Hybrid*	70	41	51	23
Split mortgages**	22	7	22	7
Total	256	99	188	68

* Hybrid is a combination of two or more forbearance arrangements.
** Split mortgage is where a portion of outstanding debt is deferred until financial ability or circumstances improve.

30. Financial risk management (continued)

The tables above reflect a decrease of 4 cases in the year to 30 June 2023 for the Group in the number of residential buy-to-let in forbearance arrangements, a decrease of €10m in balances. The average balance of forborne loans is €0.35m at 30 June 2023 (31 December 2022: €0.39m).

(iii) Commercial mortgages

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

Commercial mortgages

	30 June 2023		31 December 2022	
	Number	Balances €m	Number	Balances €m
Reduced payment (greater than interest only)	9	4	11	5
Arrears capitalisation	38	3	1	1
Term extension	7	1	7	1
Hybrid*	4	1	6	1
Total	**58**	**9**	25	8

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

The table above reflects an increase of 33 cases in the year to 30 June 2023 for the Group in the number of commercial mortgages in forbearance arrangements, an increase of €1m in balances.

Reconciliation of movement in forborne loans for all classes

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

(i) Reconciliation of movement of total forborne loans

30 June 2023

	Residential mortgages							
	Home loans cases	Home loans balances €m	Buy -to-let cases	Buy-to-let balances €m	Commercial cases	Commercial balances €m	Total cases	Total balances €m
Opening balance 1 January 2023	2,747	358	256	99	25	8	3,028	465
New forbearance extended during the period*	1,131	110	35	5	37	2	1,203	117
Deleveraged loans	-	-	-	-	-	-	-	-
Exited forbearance								
· re-classified to Stage 3 non-forborne	(11)	(2)	(1)	(1)	(1)	(1)	(13)	(4)
· expired forbearance treatment	(250)	(30)	(22)	(10)	-	-	(272)	(40)
· expired loan paid down	(104)	(8)	(16)	(2)	(3)	-	(123)	(10)
Balance shift**	-	(6)	-	(2)	-	-	-	(8)
Closing balance of loans in forbearance for half year ended 30 June 2023	**3,513**	**422**	**252**	**89**	**58**	**9**	**3,823**	**520**

* Balance movements are stated net of portfolio re-classification.
** Balance movements in respect of loans which are in forbearance at the start and end of the year.

30. Financial risk management (continued)

31 December 2022

	Residential mortgages							
	Home loans cases	Home loans balances €m	Buy -to-let cases	Buy-to-let balances €m	Commercial cases	Commercial balances €m	Total cases	Total balances €m
Opening balance 1 January 2022	3,524	467	449	166	37	37	4,010	670
New forbearance extended during the year*	307	39	30	17	-	-	337	56
Deleveraged loans	(3)	(1)	(138)	(51)	-	-	(141)	(52)
Exited forbearance								
· re-classified to Stage 3 non-forborne	(18)	(3)	(7)	(4)	-		(25)	(7)
· expired forbearance treatment	(816)	(106)	(34)	(13)	(4)	(21)	(854)	(140)
· expired loan paid down	(247)	(25)	(44)	(12)	(8)	(8)	(299)	(45)
Balance shift**	-	(13)	-	(4)	-	-	-	(17)
Closing balance of loans in forbearance as at 31 December 2022	2,747	358	256	99	25	8	3,028	465

* Balance movements are stated net of portfolio re-classification.
** Balance movements in respect of loans which are in forbearance at the start and end of the year.

(ii) Reconciliation of movement in forborne loans Stage 3

30 June 2023

	Home loan cases	Home loan balances €m	Buy-to-let cases	Buy-to-let balances €m	Commercial cases	Commercial balances €m	Total cases	Total balances €m
Opening balance 1 January 2023	**1,634**	**228**	**188**	**68**	**19**	**6**	**1,841**	**302**
New Stage 3 forbearance extended during the year*	**473**	**47**	**24**	**6**	**9**	**1**	**506**	**54**
Deleveraged loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Exited forborne Stage 3, now performing forborne	**(224)**	**(25)**	**(9)**	**(2)**	**-**	**-**	**(233)**	**(27)**
Exited forbearance								
· re-classified to Stage 3 non-forborne	**(9)**	**(2)**	**-**	**-**	**(1)**	**-**	**(10)**	**(2)**
· expired forbearance treatment	**(9)**	**(2)**	**(4)**	**(2)**	**-**	**-**	**(13)**	**(4)**
· expired loan paid down	**(68)**	**(6)**	**(15)**	**(2)**	**(2)**	**-**	**(85)**	**(8)**
Balance shift**	**-**	**(2)**	**-**	**(2)**	**-**	**(1)**	**-**	**(5)**
Closing balance of loans in forbearance for half year ended 30 June 2023	**1,797**	**238**	**184**	**66**	**25**	**6**	**2,006**	**310**

* Balance movements are stated net of portfolio re-classification.
** Balance movements in respect of loans which are in forbearance at the start and end of the year.

30. Financial risk management (continued)

31 December 2022

	Home loan cases	Home loan balances €m	Buy-to-let cases	Buy-to-let balances €m	Commercial cases	Commercial balances €m	Total cases	Total balances €m
Opening balance 1 January 2022	2,010	289	267	94	32	33	2,309	416
New Stage 3 forbearance extended during the year*	354	43	29	15	-	-	383	58
Deleveraged loans	(3)	(1)	(32)	(10)	-	-	(35)	(11)
Exited forborne stage 3, now performing	(550)	(70)	(29)	(11)	(4)	(1)	(583)	(82)
Exited forbearance								
· re-classified to Stage 3 non-forborne	(10)	(2)	(4)	(4)	-	-	(14)	(6)
· expired forbearance treatment	(19)	(9)	(4)	(3)	(1)	(17)	(24)	(29)
· expired loan paid down	(148)	(18)	(39)	(11)	(8)	(8)	(195)	(37)
Balance shift**	-	(4)	-	(2)	-	(1)	-	(7)
Closing balance of loans in forbearance as at 31 December 2022	1,634	228	188	68	19	6	1,841	302

* Balance movements are stated net of portfolio re-classification.
** Balance movements in respect of loans which are in forbearance at the start and end of the year.

(iii) Group Portfolios: Collateral in possession

Collateral in possession occurs where the obligor either (i) voluntarily surrenders the property or (ii) the Group takes legal ownership due to the non-repayment of the loan facility. The following tables outline the main movements in this category during the year.

Stock of collateral in possession

	30 June 2023		31 December 2022	
	Number	**Balance outstanding at transfer of ownership €m**	Number	Balance outstanding at transfer of ownership €m
Residential collateral in possession				
Home loans	**12**	**7**	14	7
Buy-to-let	**79**	**22**	105	27
Total	**91**	**29**	119	34

Collateral in possession assets are sold as soon as practicable. These assets which total €12m as at 30 June 2023 (31 December 2022: €18m) are included in assets held for sale (see note 14 for further details).

During the year the ownership of 3 properties were transferred to the Group.

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

	Number
Home loans	**-**
Buy-to-let	**3**
Total	**3**

30. Financial risk management (continued)

During the period 31 properties were disposed.

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

	Number
Home loans	**2**
Buy-to-let	**29**
Total	**31**

30 June 2023

	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					
Home loans	**2**	**-**	**-**	**-**	**-**
Buy-to-let	**29**	**7**	**4**	**-**	**3**
Period ended 30 June 2023	**31**	**7**	**4**	**-**	**3**

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

31 December 2022

	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					
Home loans	13	3	2	-	1
Buy-to-let	76	18	13	1	6
Year ended 31 December 2022	89	21	15	1	7

* 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.

Funding profile

The ALCO monitors sources of funding and their respective maturities with a focus on establishing a stable and cost effective funding profile. Excluding equity, the Group's funding profile as at 30 June 2023 can be broken down into the below component parts:

	30 June 2023 %	31 December 2022 %
Customer accounts	**88**	93
Long-term debt	**8**	4
Short-term debt	**4**	3
	100	100

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

30. Financial risk management (continued)

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.

30 June 2023

	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	**1,097**	**-**	**-**	**-**	**-**	**-**	**1,097**
Customer accounts	**20,435**	**530**	**311**	**645**	**306**	**374**	**22,601**
Debt securities in issue	**8**	**16**	**25**	**50**	**744**	**1,404**	**2,247**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**4**	**4**
Subordinated liabilities	**1**	**1**	**2**	**4**	**7**	**296**	**311**
Other financial liabilities	**122**	**-**	**2**	**4**	**5**	**27**	**160**
Total liabilities	**21,663**	**547**	**340**	**703**	**1,062**	**2,105**	**26,420**

31 December 2022

	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	614	-	-	-	-	-	614
Customer accounts	19,906	689	261	385	157	342	21,740
Debt securities in issue	2	4	6	11	371	308	702
Derivative financial instruments	10	169	1,343				1,522
Subordinated liabilities	1	1	2	4	7	300	315
Other financial liabilities	145	-	2	3	6	27	183
Total liabilities	20,678	863	1,614	403	541	977	25,076

31. Commitments and contingencies

The table below gives the contractual amounts of credit commitments. The maximum exposure to credit loss under commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral or security prove worthless. The transfer of economic resources is uncertain and cannot be reasonably measured to be recognised on the SOFP.

Credit commitments

	30 June 2023 €m	31 December 2022 €m
Guarantees and irrevocable letters of credit	**2**	2
Commitments to extend credit		
· less than 1 year	**1,328**	1,284
· 1 year and over	**48**	56
Total commitments to extend credit	**1,376**	1,340
Total credit commitments	**1,378**	1,342

31. Commitments and contingencies (continued)

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

A number of different statutory and regulatory bodies, including the CBI, commenced investigations into a series of transactions involving deposits placed by Irish Life Assurance plc with Irish Bank Resolution Corporation (formerly Anglo Irish Bank) (on 31 March 2008, 26 September 2008, 29 September 2008 and 30 September 2008). While these investigations commenced a number of years ago, they were put on hold pending the determination of criminal proceedings against a number of individuals in respect of the same transactions. The Bank understands that those criminal proceedings have concluded and so the Bank is waiting to see if the investigations, which, from the Bank's perspective, have been dormant for some time will now be re-commenced.

As part of the agreement in August 2011 to dispose of Irish Life International Limited, the Group provided certain indemnities and warranties to the purchaser under a number of identified scenarios.

Like other banks, in the normal course of business, customers bring complaints to the Financial Services and Pensions Ombudsman (FSPO) in relation to a variety of issues. The Bank considers the applicability of FSPO decisions and findings to other customers in similar circumstances. The Bank provides for these cases, where based on legal advice, the directors believe that it is more likely than not that an outflow of resources embodying economic benefits, will be required to settle a present obligation arising from a past event. The Bank is involved in appeals against two FSPO decisions in tracker mortgage related complaints to the High Court and, while the timing and outcome of these appeals is uncertain, based on legal advice received, no provision has been made for these cases. However, if the Bank is unsuccessful in these appeals, the impact on the financial statements could be material. Based on the facts currently known and the current stages that the legal process is at, it is not practicable at this time to predict the final outcome of this litigation/FSPO complaints, nor the timing and possible impact on the Bank. The Bank is aware that there are other legal proceedings on-going in which decisions of the FSPO, upholding customers' claims to a tracker interest rate on their mortgage, are being challenged. While the facts of each case differ, the Bank is keeping other cases under review to see whether any issues raised in these other proceedings could have implications for the Bank's on-going appeals and its position in respect of whether there could be a liability to customers who are in similar circumstances to the customers who are the subject of the Bank's appeals.

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

In June 2021 PTSB committed to participate in the First Home Scheme along with the State and AIB and Bank of Ireland. PTSB has engaged with these parties over the last year to determine the structure of the Scheme as well as the mechanism for funding the operations of the scheme. The Group committed €54m in funding to the Joint venture. €10m was recognised in the Statement of Financial Position in respect of the scheme as at 30 June 2023.

32. Related parties

Related parties include individuals and entities that can exercise significant influence on operational and financial policies of the Group. The Group has a related party relationship with its Directors; Senior Executives; the Group's pension schemes; the Minister for Finance and with the Irish Government and Irish Government related entities on the basis that the Irish Government is deemed to have control over the Group.

(a) Transactions with key management personnel

Key management personnel include Non-Executive Directors, Executive Directors and members of the Executive Committee (ExCo). The Executive Directors and members of the ExCo are set out in pages 108 to 109 and note 44 of the 2022 Annual Report.

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

	30 June 2023	31 December 2022
Non-Executive Directors	**9**	10
Executive Directors and Senior Management	**8**	8
	17	18

Balances and transactions with key management personnel

There were no significant transactions with key management personnel during the first six months of 2023.

(b) Irish Government and Government related entities

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

32. Related parties (continued)

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

- The Group holds securities issued by the Government and Government related entities of €1,527m (31 December 2022: €1,734m).
- In May 2021, PTSB plc borrowed €250m from the Group at a fixed rate of 3% per annum plus a margin of 0.181% per annum which mature on 19 August 2031. The loan is subordinated and ranks as Tier 2 capital notes with interest paid annually in arrears on 19 August.
- The Group has an investment in associated undertakings of €14m as at 30 June 2023 (31 December 2022: €2m) involving participants that are deemed related parties due to the common ownership by the Government. The amount and nature is referenced in note 19.
- The Group entered into banking transactions in the normal course of business with local Government and Semi-State Institutions such as Local Authorities and County Councils. These transactions principally include the granting of loans, the acceptance of deposits and clearing transactions.
- A Bank Levy imposed by the Government through the Finance Bill 2014 is payable in the second half of each calendar year. 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. The Group incurred a bank levy of €22m for the year ended 31 December 2022. The Group expects to incur a similar bank levy in the second half of 2023.
- During 2022, the Group also paid €19m DGS fees to the CBI as part of the Deposit Guarantee Scheme. The Group expects to recognise DGS payment in the second half of 2023.
- During 2013, following the Transfer Order requested by the CBI and issued by the High Court dated 10 November 2013, the Group acquired certain assets; liabilities; books and records of NCU and all its employees transferred to the Group. As part of this transaction, along with the assets and liabilities of NCU, a cash financial incentive of €23m was paid from the Credit Institutions Resolution Fund, which forms part of the Financial Incentives Agreement (FIA), signed between the CBI and the Group dated 10 November 2013. It was also agreed in the FIA that the CBI will use the Credit Institution Resolution Fund to compensate the Group for 50% of any future impairment losses incurred on NCU loans and advances to customers. Similarly, it was also agreed that if any provision write-backs or future recoveries of previously written off NCU loans and advances to customers occurs, the Group will pay a cash amount equivalent to 50% of the provision write-back or the recoveries to the Credit Institutions Resolution Fund. As per the FIA, this arrangement will continue for ten years from the transfer date. At 30 June 2023, the Group had recorded a payable of €2.3m due under the FIA (31 December 2022: €2.3m).
- The Government also has a controlling interest in Allied Irish Bank plc including EBS Limited. 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. There are no balances between these entities as at 30 June 2023 (31 December 2022: €nil).

(c) Irish Government and Government related entities

- At 30 June 2023 the Company had an intercompany balance of €1,805m (31 December 2022: €658m) with its principal subsidiary PTSB plc relating to the MREL issuance.
- In November 2020, the Company made an additional investment of €123m in PTSB. This investment was through the issuance of AT1 securities by the Company. In October 2022, the Company made an additional investment of €245m in PTSB through the issuance of AT1 securities by the Company.

33. Reporting currency and exchange rates

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

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

	30 June 2023	31 December 2022	30 June 2022
€ / £ exchange rate			
Closing	**0.8583**	0.8869	0.8582
Average	**0.8733**	0.8549	0.8436
€ / US$ exchange rate			
Closing	**1.0866**	1.0666	1.0387
Average	**1.0810**	1.0500	1.0849

34. Events after the reporting period

At 30 June 2023, the Group classified the Visa A Preference shares as asset held for sale according to the provision of IFRS 5. The sale was completed on 17 July 2023.

The Ulster Bank asset finance business (including associated employees and processes) transferred in July 2023 and cash of €499m was owed to NatWest of which €490m was paid. The transfer of the asset finance assets completes the business combination transaction. The remaining amount will be settled in the second half of 2023. This resulted in an increase in Loans and Advances to Customers of €501m and derecognition of the associated derivative asset of €2m subsequent to the period end.

No other items, transactions or events that would materially impact the consolidated financial statements and require adjustment or disclosure to these condensed consolidated financial statements have occurred between the reporting date of 30 June 2023 and the date of the approval of these financial statements by the Board of Directors on 1 August 2023.

Supplementary Information

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

Pillar 3 Disclosure
Template EU KM1 - Key metrics template*

The following key metrics template (EU KM1) is provided in accordance with Commission Implementing Regulation 2021/637 (Pillar 3) which prescribes the disclosure of the information referred to in Article 447, points (a) to (g), and Article 438, point (b), of Regulation (EU) No 575/2013. All figures should be considered as draft until submission of quarter 2 2023 ITS returns to the CBI.

		a	b	c	d	e
	€'M	Jun-23	Dec-22	Jun-22	Dec-21	Jun-21
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET 1) capital	1,654	1,718	1,331	1,457	1,481
2	Tier 1 capital	2,023	2,087	1,455	1,580	1,604
3	Total capital	2,312	2,369	1,745	1,871	1,895
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	11,245	10,627	8,245	8,600	8,485
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	14.71%	16.17%	16.15%	16.94%	17.45%
6	Tier 1 ratio (%)	17.99%	19.64%	17.64%	18.37%	18.90%
7	Total capital ratio (%)	20.56%	22.29%	21.17%	21.75%	22.33%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	3.45%	3.45%	3.45%	3.45%	3.45%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.94%	1.94%	1.94%	1.94%	1.94%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	2.59%	2.59%	2.59%	2.59%	2.59%
EU 7d	Total SREP own funds requirements (%)	11.45%	11.45%	11.45%	11.45%	11.45%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Institution specific countercyclical capital buffer (%)	0.50%	0.00%	0.00%	0.00%	0.00%
11	Combined buffer requirement (%)	3.00%	2.50%	2.50%	2.50%	2.50%
EU 11a	Overall capital requirements (%)	14.45%	13.95%	13.95%	13.95%	13.95%
12	CET1 available after meeting the total SREP own funds requirements	7.99%	9.53%	9.06%	9.78%	10.31%
	Leverage ratio**					
13	Total exposure measure	28,450	25,979	23,937	22,323	21,587
14	Leverage ratio (%)	7.11%	8.03%	6.08%	7.08%	7.43%
	Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)					
EU 14c	Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%	3.00%	3.00%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14d	Leverage ratio buffer requirement (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14e	Overall leverage ratio requirements (%)	3.00%	3.00%	3.00%	3.00%	3.00%
	Liquidity Coverage Ratio***					
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	6,127	6,924	5,970	5,736	5,155
EU 16a	Cash outflows - Total weighted value	3,380	3,091	2,116	2,040	2,032
EU 16b	Cash inflows - Total weighted value	295	249	105	78	91
16	Total net cash outflows (adjusted value)	3,085	2,842	2,011	1,962	1,941
17	Liquidity coverage ratio (%)	221.65%	283.49%	297.22%	293.24%	266.42%
	Net Stable Funding Ratio					
18	Total available stable funding	24,198	22,544	20,509	19,521	18,979
19	Total required stable funding	15,217	14,626	11,187	11,512	11,167
20	NSFR ratio (%)	159.02%	154.13%	183.33%	169.58%	169.95%

*Rows EU 8a, EU 9a, 10, EU 10a, EU 14a and EU 14b are not applicable to PTSB and are therefore not disclosed.
EU8a: There are no conservation buffers due to macro-prudential or systemic risk currently reciprocated by Ireland.
EU9a: The CBI does not currently apply a systemic risk buffer.
10 / EU 10a: PTSB is not designated as systemically important.
EU 14a/EU 14b: PTSB does not have any additional own funds requirements to address the risk of excessive leverage.
**The leverage ratio disclosed is on a transitional basis
*** The Liquidity coverage ratio (LCR) uses the simple average of the preceding 12 monthly periods ending on the quarterly reporting date as specified in the table.

Abbreviations

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

ALCO Asset and Liability Committee
ALM Asset Liability Management
AML Anti Money Laundering
ARR Alternative Reference Rates
AT1 Additional Tier 1
BAC Board Audit Committee
BFSI Bibby Financial Services Ireland
BPFI Banking and Payments Federation of Ireland
BRCC Board Risk and Compliance Committee
BRRD Banking Recovery and Resolution Directive
BTL Buy to Let
CAC Capital Adequacy Committee
CBI Central Bank of Ireland
CBR Combined Buffer Requirement
CCB Capital Conservation Buffer
CCF Credit Conversion Factor
CCMA Code of Conduct on Mortgage Arrears
CCyB Counter Cyclical Buffer
CEO Chief Executive Officer
CET1 Common Equity Tier 1
CFP Contingency Funding Plan
CIE Customer Impacting Errors
CPC Consumer Protection Code
CPI Consumer Price Index
CRD IV Capital Requirements Directive IV
CR&E Climate-Related & Environmental
CRO Chief Risk Officer
CRR Capital Requirements Regulation
CSO Central Statistics Office
CSRD Corporate Sustainability Reporting Directive
CVA Credit Valuation Adjustment
D&I Diversity and inclusion
DGS Deposit Guarantee Scheme
DIRT Deposit Interest Retention Tax
DoF Department of Finance
DORA Digital Operational Resilience Act
EAD Exposure at Default
EAR Earnings at Risk
EBA European Banking Authority
EC European Commission
ECAI External Credit Assessment Institution
ECB European Central Bank
ECL Expected Credit Loss
EIR Effective Interest Rate
ERMF Enterprise Risk Management Framework
ERSI Economic and Research Statistical Institution
ESG Environmental, Social and Governance
ESRS European Sustainability Reporting Standards
EU European Union
EURIBOR Euro Interbank Offered Rate
EV Economic Valuation
EWI Early Warning Indicator
ExCo Executive Committee
FIA Financial Incentives Agreement
FLI Forward looking information
FSPO Financial Services and Pensions Ombudsman
FTE Full Time Equivalent
FTP Funds Transfer Pricing
FVOCI Fair value through other comprehensive income
FX Foreign Exchange
GCC Group Credit Committee
GDP Gross Domestic Product
GIA Group Internal Audit
GPPC Global Public Policy Committee
GRC Group Risk Committee
GNI Gross National Income
GRMF Group Risk Management Framework
HFT Held for Trading
HPI House Price Index
HQLA High Quality Liquid Assets
HTC Hold to Collect
HTC&S Hold to Collect and Sell
IAF Individual Accountability Framework
IAS International Accounting Standards
IASB International Accounting Standards Board
IBCB Irish Banking Culture Board
ICAAP Internal Capital Adequacy Assessment Process
ICF Internal Control Framework
ICT Information & Communication Technology
IFRIC International Financial Reporting Standards Interpretations Committee
IFRS International Financial Reporting Standards
ILAAP Internal Liquidity Adequacy Assessment Process
IPP Integrated Planning Process
IRB Internal rating based approach
IRRBB Interest Rate Risk in the Banking Book
IRRF Impairment Reporting Review Forum
IT Information Technology
KRI Key Risk Indicators
LCR Liquidity Coverage Ratio
LDR Loan to Deposit Ratio
LGD Loss Given Default
LIBOR London Interbank Offered Rate
LSI Less Significant Institution
LTV Loan to value
MDA Management Design Authority
MDD Modified Domestic Demand
MGC Model Governance Committee
MREL Minimum Requirement for own funds and Eligible Liabilities
MTM Mark to Market
MTP Medium Term Plan
MVT Model Validation Team
NCU Newbridge Credit Union
NED Non-Executive Directors
NII Net Interest Income
NIM Net Interest Margin
NPA Non Performing Asset
NPL Non Performing Loan
NSFR Net Stable Funding Ratio
OCI Other Comprehensive Income
OCED Organisation for Economic Co-operation and Development
ODR Observed Default Rate
ORMC Operations Risk Management Committee
P2G Pillar 2 Guidance
P2R Pillar 2 Requirement
PD Probability of Default
PDH Private Dwelling Home
P&I Prioritisation & Intervention
POCI Purchased or Originated Credit Impaired
PTSB Permanent TSB plc.
PTSBGH Permanent TSB Group Holding plc.
RAS Risk Appetite Statement
RCSA Risk and Control Self-Assessment
RNPS Relationship Net Promoter Score
RPPI Residential Property Price Index
RWA Risk Weighted Assets
SAN Service a Need
S&P Standard & Poor's
SBCI Strategic Banking Corporation of Ireland
SEAR Senior Executive Accountability Regime
SES Summer Economic Statement
SICR Significant increase in Credit Risk
SLOD Second Line of Defence
SME Small and medium sized enterprises
SREP Supervisory Review & Evaluation Process
SusCo Sustainability Committee
TRIM Targeted Review of Internal Models
TSCR Total SREP Capital Requirements
TTC Through the cycle
UK United Kingdom
VIU Value in Use