# Interim Report

for the six months ended 30 June 2021


Members of the Mount Sion Choir perform as part of the Marie Keating Foundation's Concert4Cancer event in August 2020, which was proudly supported by the Permanent TSB Community Fund

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## 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 Market and Regulatory context.

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.

Permanent TSB Group Holdings plc



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# Interim Report

for the six months
ended 30 June 2021

# Overview

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# Financial Highlights

### Financial Performance

**Underlying (Loss)/Profit €m (a)**

June 2021: €(4)m
June 2020: €(56)m
June 2019: €42m

Underlying loss decreased due to a reduction in the expected credit loss offset by continued pressure on net interest income (NII)

**Net Interest Margin (NIM) % (b)**

June 2021: 1.50%
June 2020: 1.75%
June 2019: 1.82%

25bps lower due to the low interest rate environment with lower yields on treasury assets

**Return on Equity % (c)**

June 2021: 0.04%
June 2020: (2.8)%
June 2019: 1.7%

Improvement reflects the reduction in the expected credit losses as a result of the stabilisation of the economic outlook

### Transformation and simplification

**Headline Cost to Income Ratio (d)**

June 2021: 101%
June 2020: 90%
June 2019: 78%

Increased due to lower total income while costs remain stable

**Adjusted Cost to Income Ratio (e)**

June 2021: 88%
June 2020: 79%
June 2019: 69%

Increased due to lower total income while cost management allows for continued investment in technology and digital capability

**Investment Spend (f)**

June 2021: €18m
June 2020: €31m
June 2019: €21m

Reflects significant investment in the Digital Transformation Journey

### Sustainability

**CET1 Ratio (Transitional Basis) (g)**

June 2021: 17.4%
December 2020: 18.1%
June 2020: 16.5%

Reduction reflects the phasing of transitional prudential filters offset by the impact of investment in software intangibles

**NPL Ratio (h)**

June 2021: 7.0%
December 2020: 7.6%
June 2020: 6.8%

Decrease reflects the stability of the performing loan book with cures offsetting new defaults

**RWA (i)**

June 2021: €8,486m
December 2020: €8,480m
June 2020: €9,983m

RWS's have remained relatively flat with the increase in credit RWAs due to new lending offset by reductions in other exposures

a) Underlying (loss)/profit before exceptional items. See table on page 20 for a reconciliation of underlying loss to operating loss on an IFRS basis.
b) Defined as NII divided by average interest-earning assets.
c) Defined as (loss)/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 and other non-recurring items) divided by total operating income.
e) Defined as total operating expenses (excluding exceptional, other non-recurring items, and regulatory charges) divided by total operating income.
f) Investment spend includes both capital and operating expenditure.
g) Total Common Equity Tier 1 (CET1) capital on a transitional basis divided by total risk weighted assets (RWAs).
h) Defined as non-performing loans (NPLs) expressed as a percentage of the total gross loans of the bank.
i) RWAs are the Group's assets or off balance sheet exposures, weighted according to risk.

## Non-Financial Highlights

**+19 Relationship Net Promotor Score (RNPS)***

**Significant improvement in reputation score for the Bank, moving up 24 places to 69th position in the annual Ireland RepTrak Top 100 List****

**72% Culture Index Score**

**The introduction of new hybrid ways of working and the announcement of 180 new positions across key growth areas**

**37% of the Senior Leadership population are Women**

**c.€500,000 invested in Irish community organisations during H1'21**

**A partnership with Ó Cualann Cohousing Alliance, contributing €350,000 over three years to support the development of affordable housing schemes in communities across the country**

**A commitment to maintaining our branch footprint**

**A new partnership with Bibby Financial Services Ireland (BFSI), further expanding our small and medium sized enterprises (SME) offering**

**An additional €50 million invested in Digital Transformation and the launch of a new Digital Current Account, allowing us to better serve our customers through a channel of their choosing**

**An increased focus on Sustainability, with the establishment of a Sustainability Committee and the completion of a Materiality Assessment with stakeholders**

**Signature to Business in the Community Ireland's Low Carbon Pledge, committing to setting science based carbon emission reduction targets by 2024**

### Our Commitment To Responsible And Sustainable Business

- Permanent TSB has a long banking history in Irish communities, with roots that stretch back over 200 years to the building society and Trustee Savings Bank movements. Throughout this time, our focus has been on delivering exceptional customer service and connecting with our local communities
- Our experiences over two centuries shape our culture and influence how we do things today and we are committed to continuing this long tradition through our Responsible and Sustainable Business Strategy

### Awards And Recognitions In H1 2021

- Winner in the Employee Empowerment and Trust Category, CIPD Awards 2021
- Shortlisted in the Embedding a Culture of Workplace Wellbeing Category, CIPD Awards 2021
- Shortlisted in the CX Impact in Financial Services Category for Blackbelt - our coaching, training and education programme for frontline colleagues, Irish CX Impact Awards 2021
- Shortlisted for Best Integrated Marketing Campaign, All Ireland Marketing Awards 2021
- Shortlisted for Best Benefits or Loyalty Scheme, UK&I Card And Payments Awards 2021

### Ambitions For H2 2021 And Onwards

- Delivering on our Purpose to build trust with customers, through enhancing our product suite and providing superior customer service
- Partnering with small businesses through our refreshed Business Banking Strategy, not just in terms of supporting their banking needs, but through acting as advisers to help them to grow
- Continuing to implement and embed our Culture and Diversity and Inclusion Strategy (D&I) across all areas of our business, as we focus on evolving our maturity level
- Increasing our focus on Climate Change and the Bank's Sustainability Agenda
- Deepening our community impact through the Permanent TSB Community Fund

*A customer brand tracking survey carried out in June 2021 indicated a RNPS of +19, up eleven points on December 2020 and placing Permanent TSB in second position among the Retail Banks in Ireland. A RNPS is a measure of customer advocacy towards a brand and indicates the willingness of a customer to recommend a company's products or services to others. The question asks customers how likely they are to recommend their bank to friends or family on the basis of their own experience. The range for the scoring is -100 to +100.

**The annual Ireland Reptrak study is the largest and longest running study of reputation in Ireland and is based on the perceptions of over 6,500 members of the public. The study measures the level of trust, respect, admiration and esteem the public has for 100 organisations in Ireland, along with close to 100 other reputation and brand indicators.

## Introduction

As the country continues to deal with the COVID-19 pandemic, Permanent TSB has been focused on serving and supporting our customers and communities at a time of immense upheaval. I am very proud of how colleagues across the Bank have come together, stronger than ever, providing support to each other and to our customers through this unprecedented time.

At Permanent TSB our Purpose is to work hard every day to build trust with our customers – we are a community serving the community. Throughout the first half of 2021, we have continued to focus on putting that Purpose into action.

There has also been significant changes within the retail banking landscape in Ireland, and throughout this period Permanent TSB has remained focused on delivering for our customers and communities and we are committed to continuing to do so in the months and years ahead.

I will address the Bank's H1 2021 financial performance in more detail, but at the outset I would like to talk about the progress we are making to achieve our ambition of becoming Ireland's best personal and small business bank.

We are very pleased to have recently announced a Memorandum of Understanding with Ulster Bank to acquire certain elements of the Ulster Bank Retail and SME business in the Republic of Ireland. This potential transaction complements our growth strategy, supports the investments we are making in the transformation of our in-branch and digital banking services and will accelerate the delivery of Permanent TSB's ambition of becoming Ireland's best personal and small business bank.

We are conscious that there is still significant work to be done to agree legally binding agreements later this year, but we are optimistic that we can work with all parties to create an enlarged Permanent TSB with an increased national footprint that will provide enhanced products and services to our present and future customers. We welcome all Ulster Bank customers to Permanent TSB, whether or not their loan is transferring as part of this potential transaction, and we look forward to supporting them with their banking needs

We have also had some significant achievements across many key pillars of our Strategy, including; Digital Transformation, Customer Experience, Culture, and Responsible and Sustainable Business.

In April of this year, we announced a further €50 million investment in our technology infrastructure and digital capability, which will allow the bank prepare for a significant expansion of customers and services over the coming years and bring an enhanced digital experience for customers.

The additional €50 million digital investment complements our commitment to maintaining our Branch network and supporting communities nationwide, enabling us to offer customers a seamless digital experience online as well as personal support and advice in branch or via our Open 24 contact centres.

Responsible and Sustainable business also continues to be a key area of focus. We conducted the Bank's first materiality assessment to inform the next stage of our Sustainability Strategy and we also recently signed Business in the Community Ireland's Low Carbon Pledge, joining 61 of Ireland's leading businesses in committing to setting new climate action goals. Through the Pledge we have committed to setting science based carbon emission reduction targets by 2024. This includes measuring and reducing our entire carbon footprint (Scope 1, 2 and 3) in line with the Paris agreement.

Our focus on improving the culture and in turn the reputation of the Bank also continues to deliver positive outcomes, evident by the significant improvements in the Banks reputation in the Ireland RepTrak 2021 survey. We remain steadfast in our commitment to further evolving the culture of the Bank to ensure that we are delivering on our Purpose of working hard every day to build trust with our customers.

To support the delivery of our Strategy, we also recently announced the recruitment of 180 new positions across both senior and graduate level in key growth areas, including; Technology, Business Banking, Risk Management and Data Analytics. These new positions will support the rollout of the next phase of the Bank's digital and SME growth strategy, as we prepare for a significant expansion of personal and business customers and services over the coming years.

Despite the upheaval in the market, the Bank has shown great resilience throughout the first half of the year. We continued to compete very strongly, bringing real innovation to the market, introducing new customer offerings and winning new customers.

We saw a strong rebound in activity in the second half of 2020 and this momentum has continued into the first half of 2021.

The Bank reported a loss after tax of €5 million in the first half of 2021, trending positively from a loss after tax of €54 million in the first half of 2020 at the beginning stages of the COVID-19 pandemic.

## Business performance Review

## Funding

### Current Accounts

Current Account balances were €6.5 billion, an increase of 12% from 31 December 2020. Balances remain elevated during the first half of 2021 as a result of public health restrictions placed by the Irish Government in response to an acceleration in the spread of COVID-19.

### Retail Deposits

Retail Deposit balances have remained stable from the year end at €10.5 billion.

The Bank remains strongly funded by Current Accounts and Retail Deposits, making up 88% of the total funding profile and reflecting a strong liquidity and lending position.

### Corporate And Institutional Deposits

Corporate and Institutional Deposits were €1.5 billion at 30 June 2021 and continue to decrease in line with the Bank's strategy to manage excess liquidity. The Bank's funding profile is carefully managed to meet the funding requirements through other efficient sources of funding.

### Lending

Total new lending increased by 43% compared to 30 June 2020 despite a challenging business environment.

New mortgage lending, which represented 90% of the total new lending, increased by 45% compared to 30 June 2020 and outperformed the mortgage market which grew by 26%.

Mortgage pipeline remains strong and the Mortgage Drawdowns were €764 million in the first half of 2021, reflecting a 45% growth compared to the prior period.

The year to date Mortgage Market Share was 17.5% representing year on year growth of 2.2% in the market share.

Housing supply remains insufficient to meet demand and availability of higher deposits with potential buyers, as a result of changes in customer spending behaviour stemming from public health restrictions, are further driving increases in house prices. On average, the residential property prices have increased 5% in the first half of 2021 and continue to increase.

The Banking and Payment Federation Ireland (BPFI) is projecting total housing completion numbers to be at least similar to levels observed in 2020, at around 21,000 units however, the Economic and Research Statistical Institute (ERSI) notes that the structural demand for housing in the Irish economy is approximately 35,000 units per annum.

The Bank recorded gross new Term Lending of €47 million in the first half of 2021. This is an increase of 2% compared to 30 June 2020. SME Lending in 2021, €42 million, reflected an increase of 66% from the prior period.

## Financial performance Review

The Bank recorded a loss after tax of €5 million, which compares to a loss after tax of €54 million for the same period in 2020.

While the reduction in the impairment provisions is a main driver in loss reduction, the recent sale of a performing loan book resulted in lower interest income. Treasury income has also been impacted by the low interest rate environment.

### Impairment

The total Impairment Charge for the period was €3 million. This compares to a €75 million charge for the same period in 2020. The impairment charge for the period reflects the level of forward looking impairment taken in 2020 and that while the economic outlook has stabilised, uncertainty remains and the Bank retains a cautious outlook.

### Operating Income

Overall Operating Income has reduced by 10% from the prior period as a result of reduced income primarily from the performing loan sale transaction (Glenbeigh II) in Q4 2020, together with the lower treasury income as a result of the low interest rate environment.

The Bank's NIM has reduced to 1.50%, a decrease of 25 basis points from the prior reporting period due to the low interest rate environment with lower yields on treasury assets and the cost of carrying excess liquidity. The Bank continues to focus on managing deposit costs.

Net Fees and Commission income reduced by 13% from the same period in 2020 primarily driven by lower current account fee income. This is as a result of on average higher customer balances resulting in fee income waivers being applied.

### Operating Expenses

The Bank continues to maintain tight control over the administrative cost base while investing additional investment in the Bank's technology infrastructure and digital capability.

Operating expenses are broadly in line with the prior period, with lower administrative costs being offset by higher depreciation and amortisation.

### Exceptional Costs

The total exceptional costs for the period are €5 million which consist of costs relating to the Enterprise Transformation Programme and advisory costs incurred in relation to potential acquisition of Ulster Bank business offset by releases of expired warranty provisions for various historic loan sales.

### NPLs

NPLs have reduced to €1 billion, an €84 million reduction since 31 December 2020 with cures offsetting any new defaults.

The NPL ratio decreased to 7.0% from 7.6% at 31 December 2020 reflecting the reduction in non-performing loans.

### Payment Breaks

All COVID-19 mortgage payment breaks have expired and there are no EBA compliant payment breaks as at 30 June 2021. The Bank however, continues to support customers impacted by the COVID-19 pandemic.

### Capital

The CET1 capital ratio was 15.3% and 17.4%, on a Fully Loaded and Transitional basis respectively. This compares to the Bank's reported CET 1 ratio of 15.1% and 18.1% at 31 December 2020, on a Fully Loaded and Transitional basis respectively.

Capital ratios remain above both Management and Regulatory minimum.

## A Customer Focused Culture

As I said earlier, the Bank's Purpose is to work hard every day to build trust with customers and we will do this by building a sustainable organisation that is transparent and fair with customers.

We have continued to match our words with actions during the first half of 2021, with the introduction of new products and services for both personal and SME customers, along with a commitment to maintaining our branch network.

There is no doubt that our branch network will need to continue to evolve to adapt to the changing needs of customers, but we are committed to maintaining a nationwide network with a presence in communities across Ireland to ensure that we can support our customers with the big financial decisions in their lives.

We have continued to build on our SME service offering through a number of partnership including; participation in the SBCI Future Growth Loan Scheme, a partnership with Bibby Financial Services Ireland to offer invoice finance services for business banking customers, and a partnership with Digital Business Ireland supporting SME's to transition their businesses online.

We also introduced a new 4-year fixed rate mortgage product for new personal customers from as low as 2.25%. This new product broadens choice for customers by offering an alternative to the cashback option. The bank will also continue to offer the cashback at drawdown feature for mortgage customers.

We continue to supporting valuable societal and citizenship projects, such as our partnership with Ó Cualann Affordable Housing, an approved housing body that develops fully integrated, cooperative and affordable schemes in communities across the country. The Bank is providing €350,000 towards this partnership alongside valuable strategic and operational support. We hope our support will accelerate Ó Cualann's development plans, which include plans for more than 1,800 family homes across the country.

In June of this year, the Bank was awarded the Guaranteed Irish symbol for its contribution to local communities across the country and commitment to Irish provenance and local employment.

Evolving our culture for the better of our customers and communities continues to be a key area of focus. Embedding an open, inclusive, risk aware and growth culture is one of the five strategic priorities for the Bank, as set out in H2 2020.

PTSB is also actively involved in improving culture across the banking industry as a member of the Irish Banking Culture Board (IBCB), which was established in 2018 by the five Irish retail banks alongside other stakeholders, with the aim of rebuilding confidence in the Irish banking sector.

## Digital Transformation

The pandemic has continued to accelerate the move towards digital channels for both our customers and our colleagues, evolving the way we work and the way we bank. While personal service will remain at the heart of everything we do, digital will play an ever increasing role in our service offering and our future ways of working, as we adapt to meet changing customer behaviour and address their preferences and their needs.

We have made significant progress on our Digital Transformation journey in the first half of this year. The Bank has invested €100 million in technology and digital capability over recent years. This investment has delivered an upgrade of the Bank's core platforms, increased security for customers through the introduction of Secure Customer Authentication, integration of a new API platform to enable open banking, and significant improvements to digital services via the Permanent TSB mobile App and web portal.

In April, we announced a further €50 million investment in its technology infrastructure and digital capability which will allow the bank prepare for a significant expansion of customers and services over the coming years and bring an enhanced digital experience for customers.

Partnerships are a key feature of our Digital Transformation Programme, including our partnership with EY and global service integration providers Infosys and Finacle, which has accelerated the development of best in class digital services for customers including current account opening via the Permanent TSB App, which launched in May.

We also recently announced a partnership with Irish fintech CreditLogic, which will see Permanent TSB provide a new digital application platform for mortgage applicants. This partnership with CreditLogic will allow our customers to complete their entire mortgage application process online through a special app designed for exceptional ease of use and security. This new online based mortgage application service will launch later this year.

## A new Hybrid Way of Working

The pandemic has had a profound impact on the world of work and at Permanent TSB we have embraced this change, evolving our ways of working to provide on-going flexibility for colleagues. In May, we announced the introduction of new hybrid working arrangements for employees, with over 1,200 Permanent TSB colleagues, representing c.50% of the Bank's total workforce, having applied for permanent flexible working arrangements that the Bank will be putting in place following the COVID-19 pandemic.

The new arrangements have been designed following extensive consultation with employees and union partners and are based on new work practices that have evolved successfully since the onset of the pandemic.

As an Irish company with people and community at the heart of our approach, we recognise the enormous efforts that our people have made since the onset of the pandemic to consistently demonstrate their commitment to serving our customers and communities at a time of great difficulty and challenge.

We are delighted to offer them flexibility in their working arrangements, which has been made possible by our significant ongoing investment in technology. It is clear that this flexibility is needed and we are confident that it will result in an even better service for our customers and an enhanced work-life balance for our people.

## Outlook

Despite the on-going challenges of the COVID-19 pandemic, I am confident that the Bank is in a strong position and will make the most of the opportunities that will arise in the second half of the year. To take advantage of these opportunities we will focus on our strategic priorities:

We will continue to increase the trust, advocacy and loyalty of our customers.

We will keep enhancing our digital capabilities.

We will further enhance a culture of growth that's both open and inclusive.

We will keep simplifying our business.

And, ultimately, we will deliver better and more sustainable profitability.

We will keep an unrelenting focus on making PTSB the best bank it can possibly be, continuing to grow, supporting our customers and finding new and better ways to serve them and the communities in which we operate.

We will maintain operating costs relatively stable in this challenging economic environment and look to further deliver cost savings in the medium term.

Despite the challenging outlook, we maintain capital levels comfortably above the required Regulatory and Management minima.

And, I can assure you of the commitment that my colleagues and I share, to combining the best of our digital offering with that of our long history of personal service, as we continue to rebuild trust, build a sustainable bank for the future, and fulfil our ambition of being Ireland's best personal and small business bank.

Eamonn Crowley
*Chief Executive*
27 July 2021

# COVID-19

PTSB continues to be fully committed in supporting our customers, colleagues and communities, as the Irish economy navigates through the evolving phases of the COVID-19 pandemic.

While the future remains challenging, the various initiatives taken by the Irish Government and the EU as well as the progress made with the Government's vaccination programme is supporting the pathway to recovery. The impact of COVID-19 on the Irish Economy has been seen through the impact on our loan book, customer spending behaviours and Irish businesses.

The first half of 2021 has seen an improvement in the level of economic activity in the Irish economy due to the gradual easing of the public health restrictions that were previously in place to minimise the acceleration of COVID-19. However, the Group's impairment charge reflects the remaining uncertainty of economic outcomes. The pace of recovery remains volatile and further financial impacts on individuals and businesses following the unwinding of Government support remains a possibility. Current accounts and deposits remain elevated due to the economic restrictions and this excess liquidity has an impact on the Group's NIM. The reduced transactions as a result of the restrictions also contributes to the reduced fees and commissions income.

The Bank initiated various programmes in response to COVID-19 in March 2020, when the pandemic crisis began, and they continue to be in place in supporting the Bank in 2021. The Bank continues to demonstrate agility, responsiveness and decisive leadership as the Bank navigates through the COVID-19 pandemic.

Contingency resource planning has continued for 2021 and the Bank introduced hybrid working models in May 2021 for over 1,200 colleagues.

PTSB made a commitment to pay all employees in the event they were impacted by COVID-19 and unable to work. This certainty of pay for colleagues, which remains in place in 2021, provides peace of mind and security for those colleagues who have been directly impacted by COVID-19.

To support the health and wellbeing of our colleagues working on-site, we continued a rigorous approach to health and safety measures by ensuring PPE was provided, and divided teams across sites. In 2021, the Bank enhanced the COVID 19 e-learning module to ensure that colleagues were equipped with the most up to date information.

Over the last six months, the Bank has worked on an Enterprise Transformation Programme, which involved significant changes across many areas of the Bank from structural improvements across functions to changes in our branch network.

The four new regional hubs deployed in 2020 continue to support the elevated levels of customer queries coming through our contact centre channels.

The priority banking hours for elderly and vulnerable customers between 10.30am - 12pm Monday to Friday are still in place and we continue to ask all other customers to please plan their branch visit around this.

In our branch network, we have introduced additional measures in 2021 to enable us to service our customers, while protecting both customers and colleagues alike, e.g. moving to "auto cash" in some locations, reducing the time needed in face to face meetings, and adapting processes to ensure customers were met in a safe manner.

The Bank continues to invest significantly in technology and initiatives such as Apple Pay was introduced at the end of 2020 for contactless payment with no limit which further reduced the need for physical interaction.

## Customer engagement and support

The Bank continues to support customers experiencing financial difficulty on a case by case basis based on their individual circumstances prior to any decision to grant a forbearance treatment.

There are no active EBA compliant payment breaks as at 30 June 2021. However, for customers experiencing financial difficulty on exit from payment breaks who have no certainty of future income at present, we are offering shorter-term alternative arrangements (c.9 months) to help with their immediate challenge, while working to assess their financial circumstances with regular ongoing interactions and individual one-to-one engagements.

## Cyber Security

While cyber security remains an elevated risk, given the recent incidents in the Irish economy and globally, our Information Technology Security Team constantly monitors cyber security threats, horizon scanning, investing in infrastructure and implementing preventative measures when required.

The Bank recognised that COVID-19 presented a period of heightened cyber risk at an early stage and our operational response continues to be stepped up accordingly. This has included:

- Reviewing and bolstering our remote working platforms from a security, capacity and resilience perspective.
- Enhancing the performance and security of the remote access endpoints to ensure effective security patching and anti-malware management.
- Undertaking phishing simulations and cyber/other activities to evaluate and improve our response to these scenarios.
- Increasing our focus on education and awareness for staff in 'safe and secure' work practices (from home).
- Elevating the levels of monitoring for critical IT systems/services and cyber activity, as reported to the Incident Management Team weekly.
- Ensuring continuity of the Bank's 'Secure and Resilient' investment programme across our core IT infrastructure, including telecommunications, computer environments and storage systems.

## Enhanced Oversight And Reporting

It was critical that the Bank had a clear picture of the impact of COVID-19 on the Bank's overall performance.

Commencing in March 2020, the Bank increased monitoring and reporting to the Executive Committee (ExCo), the Board and stakeholders, to ensure the continued operation of critical services.

This increased level of oversight and reporting continues to be in place in first half of 2021.

This included:

- Process Performance;
- System Operational Performance;
- Resource Availability; and
- Third Party Reliance and Performance.

For additional information on the measures taken by the Bank in response to COVID-19, please refer to the 2020 Annual Report and updates made to the COVID-19 hub on the link below.

https://www.permanenttsb.ie/COVID-19/

Interim Report

for the six months ended 30 June 2021

# Business Review

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## Performance Summary

During the first half of 2021, there was an improvement in the level of economic activity in the Irish economy. This is a result of the gradual easing of the public health restrictions that were previously in place to minimise the acceleration of COVID-19. The progress of the vaccination programme has provided increased certainty and a path to economic recovery. However, the pace of recovery will remain volatile and further financial impacts on individuals and businesses following the unwinding of Government support remains a possibility.

While the Group's profitability is below pre COVID-19 levels, the Group has made significant progress in loss reduction through a robust cost discipline and continuous investment in technology. The results of the improving macro-economic conditions coupled with stringent management of costs will see the Group's performance continue to improve in the near term.

The asset quality has remained stable and the Group continues to maintain a strong capital position at 30 June 2021. NPLs have reduced by €84m in the year with cures/resolutions outstripping default flow. There are no active EBA compliant breaks at 30 June 2021.

Mortgage lending has increased significantly in the first half of 2021, however the performing loan sale in Q4 2020 and lower treasury yields has impacted operating income. Operating costs have remained stable with cost saving initiatives offset by higher amortisation and absorption on increases in underlying cost inflation.

High levels of liquidity and the low interest rate environment that the Group operates in continues to compress the Group's NIM.

## 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 2021.

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;
- Profit/loss on material deleveraging including any increase in impairment arising solely due to the sale of NPLs becoming part of the Group's recovery strategy;
- Material restructuring costs; and
- Material transaction, integration and restructuring costs associated with acquisitions (including potential acquisitions).

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, when applicable.

## 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 2021 | Half year ended 30 June 2020 |
|---|---|---|---|
| | | €m | €m |
| **Net interest income** | 1 | **152** | 171 |
| Net fees and commissions income | | **14** | 16 |
| Net other income/(loss) | | **1** | (2) |
| **Total operating income** | | **167** | 185 |
| **Total operating expenses (excl. exceptional items, other non-recurring items and regulatory charges)** | 3 | **(147)** | (146) |
| Regulatory charges | | **(21)** | (20) |
| **Underlying (loss)/profit before impairment** | | **(1)** | 19 |
| Impairment charge on loans and advances to customers | 4 | **(3)** | (75) |
| **Underlying loss** | | **(4)** | (56) |
| Exceptional and other non-recurring items comprises: | 5 | **(5)** | (1) |
| Restructuring and other costs | | **(6)** | (1) |
| Advisory costs incurred in relation to potential acquisition of Ulster Bank business | | **(3)** | - |
| Impairment on deleveraging of NPLs | | **4** | - |
| **Loss before taxation** | | **(9)** | (57) |
| Taxation | | **4** | 3 |
| **Loss for the period** | | **(5)** | (54) |

## Financial Performance Headlines

- **Net Interest income** decreased by €19m due to the impact of a performing loan sale in Q4 2020 and lower treasury income as a result of the low interest rate environment. This has also resulted in decrease in total operating income.
- **Total operating expenses (excl. exceptional items, other non-recurring items and regulatory charges)** have remained broadly in line with prior reporting period. The cost savings from various initiatives undertaken by the Group were offset by continued investment in the technology and cost inflation.
- **Impairment charge** is €3m for the period ended 30 June 2021, a decrease of €72m compared to the prior period. This reflects that while the economic outlook has stabilised, uncertainty remains and the bank retains a cautious outlook.
- **Exceptional and other non-recurring items** of €5m is driven mainly by costs associated with the Enterprise Transformation Programme and advisory costs incurred in relation to potential acquisition of Ulster Bank business, offset by a release of expired provisions relating on loan sales that the Group executed in prior periods.
- **Loss before tax** of €9m for the period, reflecting an 84% loss reduction compared to the prior period, which was a result of an improvement in the macro-economic projections in the current period offset by the continued pressures on NII.

| Net interest income | Net interest margin |
|---|---|
| **€152m** | **1.50%** |

| Table 1: Net Interest Income | Half year ended 30 June 2021 | Half year ended 30 June 2020 |
|---|---|---|
| | €m | €m |
| Interest income | 171 | 194 |
| Interest expense | (19) | (23) |
| **Net interest income** | **152** | 171 |

## Interest income

Interest income has reduced by €23m (12%), when compared to the prior period. This is due to a successful capital generating loan sale of Glenbeigh II of €1.4bn completed in H2 2020 in line with the Group's strategy to continue to strengthen its asset quality.

Treasury income has been impacted due to lower yields reflecting the subdued interest rate environment in which the Group operates. The Group continues to diversify the portfolio of its treasury assets to manage the impact of lower yields while investing only in high grade investments.

## Interest expense

Interest expense decreased by €4m (17%) for the period ended 30 June 2021. This is mainly as a result of active management of the funding costs coupled with the impact of maturity of discontinued hedges during 2020, which was offset by negative interest on funds held with other Banks particularly with the CBI for the placement of the proceeds from the loan sale.

| Table 2.1: Average Balance Sheet | Half year ended 30 June 2021 | | | Half year ended 30 June 2020 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Interest | Average Yield/Rate | Average Balance | Interest | Average Yield/Rate |
| | €m | €m | % | €m | €m | % |
| **Interest-earning assets** | | | | | | |
| Loans and advances to customers | 14,062 | 168 | 2.40% | 15,540 | 187 | 2.42% |
| Debt securities and derivative assets | 2,530 | 3 | 0.24% | 2,238 | 7 | 0.66% |
| Loans and advances to banks | 3,683 | - | - | 2,013 | - | - |
| **Total average interest-earning assets** | **20,275** | **171** | **1.69%** | 19,791 | 194 | 1.97% |
| **Interest-bearing liabilities** | | | | | | |
| Customer accounts | 18,373 | 8 | 0.09% | 17,467 | 15 | 0.18% |
| Deposits by banks | - | - | - | 10 | - | 0.99% |
| Debt securities in issue and derivative liabilities | 768 | 4 | 1.04% | 899 | 6 | 1.44% |
| Loans and advances to banks | - | 6 | - | | 2 | - |
| Subordinated Liabilities | 249 | 1 | 0.80% | | - | - |
| Lease liabilities | 32 | - | - | 39 | - | 1.24% |
| **Total average interest-bearing liabilities** | **19,422** | **19** | **0.19%** | 18,415 | 23 | 0.22% |
| **Total average equity attributable to owners** | **1,882** | | | 1,981 | | |
| **Net Interest Margin** | | **152** | **1.50%** | | 171 | 1.75% |

## Net interest margin (NIM)

NIM decreased by 25bps to 1.50% for the half year ended 30 June 2021 compared to 1.75% for the prior period. The main drivers for the 25bps reduction in the NIM include:

Table 2.2: Volume drivers

| | (€m) | Impact on NIM (bps) |
|---|---|---|
| Increase in volume of excess liquidity | (1,763) | (1) |
| Impact from deleveraging of BTL portfolio in Q4 2020 | (1,393) | (6) |
| **Yield drivers** | | |
| Impact from deleveraging of portfolio in Q4 2020 | (8) | 13 |
| Reduction in interest income as a result of mortgage rate cuts | (10) | (19) |
| Increased cost of excess liquidity | (4) | (4) |
| Increased provisions impacting NII in H1 2021 | (2) | (7) |
| Reduced income from treasury assets due to the maturity of high yielding Irish sovereign gilts | (2) | (9) |
| **Reduction in NII during the year** | **(26)** | **(26)** |
| Savings through deposit rate cuts during the year | 7 | 8 |
| **Increase in NII during the year** | **7** | **8** |
| **Overall net reduction NII** | **(19)** | **(18)** |
| **Overall movement in the NIM** | | **(25)** |

## Interest income/Average interest-earning assets

- Interest income on loans and advances to customers decreased by €19m as a result of the disposal of the performing loan book (Glenbeigh II) coupled with the impact of fixed and variable rate cuts announced in the second half of 2020.
- The average balance of loans and advances to customers decreased by €1.4bn as result of a capital accretive transaction, the sale of the performing loan book (Glenbeigh II) in the second half of 2020.
- Interest income on debt securities and derivative assets reduced by €4m however, the average balance has increased by €292m. The reduction in treasury income reflects the impact of lower yields on new treasury assets.

## Interest expense/Average interest-bearing liabilities

- Interest expense on customer accounts decreased by €7m due to the effect of rate cuts to customer accounts. The average balance, however increased by €906m to €18,373m from €17,467m reflecting a continued change in customer spending behaviour as a result of public health restrictions.
- Interest expense on debt securities in issue and derivative liabilities decreased by €2m due to maturity of the discontinued hedges in H1 2020. The average balances decreased to €768m at 30 June 2021 from €899m at 30 June 2020 as a result of paydown of the principal on external securitisations.
- Interest expense amounted to €6m on loans and advances to banks as a result of negative interest on the cash held with the CBI and Fastnet securitisations.

| Total operating expenses* | Adjusted cost income ratio |
|---|---|
| **€168m** | **88%** |

*Excluding exceptional and other non-recurring items

| Table 3: Operating expenses | Half year ended 30 June 2021 €m | Half year ended 30 June 2020 €m |
|---|---|---|
| **Staff costs** | | |
| Wages and salaries including commission paid to sales staff | 60 | 63 |
| Social insurance | 7 | 7 |
| Pension costs | 6 | 7 |
| **Total staff costs** | 73 | 77 |
| General and administrative expenses | 51 | 50 |
| **Administrative, staff and other expenses** | 124 | 127 |
| Depreciation of property and equipment | 11 | 11 |
| Amortisation of intangible assets | 12 | 8 |
| **Total operating expenses (excluding exceptional and other non-recurring items and regulatory charges)** | 147 | 146 |
| Regulatory charges | 21 | 20 |
| **Total operating expenses (excluding exceptional and other non-recurring items items)** | 168 | 166 |
| Headline cost to income ratio* | 101% | 90% |
| Adjusted cost to income ratio** | 88% | 79% |
| Closing staff numbers*** | 2,255 | 2,465 |
| Average staff numbers | 2,356 | 2,424 |

*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 and regulatory charges) divided by total operating income.
***Closing staff numbers are calculated on a full time equivalent (FTE) basis.

## Operating expenses

Management continues to maintain tight control over the administrative cost base while investing in transformation and cost inflation. Operating expenses are in line with the prior period, with lower administrative costs being offset by higher amortisation of intangible assets, reflecting increased investment in technology over the past number of years.

The applications for the Enterprise Transformation Programme concluded in quarter one 2021. This will result in c.300 FTE exiting the Bank which commenced in May and will continue throughout the course of 2021.

## Staff costs

Total staff costs have decreased by €4m (5%) to €73m which is consistent with lower on average staff numbers.

## General and administrative expenses

General and administrative expenses remain flat with the prior reporting period with COVID-19 related costs partially offset by savings through the new hybrid working model introduced in November 2020.

## Adjusted cost income ratio

Operating costs (excluding exceptional and other non-recurring items and regulatory charges) of €147m and operating income of €167m for the half year ended 30 June 2021 led to an adjusted cost income ratio of 88% for 2021, compared to the prior period adjusted cost income ratio of 79%.

The increase in adjusted cost income ratio was due to lower operating income in the period while the Group's cost base has remained stable.

Table 4: Impairment

| | Half year ended 30 June 2021 | Half year ended 30 June 2020 |
|---|---|---|
| | €m | €m |
| **Total impairment charge on loans and advances to customers** | 3 | 75 |

The impairment charge is €3m on loans and advances to customers for the half year ended 30 June 2021, compared to a charge of €75m in the prior period. The impairment charge for the period reflects the level of forward looking impairment taken in 2020 and that while the economic outlook has stabilised, uncertainty remains and the Group retains a cautious outlook.

## Exceptional and other non-recurring items

## €5m

Table 5: Exceptional and other non-recurring items

| | Half year ended 30 June 2021 | Half year ended 30 June 2020 |
|---|---|---|
| | €m | €m |
| Restructuring and other charges | 6 | 1 |
| Impairment on deleveraging of NPLs | (4) | - |
| Advisory costs incurred in relation to potential acquisition of Ulster Bank business | 3 | - |
| **Exceptional items and other non-recurring items** | 5 | 1 |

Exceptional and other non-recurring items as viewed by Management for the period ended 30 June 2021 of €5m are mainly due to the additional costs relating to the Enterprise Transformation Programme and advisory costs incurred in relation to potential acquisition of Ulster Bank business offset by releases of expired warranties for the historic loan sales.

## Restructuring and other charges

€6m relates to the on-going Enterprise Transformation Programme announced in 2020. Management utilised €16.3m of the provision booked as exceptional at 31 December 2020 in H1 2021.

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

| | Half year ended 30 June 2021 | Half year ended 30 June 2020 |
|---|---|---|
| | €m | €m |
| Operating loss per IFRS income statement | (9) | (57) |
| Other exceptional items in IFRS total operating expenses | 9 | 1 |
| Exceptional impairment in IFRS credit impairment loss | (4) | - |
| **Underlying loss per management income statement** | (4) | (56) |

## Summary condensed consolidated statement of financial position

| | Table | 30 June 2021 | 31 December 2020 |
|---|---|---|---|
| | | €m | €m |
| **Assets** | | | |
| Home loans | | 12,272 | 12,145 |
| Buy-to-let | | 1,535 | 1,649 |
| **Total residential mortgages** | | 13,807 | 13,794 |
| Commercial mortgages | | 135 | 128 |
| Consumer finance | | 298 | 291 |
| **Total loans and advances to customers (net of provisions)** | 7 | 14,240 | 14,213 |
| Debt securities | 9 | 2,552 | 2,583 |
| Remaining asset balance | 10 | 4,712 | 4,190 |
| **Total assets** | | 21,504 | 20,986 |
| **Liabilities and equity** | | | |
| Current accounts | | 6,472 | 5,779 |
| Retail deposits | | 10,523 | 10,516 |
| Corporate & institutional deposits | | 1,510 | 1,744 |
| **Total customer accounts** | 11 | 18,505 | 18,039 |
| Debt securities in issue | 12 | 757 | 809 |
| Other liabilities | 13 | 435 | 187 |
| **Total liabilities** | | 19,697 | 19,035 |
| Total equity | | 1,807 | 1,951 |
| **Total equity and liabilities** | | 21,504 | 20,986 |
| Liquidity coverage ratio (LCR) (1) | | 318% | 276% |
| Loan to deposit ratio (LDR) (2) | | 77% | 79% |
| Net Stable funding ratio (NSFR) (3) | | 170% | 160% |
| Return on equity (4) | | 0.0% | (5.4%) |

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 (loss)/profit for the year after tax (before exceptional and other non-recurring items) as a percentage of total average equity.

## Summary consolidated statement of financial position - key highlights

The Group maintains a strong capital, liquidity and funding position and continues to strengthen its financial position to withstand economic shocks and financial instability in its operating environment.

Total new lending was up 43% from 30 June 2020. New mortgage lending was strong, representing 90% of total new lending and increased by 45% compared to H1 2020.

The performing loan book remained broadly in line with 31 December 2020. There were no portfolio disposals during first half of 2021.

The Group NPLs have reduced by €84m in the half year ended 30 June 2021 with cures/resolutions outstripping default flow.

Customer accounts were €18,505m for the half year ended 30 June 2021, an increase of €466m from 31 December 2020 reflecting elevated levels of liquidity, consistent with overall market trends.

Subordinated liabilities of €250m from the issuance of Tier 2 capital notes maturing on 19 August 2031 was issued by Permanent TSB Group Holdings plc (PTSBGH) in May 2021 driving an increase in other liabilities.

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

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| Gross loans and advances to customers 1 January | 14,855 | 16,389 |
| New lending | 812 | 1,332 |
| Redemptions and repayments of existing loans | (776) | (1,418) |
| Write-offs and restructures | (43) | (53) |
| Net movement from non-performing and other | - | (1,395) |
| Gross loans and advances to customers | 14,848 | 14,855 |

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

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| **Residential mortgages:** | | |
| Home loans | 12,435 | 12,338 |
| Buy-to-let | 1,893 | 2,009 |
| **Total residential mortgages** | 14,328 | 14,347 |
| Commercial | 186 | 181 |
| Consumer finance | 334 | 327 |
| Total measured at amortised cost | 14,848 | 14,855 |
| Of which are reported as NPLs | 1,044 | 1,128 |
| Deferred fees, discounts and fair value adjustments | 95 | 86 |
| Provision for impairment losses | (703) | (728) |
| Total loans and advances to customers | 14,240 | 14,213 |

## Total new lending

## €853m

Total new lending at 30 June 2021 amounted to €853m, up 43% from €596m at 30 June 2020. New mortgage lending, which represented 90% of total new lending, increased by 45% compared to H1 2020. The increase in overall lending reflects the improved customer sentiment in the market and conversion of the strong mortgage pipeline that was built up in H2 2020. Mortgage applications and mortgage approvals continue to grow in H1 2021 due to the high volume of demand.

The Irish mortgage market activity in H1 2021 has improved as demand increased following a gradual lifting of economic restrictions; New mortgage lending in the market grew by 22%. Housing supply continues to be impacted by the restrictions imposed to halt the spread of COVID-19. Prior to the pandemic the BPFI forecasted that annual housing completions would reach 30,000 units by the end of 2022 however this target will not be met. The BPFI estimate that housing completion levels in 2021 should be c. 21,000 units, broadly in line with 2020.

The Group recorded gross new term lending of €47m in H1 2021, 2% higher than H1 2020. SME lending in H1 2021, €42m, increased by 68% from H1 2020 (€25m) due to the increased new lending under the Strategic Banking Corporation of Ireland (SBCI) Future Growth Loan Scheme.

| NPLs | NPLs as a % of gross loans |
|---|---|
| **€1,044m** | **7.0%** |

Table 8: NPLs

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | Total | Total |
| | €m | €m |
| Home Loans | 610 | 658 |
| Buy-to-let | 367 | 418 |
| Commercial | 51 | 35 |
| Consumer finance | 16 | 17 |
| **Non-performing loans** | 1,044 | 1,128 |
| NPLs as % of gross loans | 7.0% | 7.6% |
| **Foreclosed assets*** | 29 | 30 |
| **Non-performing assets (NPAs) **** | 1,073 | 1,158 |
| **NPAs as % of gross loans** | 7.2% | 7.8% |

*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 Group's asset quality has remained stable and it continues to lend in high quality originations under strict credit underwriting standards.

NPLs have reduced by €84m in the half year ended 30 June 2021 with cures/resolutions outstripping default flow.

## Debt securities

| Table 9: Debt securities | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| Government bonds | 2,451 | 2,477 |
| Corporate bonds | 101 | 106 |
| **Total debt securities** | 2,552 | 2,583 |

Debt securities of €2,552m for half year ended 30 June 2021 decreased by €31m when compared to the year ended 31 December 2020 primarily due to receipts of interest.

## Remaining asset balances

Table 10: Remaining assets balances

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| **Remaining asset balances** | | |
| Loans and advances to banks | 3,905 | 3,312 |
| Assets classified as held for sale | 29 | 31 |
| Other assets | 778 | 847 |
| **Total** | 4,712 | 4,190 |

The remaining assets balances for the period ended 30 June 2021 increased by €522m from €4,190m at year ended 31 December 2020 mainly due to an increase in loan and advances to banks primarily related to balances held with the CBI as a result of increased customer accounts.

## Liabilities

The Group continues to optimise its funding profile through capitalising on cost efficient sources of funding while ensuring appropriate diversification in its funding base.

### Customer accounts

**€18,505m**

Table 11: Customer accounts

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| Current accounts | 6,472 | 5,779 |
| Retail deposits | 10,523 | 10,516 |
| **Total retail deposits (including current accounts)** | 16,995 | 16,295 |
| Corporate deposits | 1,510 | 1,744 |
| **Total customer deposits** | 18,505 | 18,039 |
| **Loan to deposit ratio*** | 77% | 79% |

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

The customer account balances for the half year ended 30 June 2021 increased by €466m from €18,039 at year ended 31 December 2020 mainly due to continued growth in the market due to COVID-19 restrictions leading to a continued reduction in consumer spending.

The retail deposits balances remained broadly flat from the prior year reflecting the stable funding source for the Group.

## Debt securities in issue

**€757m**

Table 12: Debt securities in issue

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| Bonds and medium-term notes | 355 | 351 |
| Non-recourse funding | 402 | 458 |
| Debt securities in issue | 757 | 809 |

Debt securities in issue decreased by €52m for the half year ended 30 June 2021 from €809m at 31 December 2020 mainly due to a reduction in non-recourse funding as a result of natural amortisation of mortgage backed securitisations.

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

## Remaining liabilities

Table 13: Other liabilities

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| Accruals | 15 | 2 |
| Current tax liability | 1 | 1 |
| Provisions | 54 | 77 |
| Subordinated liabilities | 250 | - |
| Other liabilities | 115 | 107 |
| **Total** | 435 | 187 |

Other liabilities increased by €248m for the half year ended 30 June 2021 from €187m at 31 December 2020 mainly due to the issuance of €250m Tier 2 capital notes maturing on 19 August 2031 by PTSBGH in May 2021.

## Funding Profile

The Groups' funding profile for the half year ended 30 June 2021 is broadly in line with the position at year end 31 December 2020. The Group is predominantly funded by retail deposits, which the Group considers a stable source of the funding. Refer to note 26 for further details on funding profile.

While the Group is significantly funded by customer accounts, it is cognisant to diversify and optimise its funding base and continuing to manage the NIM in the low interest rate environment in which the Group operates.

## 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.

## CRD IV

Implementation of the CRD IV legislation commenced on a phased basis from 1 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 deferred tax assets (dependent on future profitability) deduction which, in the case of the Group, is phased to 2024. The ratios outlined in this section reflect the Group's interpretation of the CRD IV rules as published on 27 June 2013 and subsequent clarifications, including European Central Bank (ECB) regulation 2016/445 on the exercise of options and discretions.

## Regulatory capital developments

The revised Capital Requirements Regulation (CRR2) came into effect on 28 June 2021. The CRR2 amendments include:

- A minimum 3% Leverage Ratio requirement; and
- Revised Large Exposure limit is now capped at a maximum of 25% of the Bank's Tier 1 Capital rather than eligible own funds.

The amendments are in addition to those changes introduced in April 2020 as part of the "CRR quick-fix" which brought forward certain CRR 2 changes in light of the challenges posed to the banking sector by the COVID-19 crisis.

The key measures in the CRR quick fix include an extension of the IFRS 9 transitional arrangements by 2 years, the introduction of a prudential filter on sovereign bonds held at fair value, the acceleration of CRR2 amendments to exempt certain software assets from capital deduction and to revise the SME supporting factors.

The Basel Committee has also announced a delay by one year in the implementation of revisions to the Basel Framework for Credit Risk, Credit Valuation Adjustment (CVA) and Operational Risk. These changes are expected to form part of CRR 3 in the EU with an expected application date of 1 January 2023 as opposed to an application date of 1 January 2022 expected pre COVID-19.

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

## Flexibility provided by the Central Bank of Ireland (CBI) in the context of the COVID-19 crisis

The CBI continues to provide flexibility to banks under its direct supervision when meeting its capital requirements. As well as allowing banks to operate temporarily below the level of capital defined by the Pillar 2 Guidance (P2G) and the Capital Conservation Buffer (CCB), the CBI recently reiterated that the reduction of the Countercyclical Capital Buffer (CCyB) rate on Irish exposures to 0% at the beginning of April 2020 remains appropriate and does not expect to announce any change to this policy for the remainder of 2021.

## Regulatory capital requirements

The Group's 2021 capital requirements remain unchanged to prior year. The Bank has received the Draft 2021 Supervisory Review and Evaluation Process (SREP) Letter, in relation to which engagement with the CBI is ongoing. However, based on the Draft Letter, the Bank does not anticipate any changes to its Total SREP Capital Requirements (TSCR).

As at 30th June, the Bank's minimum CET1 requirement was 8.94%, comprised of Pillar 1 Requirement of 4.5%, a Pillar 2 Requirement (P2R) of 1.94% and a Capital Conservation Buffer of 2.5%. The equivalent minimum requirement on a Total Capital basis was 13.95%, comprised of a Pillar 1 Requirement of 8.0%, a P2R of 3.45% and a Capital Conservation Buffer of 2.5%.

The above requirements exclude the Bank's P2G amount which, in line with Regulatory guidance, is not disclosed.

## Capital ratios at 30 June 2021

At 30 June 2021, the regulatory transitional CET1 was 17.4% (31 December 2020: 18.1%) and Total Capital ratio 22.3% (31 December 2020: 21.0%), exceeding the Group's 2021 minimum requirement of 8.94% and 13.95% respectively.

The reduction in the transitional CET1 ratio (-0.7%) over the six months to June 2021 is primarily due to the transitional phasing of in the Groups deferred tax asset balance and the prudential phase-in of IFRS9. This was partially offset by an increased capital add-back related to intangible software assets in use reflecting the investment in the Bank's Digital Banking Programme. The Commission Delegated Regulation (EU) 2020/2176 published at the end of 2020 allows intangible software assets in use to be amortised over 3 years rather than deducted from CET1 capital.

In Q2 2021 the Bank successfully executed Tier 2 capital notes of +€250m. Following regulatory approval, the Tier 2 capital notes has been recognised in the Groups Own Funds, increasing Total Capital ratio by +3.0%.

This was partially offset by the Q1 2021 recall and de-recognition of the AT1 instrument (€125m issued in April 2015).

On a fully loaded basis, the CET1 ratio was 15.3% (31 December 2020: 15.1%) and the Total Capital ratio was 20.2% (31 December 2020: 18.2%).

The June 2021 leverage ratio on a fully loaded and transitional basis amounted to 6.6% and 7.4% respectively (31 December 2020: 7.1% and 8.2%). Movement in leverage ratio was primarily due to a reduction in Tier1 capital, driven by the recall and de-recognition of the 2015 AT1 instrument and increased exposure through deposit growth.

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

**Table 14: Regulatory capital**

| | 30 June 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | Transitional | Fully Loaded | Transitional | Fully Loaded |
| | €m | €m | €m | €m |
| **Capital Resources:** | | | | |
| **Common Equity Tier 1** | 1,481 | 1,297 | 1,535 | 1,282 |
| Additional Tier 1* | 123 | 123 | 190 | 198 |
| **Tier 1 Capital** | 1,604 | 1,420 | 1,725 | 1,480 |
| Tier 2 Capital | 290 | 290 | 54 | 59 |
| **Total Capital** | 1,894 | 1,710 | 1,779 | 1,539 |
| **Risk Weighted Assets** | 8,486 | 8,481 | 8,480 | 8,471 |
| **Capital Ratios:** | | | | |
| Common Equity Tier 1 Capital | 17.4% | 15.3% | 18.1% | 15.1% |
| Tier 1 Capital | 18.9% | 16.7% | 20.3% | 17.5% |
| Total Capital | 22.3% | 20.2% | 21.0% | 18.2% |
| **Leverage Ratio**** | 7.4% | 6.6% | 8.2% | 7.1% |

*The amount of Additional Tier 1 (AT1) Capital and Tier 2 instruments included within the 2020 consolidated capital of the holding company is restricted within the limits laid down under the CRR. Effective January 2018, these restrictions are now fully phased in. These restrictions do not apply in 2021 as the current AT1 instrument is issued out of the Holding Company (HoldCo)
**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 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | Transitional | Fully Loaded | Transitional | Fully Loaded |
| | €m | €m | €m | €m |
| **Total Equity** | 1,808 | 1,808 | 1,951 | 1,951 |
| Less: AT1 Capital | (123) | (123) | (245) | (245) |
| Adjusted Capital | 1,685 | 1,685 | 1,706 | 1,706 |
| **Prudential Filters:** | | | | |
| Intangibles | (40) | (40) | (72) | (72) |
| Deferred Tax | (250) | (347) | (213) | (343) |
| IFRS 9 (Transitional adjustment)* | 87 | - | 122 | - |
| Others | (1) | (1) | (8) | (9) |
| **Common Equity Tier 1** | 1,481 | 1,297 | 1,535 | 1,282 |

*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 2021 year to date transitional CET1 capital reduced by (€55m) to €1,481m (31 December 2020: €1,535m). This reduction was the phasing of the prudential filters (-€72m), loss year to date of (-€5m) and other year to date reserves movement (incl AT1 distributions) (-€10m), partially offset by an increased capital add-back to reflect the Groups ongoing investment in and implementation of intangible software assets (+€32m).

## Fully loaded capital

The June 2021 year to date fully loaded CET1 capital increased by (€14m) to €1,296m (31 December 2020: €1,282m). This increase was primarily driven by an increased capital add-back to reflect the Groups ongoing investment in and implementation of intangible software assets (+€32m), partially offset by a loss year to date of (-€5m) and other year to date reserves movement (incl AT1 distributions) (-€10m).

## Risk weighted assets

The following table sets out the Group’s RWAs at 30 June 2021 and 31 December 2020.

| Table 16: RWAs | 30 June 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | Transitional | Fully Loaded | Transitional | Fully Loaded |
| | €m | €m | €m | €m |
| **RWAs** | | | | |
| Credit risk | 7,034 | 7,034 | 6,958 | 6,958 |
| Counterparty credit risk* | 96 | 96 | 137 | 137 |
| Securitisation | 160 | 160 | 165 | 165 |
| Operational risk | 639 | 639 | 672 | 672 |
| Other** | 557 | 552 | 548 | 539 |
| **Total RWAs** | 8,486 | 8,481 | 8,480 | 8,471 |

*Counterparty credit risk includes Treasury, Repo & CVA RWAs
**Other consists mainly of Property and Equipment, Intangible software assets and Prepayments

The 30 June 2021 RWAs increased marginally by €6m (on a transitional basis) to €8,486m (31 December 2020: €8,480m). This was primarily driven by an increase in credit RWAs (+€76m) partially offset by a reduction counterparty credit risk RWAs (-€41m) and Operational Risk RWAs (-€34m).

# 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

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; Strategic Business Risk; Operational Risk; Information Technology ('IT') Risk; Model Risk; Compliance Risk and Conduct and Reputational Risk.

The RMF outlines the Group-wide approach to the identification; assessment and measurement; mitigation and control; monitoring and testing; and, reporting and escalation of risks 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 risk is 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 distinct key risk categories, including qualitative expressions of risk appetite as well as quantitative measures which translate the qualitative expressions of risk appetite into actionable metrics (RAS Metrics). This further outlines key risk indicators (KRIs) which 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 to deliver a full-service Retail and SME Bank with a low risk appetite exclusively focused on the Republic of Ireland. 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 Internal Control Framework ("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.

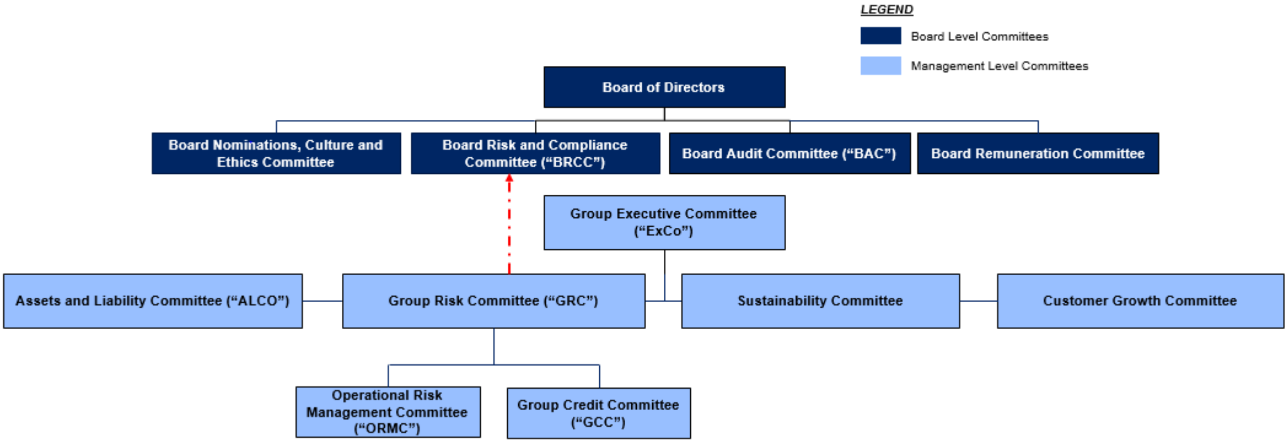
These principles include:

- **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 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 should be appropriate to the Group's resources and business model. This should be reviewed on a regular basis and the feedback of the committee members should be sought.

As part of an enhancement of the Group's risk governance structure a number of Committee's and their responsibilities were merged into a single committee. These include the Capital Adequacy Committee (CAC) merging into the Assets & Liabilities Committee and the Customer Committee and Growth Committee being merged into a combined Customer Growth Committee.

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

**Risk Governance Structure**



## Key Risk Governance Roles and Responsibilities

| Committee/Role | Key Responsibilities |
|---|---|
| **Board**<br><br>Responsible for the Group's business strategy, financial soundness, key personnel decisions, internal organisation, governance structure and practices, risk management and compliance obligations. | A key role of the Board is to ensure that risk and compliance are properly managed in the business. Key risk responsibilities of the Board include, but are not limited to:<br>• Understanding the risks to which the Group is exposed and establishing a documented risk appetite for the Group;<br>• Defining the strategy for the on-going management of material risks; and<br>• Ensuring that there is a robust and effective internal control framework that includes well-functioning independent internal risk management, compliance and internal audit functions as well as an appropriate financial reporting and accounting framework. |
| **Board Risk and Compliance Committee (BRCC)**<br><br>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:<br>• 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;<br>• Reviewing and making recommendations to the Board in relation to the Group's RMF, RAS and the Group Recovery Plan;<br>• 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;<br>• Reviewing and approving the key components of the Group's risk management architecture and relevant supporting documents;<br>• Communicating all issues of material Group reputational and operational risk directly to the Board;<br>• Reviewing and approving credit policy, credit related strategy and any material amendments to credit policy;<br>• Reviewing and making recommendations to the Board on the adequacy of capital and liquidity in the context of the Group's current and planned activities (via reviewing relevant outputs from Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), including in relation to proposed mergers, acquisitions or disposals; and<br>• Promoting a sound risk culture across the Group. |
| **Executive Committee (ExCo)**<br><br>ExCo is the Senior Management ExCo for the Group, and is the custodian of the Group's collective Strategic Portfolio financial plans and risk management architecture as developed through the annual Integrated Planning Process (IPP).<br><br>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.<br><br>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:<br>• The oversight of strategic risk associated with the development and execution of the Group's strategic portfolio and financial plans. GRC is a Committee of ExCo with delegated responsibility for group-wide risk management issues. ExCo is the ultimate point of escalation for Group-wide specific issues saved for those matters reserved for the Board or its Committees; and<br>• Ensuring that the operations, compliance and performance (through delivery of the strategic portfolio and financial plans, as well as policies, practices and decisions of the Group) are carried out appropriately, are correctly aligned to the Group Strategy and the interests of its shareholders while operating within applicable regulatory and legal requirements. |
| **Assets and Liabilities Committee (ALCO)**<br><br>ALCO reviews, and is responsible for overseeing, all activities relating to the management of Asset Liability Management (ALM), Treasury and Market Risks (including Liquidity Risk, Interest Rate Risk, Treasury | Key activities of the ALCO include, but are not limited to:<br>• Recommending the relevant ALM, Treasury, Market and Capital Risk elements of the Group's RAS for approval by the Board;<br>• Refresh and recommend for onward approval a suite of Group Risk Frameworks; |

| Committee/Role | Key Responsibilities |
|---|---|
| counterparty risk and Foreign Exchange (FX) Risk), and Capital Management. It is the body accountable for the evaluation of other potential drivers of earnings volatility, including, but not limited to, competitive and external market pressures, and for approving optimisation and hedging strategies against those risks. ALCO is a sub-committee of ExCo. | • Maintaining, monitoring and enforcing adherence to the Group's Risk Management Frameworks and policies for all ALM, Treasury and Market Risks;<br>• 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;<br>• 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;<br>• Reporting any breaches of approved limits in accordance with agreed protocol;<br>• Managing the capital requirements for the Group's ALM, Treasury and Market Risks in line with the capital adequacy directive;<br>• Overseeing Capital Management and Planning activities;<br>• 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;<br>• Ensuring there is adequate and effective segregation of duties within Treasury and to approve any significant amendment to the responsibilities of Treasury;<br>• Approving new products or material changes to existing products which have interest rate or capital implications; and Approve Funds Transfer Pricing (FTP) methodology and metrics, and ensure such process is economically fair, transparent and incentivises appropriate behaviour in accordance with FTP Policy; and<br>• Responsible for overseeing Resolution Planning activity which involves delivering the prescribed templates/annual submissions. |
| **Group Risk Committee (GRC)**<br>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.<br>Key activities of GRC include, but are not limited to:<br>• 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;<br>• 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;<br>• Monitoring and assessing the Group's risk profile and action trackers against risk appetite and recommending remediation plans to restore risk appetite where required;<br>• Reporting any breaches of approved thresholds in accordance with agreed protocol;<br>• Recommending proposed changes to the Group's risk appetite for Board approval; and<br>• 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 Growth Committee**<br>Customer Growth 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.<br>It has a number of key remits, namely to:<br>• Prioritise opportunities, resources and capabilities in order to deliver sustainable commercial growth;<br>• 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;<br>• Review and action, where required, customer performance indicators;<br>• 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;<br>• Review and action, where required, Conduct Risk indicators that exist within the Bank against the Board-approved Conduct Risk Appetite and Principles; and<br>• Serve as the central oversight body for all significant customer matters ensuring fair treatment of customers. |

| Committee/Role | Key Responsibilities |
|---|---|
| **Sustainability Committee**<br><br>Led by the Board, and on delegated authority from the ExCo, the Sustainability Committee (SusCo) 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 PTSB's Sustainability Strategy by ensuring that there is sufficient oversight, alignment, governance and challenge of activity across the key area of focus of the Bank's Sustainability Programme.<br>Key activities of SusCo include, but are not limited to:<br>• 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;<br>• Prioritising sustainability activity and ensuring that there is a focus on the ESG activity that will drive change and deliver lasting impact for our customers, colleagues, communities and environment;<br>• Assigning business owners to manage and deliver sustainability programming across the material issues set out within the Sustainability Strategy;<br>• Developing Sustainability KPIs and implementing processes that enable the Bank to effectively measure, manage and report progress against Sustainability objectives; and<br>• Monitoring and reporting progress to the Board and Executive Committees at regular intervals throughout the year. |
| **Group Credit Committee (GCC)**<br><br>GCC is the body accountable for the execution and delivery of the Group's system of Portfolio Credit Risk Management, encompassing the identification, measurement, monitoring and reporting of Portfolio Credit Risks. 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:<br>• Recommending the relevant portfolio credit risk elements of the Group's RAS for approval by the Board;<br>• Recommending approval following challenge of the proposed impairment charge and approach to higher authorities (BRCC/BAC) for reporting periods;<br>• 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);<br>• Monitoring the portfolio credit risks to which the Group is exposed;<br>• Maintaining and assessing the portfolio credit risk profile against set limits and proposing remediation plans to restore risk appetite/limits where required;<br>• Reporting any breaches of approved limits in accordance with agreed protocol; and<br>• 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. |
| **Operational Risk Management Committee (ORMC)**<br><br>ORMC is the body responsible for supporting GRC in monitoring Operational and IT Risks and overseeing risk mitigation performance and prioritisation related to the management and control of these risks. ORMC is a sub-committee of GRC | 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 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. The key responsibilities of the ORMC include, but are not limited to:<br>• Oversee the implementation of the Bank's Operational and IT Risk Management Frameworks, including compliance with relevant Operational and IT risk policies and procedures;<br>• 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);<br>• Review and recommend approval of qualitative and quantitative Operational and IT risk appetite metrics and limits / thresholds to the GRC;<br>• Review and approve the top ten Operational and IT risks facing the Group for reporting to the Regulator;<br>• Appraise significant 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;<br>• Monitor and assess the Group's risk profile (through the use of risk appetite metrics, KRIs and RIs) and action trackers against Risk Appetite and recommend remediation plans to restore Risk Appetite regarding Operational and IT risk where required;<br>• Report any breaches of approved thresholds relating to Operational and IT risks in accordance with agreed protocol; |

| Committee/Role | Key Responsibilities |
|---|---|
| | • To 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;<br>• 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;<br>• Conduct 'Spotlight' sessions on changes in operating and business environment, specific Operational and IT sub-risks;<br>• Promote a bank-wide culture of responsibility for Operational and IT risk, and customer focus, across every member of staff;<br>• Monitor the implementation of policies and ensure ongoing adherence through operational controls;<br>• Oversight and assessment of the outputs from Customer Impacting Errors (CIE) and Customer Complaints, including identification of any required reviews or negative trends; and<br>• Review and approve Terms of Reference for ORMC supporting committees and forums. |

## 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 has a shared reporting line to the BRCC and the CEO.

The CRO is accountable for the development of 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 the point-in-time 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 for the effective oversight and management of risks across the Group.

| Line Of Defence | High-Level Roles And Responsibilities |
|---|---|
| **First Line of Defence**<br>Functions and teams in the first line undertake frontline commercial and operational activities. In their day-to-day activities, these teams take risks which are managed through the effective design and operation of mitigating controls. Each Head of first line function/team is responsible for ensuring that activities undertaken are within the Board-approved risk appetite. | **First Line – Business Units**<br>• Embedding Risk Management Frameworks and sound Risk Management practices into standard operating procedures. This includes creating explicit links between maintaining and delivering robust governance, and risk and control processes to performance management, with clear consequences for non-adherence;<br>• Adhering to appropriate risk frameworks, policies and procedures;<br>• Complying with regulatory and legal obligations;<br>• Identifying, assessing, measuring, monitoring and reporting on Risk Management performance in activities; and<br>• Accounting for the effectiveness of Risk Management in operation including ensuring that procedures and controls are operated effectively. |
| **Second Line of Defence**<br>The Group Risk Function is an independent Risk Management function, under the direction of the CRO, and is the key component of the Group's Second Line of Defence. The Group Risk Function is responsible for the on-going assessment, monitoring and reporting of risk-taking activities across the Group. | **Second Line – Group Risk Function**<br>• Developing and monitoring the implementation of Risk Management frameworks, policies, systems, processes and tools;<br>• Ensuring that Risk Management frameworks, policies, systems, processes, procedures and tools are updated and reviewed regularly and that these are communicated effectively to the First Line;<br>• Ensuring that the above frameworks and tools cover risk identification, assessment, mitigation, monitoring and reporting<br>• Monitoring the effectiveness of the control framework;<br>• Influencing or challenging decisions that give rise to material risk exposure; and<br>• Reporting on all these items, including risk mitigating actions, where appropriate. |
| **Third Line of Defence**<br>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**<br>• Undertaking a risk-based, independent assessment of the adequacy and effectiveness of the Group's governance, risk management and control processes, with the ultimate objective of providing an opinion on the control environment to the BAC;<br>• Periodically assessing the Group's overall risk governance framework, including but not limited to, an assessment of: the effectiveness of the Risk Management and Compliance Functions; the quality of risk reporting to the Board and Senior Management; and the effectiveness of the Group's system of internal controls;<br>• Providing independent assurance to the Board Audit Committee (BAC) on the above;<br>• Recommending improvements and enforcing corrective actions where necessary;<br>• Tracking the implementation of all internal audit recommendations and external audit management points; and<br>• Reporting to the BAC on the status and progress of the above. |

## 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' Risk Identification and 'bottom up' RCSA processes and form the basis of the Banks 'Top and Emerging Risks' report. The 'Top and Emerging Risks' report is included in the quarterly report. This is presented to Board and is used to ensure identification, measurement, management and monitoring of all material risks.

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 six 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. As a result of the challenging conditions in global markets due to COVID-19, the growing threat from cyber-attack and unknown risks, the precise nature of all risks and uncertainties that the Group faces cannot be predicted as many of these risks are outside of the Group's control.

At 30 June 2021 we have two emerging risks 'New Digital Based Banks' and 'Geopolitical Risk (Tax Implications)'.

- New Digital Based Banks - Developments in the Fintech space and Open Banking mean there is increased competition for new business and challenge our ability to retain existing customers. Our Digital Transformation will help ensure that we maintain pace in offering digital services to our customers and enable us to compete and leverage the same/similar data of other institutions under Open Banking.
- Geopolitical Risk (Tax Implications) - An increase to the country's corporation tax rate may result in international companies settling elsewhere. The impact of this risk is indirect, any impact would likely be felt through a reduction domestic economic activity and the second-order impacts that it might have on employment levels and property prices. As the risk relates to matters beyond the control of Management, mitigation will likely need to focus on managing its impact should it materialise. Our existing stress testing programme, part of which incudes consideration of contingency plans to protect capital, captures general economic downside risks of this nature.

### Strategic Business Risk

Strategic Business Risk is the risk to earnings and capital (viability/sustainability of the Group) arising from adverse strategic decisions, inadequate or insufficient implementation of decisions, or a lack of responsiveness or adaption to external environment changes.

Business risk is typically assessed over a one-year horizon while strategic risk generally relates to a longer timeframe and pertains to volatilities in earnings arising from 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 and loan volumes, operating expenses and other variables that may introduce earnings volatility. The development of new markets, products and services and significant changes to existing ones is addressed under the Group's new product approval process.

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

### COVID-19

The economic shock as a result of the COVID-19 virus outbreak posed a significant challenge to businesses in Ireland and globally. The outlook is clearer with the rollout of vaccination and the corresponding pathway to reopening. However, given the unprecedented level of Government support the environment remains challenging, with the long-term consequences largely dependent on the ensuing timeline over which business activity and employment levels continue to recover.

Anticipated higher impairments materialised in 2020, but arrears and RWAs have remained stable, with higher costs having an impact on the Group's capital position and profitability. In light of the current more positive economic outlook and the level of forward-looking impairment taken in 2020, the net impairment charge on the Group's loan book for the half year to June 2021 is €3m (€75m June 2020). The risk to the full year impairment outturn in 2021 is driven by uncertain economic outcomes rather than actual observed portfolio deterioration to date.

The extreme impact of COVID-19 on the global economy and the unique set of monetary and fiscal countermeasures that have been introduced to soften the negative economic impact, providing detailed long-term forecasts of the Irish economy is continuing to present unique challenges in forecast development. However, as recovery continues to gather pace, uncertain economic outcomes including inflation is now the largest threat to the continued pace of the global recovery.

The unprecedented nature of the crisis gives rise to an elevated degree of uncertainty regarding the Group's financial and capital outlook at this time including overall impairment levels, particularly arising from the impact of the removal of government support for our customers on overall defaults. Management continue to review and benchmark internal projections against economic assessments published by reputable, independent sources.

In addition, the COVID-19 virus brought significant change across the organisation in relation to our 'Ways of Working' with reliance on remote working and remote collaboration becoming the new normal and redeployment and reorganisation of how teams are setup to work being required.

The health of all colleagues continues to be our utmost priority and in this regard, work is being undertaken in designing a 'future fit' organisation for a return to the physical workplace, as well as an enduring home working approach. To assist with this, we are developing longer term technology solutions and an improved equipment infrastructure to enable flexible working

## Brexit

Whilst a deal between the United Kingdom (UK) and Europe has been negotiated, it is nevertheless widely expected that the UK's decision to leave the European Union (EU) will have an adverse impact on the Irish economy in the near-to-medium term which, in turn, is likely to negatively impact PTSB's results and financial outlook. However, the extent of the likely impact of 'Brexit' on the Irish economy remains uncertain.

## Economic Outlook

### Growth

The Organisation for Economic Co-operation and Development (OECD) is projecting global Gross Domestic Product (GDP) "to rise by 5¾ per cent in 2021 and close to 4½ per cent in 2022." Meanwhile, the European Commission's (EC) baseline scenario projects growth in real GDP for the euro area of 4.0% and 4.1% in 2021 and 2022 following a 6.9% decline in 2020. The Department of Finance (DoF), in its Stability Programme Update, envisages real GDP growth of 4.5% and 5.0% for Ireland this year and next following growth of 3.4% in 2020, which the EC noted made Ireland the only euro area member "to register positive growth in 2020". The DoF notes, however, that modified domestic demand (MDD) is a better barometer of Irish economic performance and comments that MDD contracted by 5.4% last year but projects MDD growth of 2.6% and 7.4% in 2021 and 2022. It estimates the level of MDD will "revert … to its pre-pandemic level by the fourth quarter of 2021."

### Government Finances

The NTMA notes that the "Irish economy has shown remarkable resilience" in facing the Covid shock. However, this performance was largely achieved on the back of "stimulus … equivalent to 19% of Gross National Income (GNI) over 2020 and 2021". It acknowledges that "deficits are necessary" but warns that "in time public support to the economy [must] be reduced." The Department is projecting "a deficit of €18.1 billion (4.7% of GDP; 8.4% of GNI*) this year" and "a deficit of €11.6bn (2.8% of GDP; 5% of GNI*) … for 2022." It projects public indebtedness "at €239.3bn this year, the equivalent of 111.8% of GNI*" which it notes "would put the Irish debt-income ratio amongst the highest in the developed world." However, it also comments that "while public indebtedness has increased, the burden of public debt has fallen, largely reflecting the decline in interest rates associated with large-scale central bank purchases of sovereign debt."

The Minister for Finance points to this as evidence of a two-speed economy in which "the pharma and ICT sectors recorded extraordinary growth" with the domestic sector "bearing the brunt." Income tax and corporate tax receipts remained robust despite the various lockdowns. However, the NTMA highlights that "proposed corporate tax reform led by the OECD may impact Ireland's growth model." The Department of Finance estimates this loss of corporate tax revenue at €2bn per annum.

### Employment

The labour market has been severely affected by the pandemic, the Department notes, "with the number of hours worked at the end of last year 9½ per cent below the pre-pandemic peak." It added that "contact-intensive sectors have been most severely affected". It projected "the unemployment rate [would] average around 16¼ per cent this year, before declining to 8¼ per cent in 2022 as the economy is fully re-opened." It cautioned that the unemployment rate would "fall to a rate of 5½ per cent in 2025, remaining above the pre-pandemic rate of 5 per cent on average for 2019, reflecting some scarring."

### Inflation

The OECD thinks inflation concerns are overdone: "Signs of higher input cost pressures have appeared in recent months, but sizeable spare capacity throughout the world should prevent a significant and sustained pick-up in underlying inflation. The recent upturn in headline inflation rates reflects the recovery of oil and other commodity prices, a surge in shipping costs, the normalisation of prices in hard-hit sectors … and should ease in the near term. With unemployment and employment rates unlikely to attain their pre-pandemic levels until after end-2022 in many countries, there should be only modest pressures on resources over the coming 18 months." The ECB concurs, anticipating inflation of 1.5% in 2021 reducing to 1.2% next year.

### Banking

"Irish household deposits continue to grow reaching almost €131 billion" by April 2021, an increase of "€14.9 billion or 12.9 per cent" over the previous 12 months, according to data from the CBI. It further commented that "households made significant net repayments of household credit since April 2020 (€242 million), compared to positive net drawdowns of €1.1bn in the 12 months to April 2020." The Shareholding and Financial Advisory Division of the DoF notes that this continues the trend of lower loan-to-deposit ratios; the ratio across Irish banking is now below 80%, less than half its level in 2011. The Department characterises €11bn of the deposits in banks as being "excess deposits" which are likely to be withdrawn once the pandemic has passed.

The total volume of mortgages drawn down in the year ending March 2021 according to BPFI was €8.5bn, which is less than 12% below the same figure a year earlier despite the repeated lockdowns. First-time buyers represented over 53% of this total at €4.5bn. The volume of mortgage drawdowns in Q1, 2021, €2.1bn, was the highest since 2008 indicating a renewed momentum in the market.

BPFI noted that "payment breaks had been approved on 151,000 accounts by 31 December 2020. Almost 74,000 of those accounts were private dwelling home (PDH) mortgage accounts, with some 36,000 consumer credit accounts and 33,000 SME loan accounts. Only 4,200 accounts or 3% of accounts with approved breaks still had active breaks by the end of 2020. About 2,800 were extended payment breaks (active for four to six months). The remainder were on initial breaks (active for up to three months)." However, the OECD is cautious: "Public support for employees and businesses, which cushioned the impact of the crisis and masked the surge in unemployment, will be progressively pared back as the economy reopens. … Bankruptcy risks, which have been quiescent until now, might crystallise with the removal of policy support, which may eventually push up unemployment."

## Housing

Increased activity is also apparent in the housing market. BPFI is projecting "total housing completion numbers to be at least similar to levels observed in 2020, at around 21,000 units." It noted that "4,736 residential units commenced in April 2021 alone … which is more than the total number of units commenced during the April-July 2020 period and the highest monthly total since June 2007." Nevertheless, the pandemic has taken a toll: "Prior to the pandemic, we forecasted that annual housing completions would reach 30,000 units by the end of 2022; however, it is clear that we will not reach this level of output until at least the end of 2024."

As the Economic & Social Research Institute (ESRI) reports, "one of the most significant long-lasting effects of COVID-19 on Irish society is the adverse impact on the provision of housing." It notes that the "structural demand for housing in the Irish economy is approximately 35,000 units per annum" and emphasises "the scale of the imbalance and the growing nature of the divergence in coming years. This is likely to result in further upward pressure on house prices and rent levels. Any such increase in housing costs comes in the context of significant existing affordability challenges in the Irish residential market."

The availability of residential properties to purchase is further diminished by large-scale purchases by non-households. BPFI estimates that some 12,000 of the 58,000 residential properties purchased in 2019 were purchased by non-households and that "non-households increased their share of market purchases of residential properties to 23.3% [in 2020], up from 21.5% in 2019 … [and] up from 3% in 2010." At the same time, BPFI notes "a significant decline in the role of individual buy-to-let (BTL) investors in the market in recent years. At the peak of the mortgage activity in 2006, BTL loans accounted for around 20% of total mortgage drawdowns compared to less than 1% in 2020."

## House Prices

This lack of supply and the accumulation of deposits during the various lockdowns are seen as causing the recent increase in residential property prices. The Central Statistics Office (CSO) notes: "Residential property prices (houses and apartments) increased by 3.7% nationally in the year to March. This compares to an increase of 3% in the year to February and an increase of 0.9% in the twelve months to March 2020." However, BPFI comments that "leading indicators have shown pressures building up in relation to input prices which could have a knock-on effect on output prices. For example, recent supply shortages in construction materials due to the pandemic as well as Brexit have caused significant increases in input prices." It further suggests that "availability of skilled labour could become an issue."

## Overall Position

Overall, developments over the past six months have been mixed. As the DoF commented: "Three key developments stand out and each will have a key bearing, not just on short-term economic activity, but on trends over the medium-term also. Two of these – an orderly end to the EU-UK 'transition period' as well as the development, and subsequent mobilisation, of several COVID-19 vaccines – contribute positively to economic prospects, while the third – the re-imposition of relatively severe containment measures during the first quarter of this year – works in the opposing direction. Relative to the Department's autumn forecasts, therefore, it is a case of two steps forward and one step backwards."

The various Government supports extended and extraordinary measures (such as payment breaks) have affected the relationship between default and the macro-economic drivers of the credit models used to determine ECL. In Management's judgement, arrears performance has benefited from the government measures in combination with reduced spending on current accounts and credit cards, and the low bank base rate environment, which have had the effect of suppressing what would otherwise have been a degradation in performance due to reduced economic activity that may have a lasting impact on consumer preferences and behaviours.

## Climate Risk

Given the increased focus on sustainability, both in Ireland and around the world, the Bank completed a comprehensive sustainability assessment of PTSB in 2020. The assessment covered a number of topics, including: the transition to a low carbon economy; green products and services; the regulatory landscape; responsible procurement; and, perhaps most notably, climate risk and the effect that it will have on all areas of our business.

Following the assessment, the Bank mobilised a Sustainability Committee with representation from Senior Leaders from each part of the organisation. Led by the Board, the Sustainability Committee commenced work on turning the findings into an action plan for the Bank across a number of dedicated work streams. This work will continue through the second half of 2021 and will cover the following in relation to climate risk:

- Integrating climate risk into our existing Risk Management Frameworks;
- Identifying activities and assets exposed to climate related risks and measuring impact, for example, our suite of loan portfolios;
- Assessing our value chain with a view to limit our exposure and impact; and
- Monitoring the regulatory landscape and aligning with reporting disclosure frameworks.

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 to meet new customer needs for PTSB and Management are preparing for both.

## 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 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 this review.

## Capital Adequacy Risk

Capital Adequacy Risk is the risk that the Bank 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 RWA;
- 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 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 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 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 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 behavioural stickiness, into longer term loans predominantly mortgage lending.

The levels of Liquidity and Funding risk within the Group have been positively impacted by the increase in Retail Deposit balances and the execution of the NPL strategy.

## Market Risk

Market Risk is 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 mitigated using hedging.

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 Bank'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.

The London Interbank Offered Rate (LIBOR), the Euro Interbank Offered Rate (EURIBOR) and other rates and indices which are deemed to be "benchmarks" are the subject of recent international, national and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others remain to be implemented. These reforms may cause such benchmarks to perform differently from the past or disappear entirely or have other consequences that cannot be predicted.

For PTSB this potentially may impact the payment and receipt of interest on PTSB's securitised transactions and interest rates swaps but the impact is considered minimal given the low level of exposure. The Group will continue to monitor and address potential challenges from any transition to new reference rates.

The impact was considered and the outcome of Managements internal processes concluded that the impact was minimal given the low level of exposure. At 30 June 2021, the Group has no active hedge accounting relationships. The GBP LIBOR positions are less than €1m and all EURIBOR positions are tracking EUR Sterling.

The Group will continue to track the Alternative Reference Rates (ARR), however the Group does not believe there will be a material impact on cross over.

## Model Risk

Model risk is defined by the Group as an adverse outcome (incorrect or unintended decision or financial loss) that occurs as a direct result of weaknesses or failures in the design, implementation or use of a model. The consequences of a poorly functioning model can include inappropriate levels of impairment allowances or capital and inappropriate credit or pricing decisions causing adverse impacts to funding or liquidity and causing 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:

- Macro-economic 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 (particularly the current pandemic) 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 ERMF. This provides the basis for the Group Model Governance 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; climate; fraud; legal; people; and property risk.

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. Industry related risks are also a focus from a cyber threat perspective and the Bank collaborate across financial services to ensure we understand and remediate vulnerabilities. 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. The Group has no tolerance for data or cyber security breaches which may result in significant damage to customer confidence and financial stability. The Group has no appetite for non-conformance with laws.

The ORMC monitors the Operational and IT risks to which the Group is exposed and oversees 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 RCSA Process, control testing, and Operational Risk Event Processes 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 KRIs, the operational and IT RAS, emerging risks and other relevant operational and IT risk metrics on an ongoing basis.

External events can have a major impact on the Group's Operational and IT Risk profile. 2020 saw an unprecedented world-wide COVID-19 pandemic which has continued into 2021. During this time, the Banking industry has experienced an increased risk of external fraud and cybercrime as criminals try to exploit the situation. Globally, and in Ireland, Cyber threats have increased in volume and sophistication. In particular, attacks involving Distributed Denial of Service, social engineering, ransomware, and low-level hacking have all increased.

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 elevated. Progress in improving the Group's defences will continue through 2021 and beyond as we invest in line with good practice.

Work continues to ensure business critical services perform without disruption and enhancements are being made to our various platforms and fraud systems throughout this year. Enhancements to our system has progressed in H1 to make remote working more effective across the Bank and continued cyber security awareness training is also a focus.

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, in 2021 a Bank-wide Enterprise Transformation Programme was put in place to support our purpose of building trust with customers and delivering our strategic priorities; reassessing how work is allocated, how we are organised and how work gets done. Work continues across the Group to help achieve the deliverables with a dedicated Programme Office in place to support the business in managing the transition to the new operating model.

The Group's Operational Risk and IT Risk Management Frameworks outline the Group's approach to managing Operational and IT risks and are applicable Group wide. The framework defines the roles and responsibilities for the oversight of Operational and IT risks, along with the ownership and processes in place for the identification, assessment, mitigation, monitoring, testing and reporting of Operational and IT risks in the Group.

A RCSA methodology is used to identify, measure and control Operational Risk, 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. It also supports tracking of deficiencies related to control design and control effectiveness and any associated remediation plans. The RCSA methodology outlines the actions, procedures, roles and responsibilities relating to the Group's RCSA process. We have enhanced our processes in this area as we progress plans to implement a new Governance Risk & Compliance 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 Group acts to mitigate potential risk 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.

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 current or prospective 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 Information & Communication Technology (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 Frameworks. 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 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; and
- Interactions with customers throughout the lifetime of the relationship, including when customers make complaints or where customer-impacting errors occur.

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

The Group's Senior Management are responsible for the identification and management of Conduct Risk in their business areas and for ensuring fair customer outcomes. The Group has a team within its Regulatory Compliance function responsible for second line Conduct Risk oversight. This team is guided by a Conduct Risk Management Framework, including a Board-approved Risk Appetite and Conduct Risk Principles for the Group. 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 Group Customer Growth 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 Bank or the failure of organisational structure and governance arrangements within the Bank to embed desired behaviours and culture. 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 Bank'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 CBI, 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 Risk 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 or distribution channels or markets;
- The risk that the Group is unable to respond to the scale of regulatory change and implement all required changes in full or on time, or the challenge of meeting regulatory changes will impact the Group's abilities to undertake other strategic initiatives;
- The level of costs associated with the regulatory overhead including, but not limited to, the industry funding levy, funding the 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.

At a European level, amendments to the Capital Requirements Regulations and Directive, and the Bank Recovery and Resolution Directive will continue to be implemented through to 2022. The amendments include changes to the NSFR, counterparty risk, market risk, large exposures, reporting and disclosures and the introduction of minimum provision coverage for NPLs. These changes may impact the Group's capital requirements, liquidity management and market disclosures. Operational Resilience is receiving increased focus with draft legislation being introduced by the European Commission, recognising increased reliance on third parties and outsourcing.

Sustainable Finance is a key priority for Governments and regulators. The EU Action Plan on Sustainable Finance sets out the EU's strategy to integrate ESG considerations into its financial policy framework and mobilise finance for sustainable growth. The Plan is broad and encompasses many elements including: measures to develop a common European taxonomy or "classifications system" for sustainable finance, enhanced disclosure rules to make sustainability risks fully transparent to investors and measures to make ESG considerations part of investment advice.

In Ireland, the Government is expected to publish legislation to introduce an Individual Accountability Regime for Banks and other regulated entities, via a Senior Executive Accountability Regime (SEAR). This regime is expected to include Conduct Standards for Staff and enhancements to both the Fitness and Probity and the Administrative Sanctions Regimes. Following the enactment of the legislation the CBI will undertake a consultation process. The Government has also recently transposed the requirements of the 5$^{th}$ EU Anti-Money Laundering (AML) Directive into Irish Law with the main updates relating to beneficial ownership registers, increased scrutiny of high-risk countries and the regulation of virtual currencies. In addition, the CBI has commenced a review of the Consumer Protection Code (CPC) and is expected to undertake a consultation process during 2021.

Regulators continue to emphasise the importance of culture, conduct risk, diversity practices, IT resilience, cyber security, financial crime and climate risk. These will continue to be important areas of regulatory focus especially in light of the response to COVID-19 on maintaining banking services and meeting customer needs.

## 3. 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.

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 PTSBGH. All of the Directors of PTSBGH are also Directors of the Board of 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.

## 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 GCC or the Board. Below the GCC level, a tiered level of discretion applies with individual discretion levels set to reflect the relevant staff members' level of seniority, expertise and experience and the Group's operational needs. All mortgage lending is currently approved by experienced credit risk professionals assisted by scoring models. For 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 2021**

| | Home loans €m | Buy-to-let €m | Total €m |
|---|---|---|---|
| Less than 70% | **7,577** | **763** | **8,340** |
| 71% to 90% | **4,093** | **323** | **4,416** |
| 91% to 100% | **326** | **201** | **527** |
| Subtotal | **11,996** | **1,287** | **13,283** |
| Greater than 100% | **439** | **606** | **1,045** |
| **Subtotal** | **439** | **606** | **1,045** |
| **Total Residential Mortgages** | **12,435** | **1,893** | **14,328** |
| Commercial | | | **186** |
| Consumer Finance | | | **334** |
| **Total loans and advances to customers** | | | **14,848** |
| Deferred fees, discounts and fair value adjustments | | | **95** |
| **Gross loans and advances to customers** | | | **14,943** |

31 December 2020

| | Home loans €m | Buy-to-let €m | Total €m |
|---|---|---|---|
| Less than 70% | 7,119 | 783 | 7,902 |
| 71% to 90% | 4,186 | 306 | 4,492 |
| 91% to 100% | 455 | 189 | 644 |
| Subtotal | 11,760 | 1,278 | 13,038 |
| Greater than 100% | 578 | 731 | 1,309 |
| Subtotal | 578 | 731 | 1,309 |
| Total Residential Mortgages | 12,338 | 2,009 | 14,347 |
| Commercial | | | 181 |
| Consumer Finance | | | 327 |
| Total loans and advances to customers | | | 14,855 |
| Deferred fees, discounts and fair value adjustments | | | 86 |
| Gross loans and advances to customers | | | 14,941 |

## 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 predominantly 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.

During 2020, in response to the COVID-19 pandemic, in accordance with the European Banking Authority (EBA) guidelines, the Bank implemented a number of measures for customers financially impacted by the crisis. Subject to certain criteria, impacted residential mortgage customers were eligible to apply for a COVID-19 loan payment break, a temporary repayment arrangement where the customer makes no payment, or a partial loan payment break where the customer repays an amount they can afford on their mortgage for a period of up to six months (initial period of three months with the option to extend up to six). Personal loan customers and personal current account holders were also eligible to apply for a COVID-19 term loan payment break for up to six months.

SME and Commercial customers who experienced a significant fall in income or had to temporarily close a business as a result of COVID-19 were eligible to apply for a new or additional overdraft facility and/or COVID-19 loan payment break for up to six months on their commercial mortgage, or term loan.

For all customers who were granted a COVID-19 loan payment break, at the end of the loan payment break their repayments are adjusted so that the mortgage or loan will be repaid within its original term or alternatively the customer has the option of extending the term of the mortgage or loan by the number of months they availed of the COVID-19 payment break.

Customers experiencing financial difficulty on exit from a payment break are assessed on a case by case based on their individual circumstances prior to any decision to grant a forbearance treatment. For customers who have no certainty of future income at present, we are offering shorter-term alternative arrangements (c.9 months) to help with their immediate challenge, while working with them to assess their financial circumstances with regular ongoing interactions and individual one-to-one engagements.

All payment breaks have expired at 30 June 2021. For information, at 30 June 2021, the IFRS 9 classification by loan balance in respect of those facilities previously granted a COVID-19 payment break was €941m classified as Stage 1 (31 December 2020: €833m), €393m classified as Stage 2 (31 December 2020: €598m), and €214m classified as Stage 3 (31 December 2020: €181m).

## 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.

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.

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 IRB exposures are mapped to the rating scale based on PD.

The Group's material scorecards and models used for risk origination and ongoing measurement purposes are subject to annual review by an independent 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.

| | Note | 30 June 2021 | 31 December 2020 |
|---|---|---|---|
| | | €m | €m |
| Cash and balances with central banks | 8 | 43 | 71 |
| Items in course of collection | 8 | 11 | 20 |
| Debt securities | 9 | 2,552 | 2,583 |
| Derivative assets | 11 | 1 | - |
| Loans and advances to banks | 12 | 3,905 | 3,312 |
| Loans and advances to customers | 13,14 | 14,240 | 14,213 |
| | | 20,752 | 20,199 |
| Commitments and contingencies | 27 | 1,183 | 1,069 |
| | | 21,935 | 21,268 |

Further detail on loans and advances to customers is provided in note 26, 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.

### Debt securities credit ratings

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| **Rating** | | |
| Aaa | 63 | 67 |
| A2 | 1,461 | 1,488 |
| Baa1 | 516 | 515 |
| Baa3 | 474 | 474 |
| Unrated | 38 | 39 |
| **Total** | 2,552 | 2,583 |

All debt securities at 30 June 2021 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 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| **Country** | | |
| Ireland | 1,562 | 1,594 |
| Spain | 474 | 515 |
| Portugal | 516 | 474 |
| **Total** | 2,552 | 2,583 |

### 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 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| **Rating** | | |
| Aaa | 3,563 | 2,813 |
| Aa2 | 196 | 209 |
| Aa3 | 113 | 254 |
| A1 | 29 | 32 |
| A2 | 4 | 3 |
| Baa2 | - | 1 |
| **Total** | 3,905 | 3,312 |

### 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:

1. Delinquency – greater than 30 days past due;
2. Forbearance – reported as currently forborne in accordance with EBA NPL guidelines;
3. Risk Grade – accounts that migrate to a risk grade which the bank has specified as being outside its Risk Appetite for origination;

4. Change in remaining lifetime PD – accounts 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
5. PD at maturity - For interest only exposures, all home-loan and commercial exposures together with those buy-to-let exposures in excess of 70% 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

POCI are excluded from the general 3 stage impairment model in IFRS 9. POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised on a credit-adjusted EIR basis. ECLs are only recognised or released to the extent that there is a subsequent change in expected credit losses. The Group purchased the credit impaired Newbridge Credit Union (NCU) portfolio in 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 effective interest rate (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 a 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. 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 up (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 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 2021, with outlook broadly similar to that utilised at December 2020 expect for neutralisation of the annual '21 House Price Index (HPI) Base Case forecast movement from minus 5% at 31 December 2020 to 0% at 30 June 2021 as a major update. There were minor updates to other macroeconomic variables.

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. IRRF 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, Corporate information, basis of preparation, significant accounting policies, estimates and judgements for further detail).

At 30 June 2021, the impairment provision included €242m of Management's adjustments to modelled outcomes.

## 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 96% 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 BRRD, the Group is required to adhere to a Minimum Requirement for own funds and Eligible Liabilities (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 becomes binding in 2021. 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 to meet the liquidity needs for a 30-calendar day liquidity stress scenario.

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

The Group also actively monitors a comprehensive suite of 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 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, as outlined in the EBA SREP Guidelines. The stress testing framework is designed to reflect the liquidity 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 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 policies, RAS and associated limits. The Liquidity and Funding 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 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 to the Liquidity Risk Framework.

The Liquidity and Funding Risk 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 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. The NSFR became binding from a regulatory perspective on 28 June 2021. The Group asset encumbrance level is also monitored and tracked against the internally prescribed limit on an ongoing basis.

### (v) Liquidity Risk Factors

Over-reliance and concentration on any one particular funding source can lead to a heightened liquidity impact during a period of stress. The Group relies on customer deposits to fund a considerable portion of its loan portfolio. The 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 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 CBI 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 level over recent years. Following the successful NPL deleveraging programme and the execution of the Treasury funding plan, encumbrance is now 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 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 2020, Standard & Poor's (S&P) and DBRS downgraded PTSB plc's senior unsecured credit ratings outlook to negative reflecting the view that the economic contraction will make the operating environment in Ireland more challenging, leading to weaker business and profitability prospects for PTSB Group and PTSB.

The ratings for PTSB plc are as follows:

- S&P: Long-Term Rating "BBB-" with Outlook "Negative";
- Moody's: Long-Term Rating "Baa2" with Outlook "Stable"; and
- DBRS: Long-Term Rating "BBBL" with Outlook "Negative".

The ratings for PTSB Group Holdings are as follows:

- S&P: Long-Term Rating "BB-" with Outlook "Negative";
- Moody's: Long-Term Rating "Ba1" with Outlook "Stable"; and
- DBRS: Long-Term Rating "BBH" with Outlook "Negative".

## 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, and 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 valuation 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 13 core stress scenarios inclusive of the six scenarios prescribed by the Basel and EBA Guidelines on the Management of IRRBB, under both EV and EAR models and subject to interest rate flooring assumptions. The results are measured and reported against the Board approved risk limits.

The Group also monitors PV01 (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 2021 interest rate risk level, based on the EV calculation (more severe than EaR), was calculated as €22m (31 December 2020: €44m). The risk position has remained at the same level as the impacts of the movements in balance sheet components have offset each other.

Based on the internally derived Basis Risk calculation methodology, the 30 June 2021 risk level stands at €16m. A floor of ECB Refi minus 25bps is applied for the ECB refinance rate and 100bps for Euribor positions.

### (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 2021 FX position was €1.45m (31 December 2020 €1.9m).

(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 over its life to maturity. This risk applies to 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.

Interim Report

for the six months
ended 30 June 2021

# Financial Statements

We are a community
serving the community.

permanent tsb

The Directors are responsible for preparing the Interim Report in accordance with International Accounting Standard (IAS) 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") and the Transparency Rules of the CBI.

Each of the Directors, whose names and functions are listed in the Board of Directors section, pages 96, 97, 98, 99 and 100 of the 2020 Annual Report, confirms that to the best of each person's knowledge and belief:

- the condensed consolidated interim financial statements, prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and cashflows of the Group at 30 June 2021, and its loss for the period then ended; and
- that as required by the Transparency (Directive 2004/109/EC) Regulations 2007, the Interim Report includes a fair review of:
    - important events that have occurred during the first six months of the year, and their impact on the condensed consolidated interim financial statements;
    - a description of the principal risks and uncertainties for the next six months of the financial year;
    - details of any related party transactions that have materially affected the Group's financial position or performance in the six months ended 30 June 2021, and material changes to related party transactions described in the Annual Report for the year ended 31 December 2020; and
    - 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 six 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 www.permanenttsb.ie. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

On behalf of the Board

**Robert Elliott**
Chairman

**Eamonn Crowley**
Chief Executive

**Donal Courtney**
Audit Committee (Chair)

**Conor Ryan**
Company Secretary

27 July 2021

# *Independent review report to Permanent TSB Group Holdings plc*

## Report on the condensed consolidated interim financial statements

### Our conclusion

We have reviewed Permanent TSB Group Holdings plc's condensed consolidated interim financial statements (the "interim financial statements") in the "Interim Report" of Permanent TSB Group Holdings plc for the six month period ended 30 June 2021. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Transparency (Directive 2004/109/EC) Regulations 2007, 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").

### What we have reviewed

The interim financial statements, comprise:

- the condensed consolidated statement of financial position as at 30 June 2021;
- the condensed consolidated income statement and condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended;
- the condensed consolidated statement of cash flows for the period then ended; and
- the explanatory notes to the interim financial statements.

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

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

### Responsibilities for the interim financial statements and the review

*Our responsibilities and those of the directors*

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

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

### What a review of interim financial statements involves

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

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

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

PricewaterhouseCoopers
Chartered Accountants
Dublin
27 July 2021

**Condensed Consolidated Income Statement (Unaudited)**

For the half year ended 30 June 2021

| | Note | Half year ended 30 June 2021 | Half year ended 30 June 2020 |
|---|---|---|---|
| | | €m | €m |
| Interest income | 2 | 171 | 194 |
| Interest expense | 2 | (19) | (23) |
| Net interest income | | 152 | 171 |
| Fees and commission income | | 28 | 28 |
| Fees and commission expense | | (14) | (12) |
| Net fee and commission income | | 14 | 16 |
| Net trading income | | 1 | - |
| Net other operating income/(expense) | | - | (2) |
| **Total operating income** | | 167 | 185 |
| | | | |
| Administrative, staff and other expenses (excluding exceptional items) | 3 | (124) | (127) |
| Regulatory charges | 4 | (21) | (20) |
| Depreciation of property and equipment | | (11) | (11) |
| Amortisation of intangible assets | | (12) | (8) |
| *Exceptional items* | | | |
| Restructuring and other charges | 5 | (6) | (1) |
| Advisory costs incurred in relation to potential acquisition of Ulster Bank business | 5 | (3) | - |
| **Total operating expenses** | | (177) | (167) |
| | | | |
| Operating (loss)/profit before charge for credit impairment and taxation | | (10) | 18 |
| Credit impairment | | | |
| Loans and advances to customers | 14 | (3) | (75) |
| Exceptional impairment arising from deleveraging of loans | 5 | 4 | - |
| **Total credit impairment releases/(losses)** | | 1 | (75) |
| | | | |
| Operating loss/loss before taxation | | (9) | (57) |
| Taxation | 6 | 4 | 3 |
| **Loss for the period** | | (5) | (54) |
| Attributable to: | | | |
| Owners of the holding company | | (5) | (54) |
| Loss per ordinary share | | € Cent | € Cent |
| Basic loss per share of €0.5 ordinary shares | 7 | (5.3) | (14.3) |
| Diluted loss per share of €0.5 ordinary shares | 7 | (5.3) | (14.3) |

**Condensed Consolidated Statement of Comprehensive Income (Unaudited)**

For the half year ended 30 June 2021

| | Note | Half year ended 30 June 2021 €m | Half year ended 30 June 2020 €m |
|---|---|---|---|
| Loss for the period | | (5) | (54) |
| **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 | 24 | 3 | 1 |
| Tax relating to items that will not be reclassified to income statement | 24 | (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 | 24 | - | (3) |
| Amortisation of discontinued hedges | 24 | - | 2 |
| **Other comprehensive income (OCI) for the period, net of tax** | | 2 | - |
| **Total comprehensive expense for the period, net of tax** | | (3) | (54) |
| **Attributable to:** | | | |
| Owners of the holding company | | (3) | (54) |
| | | (3) | (54) |

**Condensed Consolidated Statement of Financial Position (Unaudited)**

As at 30 June 2021

| | Note | 30 June 2021 | 31 December 2020 |
|---|---|---|---|
| | | €m | €m |
| **Assets** | | | |
| Cash at bank | 8 | 43 | 71 |
| Items in the course of collection | 8 | 11 | 20 |
| Debt securities | 9 | 2,552 | 2,583 |
| Equity securities | 10 | 27 | 24 |
| Derivative assets | 11 | 1 | - |
| Loans and advances to banks | 12 | 3,905 | 3,312 |
| Loans and advances to customers | 13,14 | 14,240 | 14,213 |
| Property and equipment | | 184 | 190 |
| Intangible assets | | 108 | 102 |
| Interests in associated undertakings | 17 | 1 | - |
| Deferred taxation | 15 | 352 | 349 |
| Other assets | 16 | 3 | 5 |
| Prepayments and accrued income | | 48 | 86 |
| Assets classified as held for sale | 29 | 29 | 31 |
| **Total assets** | | 21,504 | 20,986 |
| Liabilities | | | |
| Customer accounts | 18 | 18,505 | 18,039 |
| Debt securities in issue | 19 | 757 | 809 |
| Accruals | | 15 | 2 |
| Current tax liability | | 1 | 1 |
| Other liabilities | 20 | 115 | 107 |
| Provisions | 21 | 54 | 77 |
| Subordinated liabilities | 22 | 250 | - |
| **Total liabilities** | | 19,697 | 19,035 |
| Equity | | | |
| Share capital | 23 | 227 | 227 |
| Share premium | 23 | 333 | 333 |
| Other reserves | 23 | (789) | (791) |
| Retained earnings | 23 | 1,913 | 1,937 |
| Shareholders' equity | | 1,684 | 1,706 |
| Other equity instruments | 23 | 123 | 245 |
| **Total equity** | | 1,807 | 1,951 |
| **Total liabilities and equity** | | 21,504 | 20,986 |

On behalf of the Board

**Robert Elliott**
Chairman

**Eamonn Crowley**
Chief Executive

**Donal Courtney**
Audit Committee (Chair)

**Conor Ryan**
Company Secretary

**Condensed Consolidated Statement of Changes in Equity (Unaudited)**

For the half year ended 30 June 2021

| | Attributable to owners of the holding company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 01 January 2021** | 227 | 333 | 53 | 12 | (856) | 1,937 | 245 | 1,951 |
| Loss for the half year ended 30 June 2021 | - | - | - | - | - | (5) | - | (5) |
| Other comprehensive income, net of tax (note 24) | - | - | - | 2 | - | - | - | 2 |
| **Total comprehensive income for the period** | - | - | - | 2 | - | (5) | - | (3) |
| Transactions with owners, recorded directly in equity: | | | | | | | | |
| *Contributions by and distributions to owners* | | | | | | | | |
| Issue of other equity instruments | - | - | - | - | - | - | - | - |
| Issuance cost of share capital and other equity | - | - | - | - | - | - | - | - |
| AT1 coupon paid/redemptions (note 23) | - | - | - | - | - | (16) | (122) | (138) |
| Loss on redemption of AT1 securities | - | - | - | - | - | (3) | - | (3) |
| Total contributions by and distributions to owners | - | - | - | - | - | (19) | (122) | (141) |
| **Balance as at 30 June 2021** | 227 | 333 | 53 | 14 | (856) | 1,913 | 123 | 1,807 |

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

**Condensed Consolidated Statement of Changes in Equity (Unaudited)**

For half year ended 30 June 2020

| | Attributable to owners of the holding company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 01 January 2020 | 227 | 333 | 55 | 6 | (856) | 2,110 | 122 | 1,997 |
| Loss for the half year ended 30 June 2020 | - | - | - | - | - | (54) | - | (54) |
| Other comprehensive (expense)/income, net of tax (note 24) | - | - | - | - | - | - | - | - |
| Total comprehensive expense for the period | - | - | - | - | - | (54) | - | (54) |
| Transactions with owners, recorded directly in equity: | | | | | | | | |
| *Contributions by and distributions to owners* | | | | | | | | |
| Issue of other equity instruments | - | - | - | - | - | - | - | - |
| Issuance cost of share capital and other equity | - | - | - | - | - | - | - | - |
| AT1 coupon paid (note 23) | - | - | - | - | - | (11) | - | (11) |
| Loss on redemption of AT1 securities | - | - | - | - | - | - | - | - |
| Total contributions by and distributions to owners | - | - | - | - | - | (11) | - | (11) |
| Balance as at 30 June 2020 | 227 | 333 | 55 | 6 | (856) | 2,045 | 122 | 1,932 |

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

**Condensed Consolidated Statement of Changes in Equity (Unaudited)**

For the year ended 31 December 2020

| | Attributable to owners of the holding company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Revaluation reserve* | Fair value reserve* | Other capital reserve* | Retained earnings | Other equity instrument | Total |
| | €m | €m | €m | €m | €m | €m | €m | €m |
| Balance as at 01 January 2020 | 227 | 333 | 55 | 6 | (856) | 2,110 | 122 | 1,997 |
| Loss for the year ended 31 December 2020 | - | - | - | - | - | (162) | - | (162) |
| Other comprehensive (expense)/income, net of tax (note 24) | - | - | (2) | 6 | - | - | - | 4 |
| Total comprehensive (expense)/income for the year | - | - | (2) | 6 | - | (162) | - | (158) |
| Transactions with owners, recorded directly in equity: | | | | | | | | |
| *Contributions by and distributions to owners* | | | | | | | | |
| Issue of other equity instruments | - | - | - | - | - | - | 125 | 125 |
| Issuance cost of share capital and other equity | - | - | - | - | - | - | (2) | (2) |
| AT1 coupon paid (note 23) | - | - | - | - | - | (11) | - | (11) |
| Loss on redemption of AT1 securities | - | - | - | - | - | - | - | - |
| Total contributions by and distributions to owners | - | - | - | - | - | (11) | 123 | 112 |
| Balance as at 31 December 2020 | 227 | 333 | 53 | 12 | (856) | 1,937 | 245 | 1,951 |

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

**Condensed Consolidated Statement of Cash Flows (Unaudited) for the year ended 30 June 2021**

For the year ended 30 June 2021

| | Half year ended 30 June 2021 | Half year ended 30 June 2020 |
|---|---|---|
| | €m | €m |
| **Cash flows from operating activities** | | |
| **Operating loss/loss before taxation** | (9) | (57) |
| Adjusted for non-cash items and other adjustments: | | |
| Depreciation, amortisation and impairment of property, equipment and intangibles | 23 | 19 |
| Impairment (release)/charge in period: | | |
| - Loans and advances to customers | (1) | 75 |
| Unrealised (gains)/losses on financial assets | (1) | - |
| Other mortgage related adjustments | 10 | 8 |
| Other provisions | 6 | 6 |
| Other non-cash items | 7 | - |
| | 35 | 51 |
| **(Increase)/decrease in operating assets** | | |
| Loans and advances to customers | (42) | 151 |
| Debt securities | 29 | (1) |
| Derivative Assets | (1) | - |
| Other assets | 10 | 270 |
| Prepayments and accrued income | 38 | 7 |
| **Increase/(decrease) in operating liabilities** | | |
| Customer accounts | 463 | 570 |
| Debt securities in issue | (56) | (33) |
| Derivative liabilities | - | (1) |
| Other liabilities and accruals | 21 | (4) |
| Provisions | (29) | (9) |
| Net other movements | - | (2) |
| | 433 | 948 |
| **Net cash inflow from operating activities before tax** | 468 | 999 |
| Tax paid | - | (1) |
| **Net cash inflow from operating activities** | 468 | 998 |

| | | |
|---|---|---|
| **Cash flows from investing activities** | | |
| Purchase of property and equipment | (12) | 2 |
| Purchase of intangible assets | (9) | (11) |
| Maturities of debt securities - HTC&S | - | 200 |
| Maturities of debt securities - HTC | 5 | 192 |
| Purchase of debt securities - HTC | - | (1,017) |
| Movement in restricted cash holdings | 132 | 43 |
| Investment in associated undertakings | (1) | - |
| **Net cash (outflow)/inflow from investing activities** | 115 | (591) |
| **Cash flows from financing activities** | | |
| Issuance of Tier 2 capital notes | 250 | - |
| Redemption of AT1 securities | (125) | - |
| Payment of lease liabilities | (4) | (4) |
| AT1 coupon payment | (16) | (11) |
| **Net cash flows from financing activities** | 105 | (15) |
| | | |
| **Increase in cash and cash equivalents** | 688 | 392 |

| | Half year ended 30 June 2021 | Half year ended 30 June 2020 |
|---|---|---|
| **Analysis of changes in cash and cash equivalents** | | |
| Cash and cash equivalents as at 1 January | 3,047 | 1,231 |
| Increase in cash and cash equivalents | 688 | 392 |
| **Cash and cash equivalents at the end of the period** | 3,735 | 1,623 |

*The cash and cash equivalents exclude restricted cash as per note 8.

**Reconciliation of liabilities arising from financing activities**

| | 30 June 2021 | 30 June 2020 |
|---|---|---|
| | €m | €m |
| 1 January | 34 | 42 |
| Lease liability | (4) | (4) |
| Issuance of Tier 2 capital notes | 250 | - |
| At the end of period | 280 | 38 |

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|---|---|---|



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

## 1.1 Corporate information

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

The Group's condensed consolidated interim financial statements include the financial statements of the Company and its subsidiary undertakings, (together referred to as 'the Group' or 'PTSBGH' where appropriate), and are prepared for the period up to the end of the half year, 30 June 2021. The condensed consolidated interim financial statements for the half year ended 30 June 2021, are unaudited, but have been reviewed by the independent auditor whose report is set out earlier in this report.

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 27 July 2021.

The accounting policies applied in the preparation of the condensed consolidated interim financial statements for the half year ended 30 June 2021 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 the year ended 31 December for 2020 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 2020 are available at www.permanenttsbgroup.ie.

### Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis as modified to include fair valuation of certain financial instruments and certain land and buildings.

The accounting policies applied in the preparation of the condensed consolidated interim financial statements for the half year ended 30 June 2021 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 2020 except for the policy for exceptional items which was refined to include material transaction, integration and restructuring costs associated with acquisitions (including potential acquisitions) during the reporting period.

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 2020.

### Statutory accounts

These condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of the Companies Act 2014. The statutory accounts for the year ended 31 December 2020 were approved by the Directors on 02 March 2021, contained an unqualified audit report and will be filed with the Companies Registration Office on or before 30 September 2021.

### 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 2020. The ongoing COVID-19 pandemic and associated Government, Group and customer responses continues to elevate the uncertainty associated with judgements, estimates and assumptions made by Management.

The Irish economy continues to demonstrate resilience and results of the actions taken by the Government, the EBA and the CBI demonstrate positive trajectory of recovery since the end of 2020. The Directors and Management, however, remain cautious and risk remains in the medium to long-term that the Irish Banking sector will continue to face challenges, particularly due to the lower interest rate environment, and higher capital requirements and new and emerging risks

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 consolidated financial statements.

The estimates and assumptions are reviewed on an on-going basis and where necessary are revised to reflect current conditions and updated information.

The critical accounting estimates are consistent with those described in the 2020 Annual Report with the exception of the following updates in respect of ECL provision for the customer loans and advances portfolio.

### 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

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 measures including delinquency, forborne status, risk grade, change in remaining lifetime PD and PD at maturity to determine SICR.

#### 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. The Group considers in its calculation of ECL multiple scenarios and possible outcomes together with their probability of occurrence. Scenarios are designed to capture a range of possible outcomes. Each macroeconomic scenario used in the Group's ECL calculation includes a projection of all relevant macroeconomic variables used in the models for a five-year period, subsequently reverting to long-run averages.

The central scenario is consistent with the Group's IPP. The Group considers at least one scenario which considers a macroeconomic environment that is more favourable to the central scenario and at least one scenario which considers a macroeconomic environment that is less favourable to the central scenario. Three scenarios are currently considered in the Group's calculation of ECL.

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

The Group's approach uses extreme but plausible economic scenarios (i.e. underpinned by historical evidence) to estimate the distribution of 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.

The following tables detail the key macroeconomic variables used in modelling the allowance for credit losses together with the associated percentiles and probability weightings for Stage 1 and 2 at 30 June 2021 following an update to the macroeconomic variables in use at 31 December 2020. The update in the Base Case Scenario reflects improvement in the outlook for the Irish economy, the key update being an update to the 2021 HPI forecast movement from minus 5% to 0%.

IFRS 9 Upside and Downside scenarios remain relatively unchanged from the year-end position. Given the severity of these scenarios (5th Percentile upside and 95% Percentile downside), their combination captures the macroeconomic uncertainty arising from COVID-19.

| | 30 June 2021 | | | | 31 December 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Central (Base Case) Scenario | | Upside Scenario | Downside Scenario | Central (Base Case) Scenario | | Upside Scenario | Downside Scenario |
| | Average value over year 1 | Average value over the forecast period | Average value over the forecast period | Average value over the forecast period | Average value over year 1 | Average value over the forecast period | Average value over the forecast period | Average value over the forecast period |
| Percentile | | 50th | 5th | 95th | | 50th | 5th | 95th |
| Scenario Probability Weighting | | 54% | 23% | 23% | | 56% | 22% | 22% |
| Irish Residential House Prices | 0% | 2% | 12% | -5% | -5% | 1% | 14% | -8% |
| Irish Unemployment | 10% | 6% | 4% | 11% | 10% | 7% | 4% | 12% |
| Irish GDP | 5% | 3% | 4% | 1% | 4% | 3% | 5% | -1% |
| Consumer Price Index (CPI) | 3% | 2% | 2% | 2% | 3% | 2% | 2% | 2% |
| ECB Base Rate | 0% | 0% | 0% | 1% | 0% | 0% | 0% | 1% |

Given the relative sizes of the portfolios, the key judgemental area for the Group is in relation to the level of ECL calculated for the 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 €64m lower than the weighted result reported at 30 June 2021.

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 €239m lower than the weighted result reported at 30 June 2021, whereas if the Group were to only use its Downside Scenario the ECL impairment allowance would be €440m higher than the weighted result reported at 30 June 2021.

### Management's adjustment to modelled outcomes

The adequacy of ECL allowance is reviewed by the BAC on a half-yearly basis. At 30 June 2021, the total impairment provision included €242m of management's adjustments to modelled outcomes (31 December 2020: €172m) which primarily comprises the following:

- €77m of Management's adjustment in respect of Stage 3 residential mortgage loans that are in default for greater than seven years and for which Management consider the modelled impairment to be insufficient to cover resolution;

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

- Arising from the unprecedented nature of COVID-19 and other matters, Management are of the view that the modelled impairment allowance may not fully reflect expected credit losses for certain cohorts of borrowers. At the reporting date, a €137m management overlay is applied in respect of loans for which ECL is maintained until the future performance is established comprising €10m in respect of the consumer portfolio, €7m in respect of the commercial portfolio and €120m in respect of the residential mortgage portfolio and associated model risk;
- A €8m overlay to reflect the uncertainty associated with residential mortgage loans exiting COVID-19 payment breaks granted by the Bank. The Management's adjustment is applied to Stage 2 residential mortgage loans to reflect the risk that a proportion of these borrowers may be unable to return to the contractual terms in place prior to being granted the temporary COVID-19 payment break; and
- A Management's adjustment of €9m to reflect the tail risk of payment at maturity of a cohort of loans which cannot be reflected in the residential mortgage model due to lack of empirical data.

## 1.3 Going Concern

In considering Management's assessment of the Group's ability to continue as a going concern, Management considered principal risks and uncertainties particularly those arising from the extended economic recovery from the COVID-19 pandemic, macroeconomic and geopolitical headwinds.

The assessment considers the impact of a severe but plausible downside scenario for COVID-19, as it might pertain to the going concern assumption, particularly the liquidity, funding and capital position and the return to profitability.

In making this assessment, Management has considered:

- A review of actual business performance to date, loan book quality, credit impairment, legal, regulatory and compliance matters;
- Results of the stress testing focusing on range scenarios on Liquidity, Funding and Capital positions including the impact of prolonged economic recovery;
- Analysis of Liquidity, Funding and Capital positions at the date of the approval of the condensed consolidated interim financial statements, and their current and future compliance with regulatory requirements;
- The level of debt in issue, including redemptions and issuances during the period, debt falling due for repayment in the next 12 months and further planned debt issuances, including the appetite in the market for the Group's debt;
- Outlook for the Irish economy, Government's fiscal policies, the availability of collateral to access funding through third parties and the euro system; and
- Detailed review of current and emerging principal risks.

### Assessment Basis

The time period that the Directors and Management have considered in evaluating the appropriateness of the going concern basis in preparing the condensed consolidated interim financial statements for the six month period ended 30 June 2021 is a period of 12 months from the date of approval of these financial statements; being 12 months to 27 July 2022 ("the period of assessment").

### COVID-19

The COVID-19 pandemic continues to pose challenges and uncertainty in both economic and operating environment in which the Group conducts business. The recovery of the Irish economy is exposed to plausible setbacks, which might slow down the recovery, in particular the new variants and fourth wave of the virus.

However, the Group has made significant progress in the first six month of 2021 in strengthening its Liquidity, Funding and Capital position and the Group continues to show resilience to economic shocks due to its continued investment in deleveraging of the risks and holding of a high quality liquid asset portfolio.

The Group's continued investment in technology, people, and processes will continue to minimise potential operational disruptions.

### Economic Outlook

The Group's operational and financial performance continues to recover from the impact of the pandemic and the public health restrictions still in place.

The new projections of the economic macros from credible independent sources advocate a more favourable economic forecasts then anticipated at 31 December 2020.

The impact of COVID-19 on the global economy and the unique set of monetary and fiscal countermeasures that have been introduced to soften the negative economic impact continue to present challenges in forecast development.

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

However, as recovery continues to gather pace, inflation is now becoming a threat to the global recovery which could directly/indirectly impact monetary and fiscal policies of the EU and Irish Government.

Any such changes to monetary and fiscal policies may adversely impact the Group's results, financial condition, and prospects.

**Brexit**

Whilst a deal between the UK and Europe has been negotiated, it is nevertheless widely expected that the UK's decision to leave the EU will have an adverse impact on the Irish economy in the near-to-medium term which, in turn, may negatively impact Group's results and financial outlook.

The Group considers that the most acute Brexit related risks have receded due to the Group's limited portfolio of assets and liabilities outside Ireland and particularly in the UK, however, the extent of the likely impact of Brexit on the Irish economy, which may in turn impact the Group remains uncertain.

**Liquidity and Funding**

The Group continues to have sufficient liquidity throughout 2021 and continues to undertake initiatives to further improve its liquidity position in the areas of deposits, collateral optimisation and wholesale markets activity. The Directors and Management have also considered forecasts of the liquidity position over the going concern period, under a range of stress scenarios.

The Group continues to hold a significant liquidity buffer at 30 June 2021. The Group also retains the capability to utilise the normal operations of the ECB for liquidity and funding during the period of assessment and the Directors and Management are aware that the Group's ability to continue to access system liquidity and funding will be dependent on the Group having sufficient eligible collateral.

However, the Directors and Management are satisfied, based on a review of funding plans, interaction with wholesale markets and deposit trends that the required liquidity and funding will be available to the Group during the period of assessment.

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 loss in the first half of 2021, however it does expect to return to profitability in the near term.

The Directors and Management have also considered the Group's forecast capital position, and a deterioration in economic conditions as might arise from an uncertainty from the resurgence of the virus or variants and slower deployment of vaccines and interaction of various 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.

**Conclusion**

As required by IFRS as adopted by the EU, Directors and Management have considered the principal risks/uncertainties facing the Group as outlined above. Based on the latest and projected financial performance and position and the options available to the Group, the Directors have concluded that the Group 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 Impairment testing of non-financial assets

The market capitalisation is below the net asset value. The depressed share price is a result of the overall subdued banking environment currently in which the entity operates along with various entity specific factors including, significant control premium as a result of majority shareholding by the Irish government that affects the liquidity of the shares.

Following from the impairment testing of non-financial assets at 31 December 2020, the Group has considered the continued impact of COVID-19 on market capitalisation and the head room available by comparing Value in Use (VIU) based on updated Medium Term Plan (MTP) projections with the carrying value of those non-financial assets. The Group has applied the same discount rate and long-term growth rate as at the year ended 31 December 2020. The VIU is greater than the carrying value and as a result no impairment has been recognised. The headroom has improved since 31 December 2020.

### 1.5 Comparative information

The comparative information for 2020 has been prepared on a consistent basis.

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

### 1.6 Changes in significant accounting policies

The condensed consolidated interim financial statements should be read in conjunction with the Group's consolidated financial statements for 2020. The significant accounting policies used in the preparation of these interim financial statements are consistent with those used in the Group's consolidated financial statements for 2020 (note 1). During the reporting period, the definition of exceptional items was refined to include material transaction, integration and restructuring costs associated with acquisitions (including potential acquisitions).

### 1.7 Impact of other accounting standards effective periods beginning on 1 January 2021 onwards

| Accounting Standard Update | Description of Change | Key Impacts for PTSB | Effective Date |
|---|---|---|---|
| *Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform Phase 2* | Provides relief for issues that might arise when an interest rate benchmark has been replaced by introducing a practical expedient for modifications to financial contracts resulting directly from IBOR reform, and a series of exemptions from some of the hedge accounting requirements. | The direct impacts of the Interest Rate Benchmark are not material to the Group, as the exposure of the Group to interest rate sensitive assets and liabilities that tracking a benchmark rate is limited.<br>Based on the composition and size of interest rate sensitive assets and liabilities that the Group currently holds; these reforms are not expected to significantly impact the current or future financial reporting. | Annual periods beginning on or after the 1 January 2021. |
| *Amendments to IFRS 16, 'Leases' – COVID-19 related rent concessions* | Extends COVID-19 related rent concessions beyond 30 June 2021 for one year where concessions may include, payment holidays and deferral of lease payments. | These changes are not expected to have a material impact to the current or future financial reporting as the Group has not availed any such concession including payment holidays and deferral of lease payments on any it's lease obligations. | Annual periods beginning on or after the 1 April 2021. |

## 2. Net interest income

| | Half year ended 30 June 2021 | Half year ended 30 June 2020 |
|---|---|---|
| | €m | €m |
| **Interest income** | | |
| Loans and advances to customers | 168 | 187 |
| Loans and advances to banks | - | - |
| *Debt securities and other fixed-income securities* | | |
| - Hold to collect (HTC) | 3 | 4 |
| - Hold to collect and sell (HTC&S) | - | 3 |
| | 171 | 194 |
| **Interest expense** | | |
| Due to customers | (8) | (15) |
| Interest on debt securities in issue | (4) | (4) |
| Amortisation of discontinued hedges on financial assets | - | (2) |
| Loans and advances to banks | (6) | (2) |
| Interest on subordinated liabilities | (1) | - |
| | (19) | (23) |
| **Net interest income** | 152 | 171 |

NII includes a charge in respect of deferred acquisition costs on loans and advances to customers of €10m (30 June 2020: €8m).

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

| | Half year ended 30 June 2021 | Half year ended 30 June 2020 |
|---|---|---|
| | €m | €m |
| Staff costs (as detailed below) | 73 | 77 |
| Other general and administrative expenses | 51 | 50 |
| **Administrative, staff and other expenses (excluding exceptional items)** | 124 | 127 |

**Staff costs**

| | Half year ended 30 June 2021 | Half year ended 30 June 2020 |
|---|---|---|
| | €m | €m |
| Wages and salaries (including commission payable to sales staff) | 60 | 63 |
| Social insurance | 7 | 7 |
| Pension costs (payments to defined contribution pension schemes) | 6 | 7 |
| **Total staff costs** | 73 | 77 |

## 3. Administrative, staff and other expenses (excluding exceptional items) (continued)

**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 2021** | Half year ended 30 June 2020 | **Half year ended 30 June 2021** | Half year ended 30 June 2020 |
| Ireland | **2,255** | 2,465 | **2,356** | 2,424 |
| **Total number of staff** | **2,255** | 2,465 | **2,356** | 2,424 |

*Closing staff numbers are calculated on a FTE basis.

## 4. Regulatory charges

| | Half year ended 30 June 2021 | Half year ended 30 June 2020 |
|---|---|---|
| | €m | €m |
| BRRD levy | 4 | 5 |
| DGS | 16 | 14 |
| Other regulatory charges | 1 | 1 |
| Regulatory charges | 21 | 20 |

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

## 5. Exceptional items

| | Half Year Ended 30 June 2021 | Half Year Ended 30 June 2020 |
|---|---|---|
| | €m | €m |
| Restructuring and other charges (a) | 6 | 1 |
| Impairment arising from deleveraging of loans (b) | (4) | - |
| Advisory costs incurred in relation to potential acquisition of Ulster Bank business (c) | 3 | - |
| **Exceptional items** | 5 | 1 |

a) These comprise €6m (30 June 2020: €1m) of additional charges incurred as a result of phase 2 of the Group's Enterprise Transformation scheme and costs associated with the restructure of Group functions.

b) Under the Group's accounting policy, exceptional items include profits/losses arising on deleveraging. Under IFRS 9 when the sale of a loan becomes part of the Group's recovery strategy and meets the other conditions as set out in the accounting policy, the expected cash flows from the loan sale (including costs of sale) are included in the IFRS 9 impairment calculation. During 2021, warranty provisions of €4m were released in relation to loan transactions that the Group executed in prior years. The Group considers the expired warranty release as exceptional as the warranty provisos were previously recorded through exceptional impairment. This treatment is consistent with the treatment of losses on deleveraging of loans in prior years.

c) These comprise €3m (30 June 2021: €nil) advisory costs incurred in relation to potential acquisition of certain elements of the Ulster Bank business.

# 6. Taxation

**(a) Analysis of taxation charge**

| | 30 June 2021 | 30 June 2020 |
|---|---|---|
| | €m | €m |
| **Current taxation** | | |
| Charge for current period | - | 1 |
| | - | 1 |
| Deferred taxation | | |
| Origination and reversal of temporary differences | (4) | (4) |
| **Taxation credited to income statement** | (4) | (3) |
| **Effective tax rate** | 48% | 5% |

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 credit for the half year ended 30 June 2021 was €4m; (30 June 20: €3m credit). This credit relates wholly to deferred tax and arises primarily due to:

i) A credit of €4m in relation to deferred tax recognised on tax losses carried forward;

ii) A credit of €1m in relation to timing differences on fixed assets; and

iii) A charge of €1m in relation to the partial release of a deferred tax asset created on the introduction of IFRS 9.

**(b) Tax effects of each component of other comprehensive income**

Half year ended 30 June 2021

| | Gross | Tax | Net |
|---|---|---|---|
| | €m | €m | €m |
| Fair value reserve: | | | |
| - Change in fair value reserve | 3 | (1) | 2 |
| **Balance as at 30 June 2021** | 3 | (1) | 2 |

Half year ended 30 June 2020

| | Gross | Tax | Net |
|---|---|---|---|
| | €m | €m | €m |
| Fair value reserve: | | | |
| - Change in fair value reserve | (2) | - | (2) |
| Amortisation of discontinued hedges | 2 | - | 2 |
| **Balance as at 30 June 2020** | - | - | - |

## 7. Loss per ordinary share

(a) Basic loss per ordinary share

| | Half year ended 30 June 2021 | Half year ended 30 June 2020 |
|---|---|---|
| Weighted average number of ordinary shares in issue and ranking for dividend excluding treasury shares | 454,690,912 | 454,690,912 |
| Loss for the period attributable to equity holders | (€5m) | (€54m) |
| Less AT1 coupon paid (note 23)* | (€19m) | (€11m) |
| **Loss for the period attributable to equity holders less AT1 coupon paid** | (€24m) | (€65m) |
| **Basic loss per ordinary share (€ cent)** | (5.3) | (14.3) |

(b) Diluted loss per ordinary share

| | Half year ended 30 June 2021 | Half year ended 30 June 2020 |
|---|---|---|
| Weighted average number of ordinary shares excluding treasury shares held under employee benefit trust used in the calculation of diluted earnings per share and including the potential ordinary shares from the AT1 conversion feature available in the AT1 securities that the Group redeemed in April 2021 | 454,690,912 | 454,890,912 |
| **Diluted loss per ordinary share (€ cent)** | (5.3) | (14.3) |

*AT1 coupon paid includes loss on redemption of €3m. See note 23 for further details.

Diluted loss per ordinary share is calculated by adjusting the try 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 ended 30 June 2021 or 30 June 2020.

**Weighted average number of ordinary shares***

| | 2021 | 2020 |
|---|---|---|
| Number of ordinary shares in issue at 1 January (note 23) | 454,695,492 | 454,695,492 |
| Treasury shares held (note 23) | (4,580) | (4,580) |
| **Weighted average number of ordinary shares at 30 June** | 454,690,912 | 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.

## 8. Cash and cash equivalents

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

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| Cash at bank | 43 | 71 |
| Items in the course of collection | 11 | 20 |
| Loans and advances to banks repayable on demand (maturity of less than 3 months) (note 12) | 3,905 | 3,312 |
| | 3,959 | 3,403 |
| Restricted cash included in loans and advances to banks repayable on demand | (224) | (356) |
| **Cash and cash equivalents per statement of cash flows** | 3,735 | 3,047 |

As at 30 June 2021, restricted cash of €224m (31 December 2020: €356m) comprised cash of €224m (31 December 2020: €355m) held by the Group's securitisation entities and €nil (31 December 2020: €1m) which related to cash collateral placed with counterparties in relation to derivative positions.

The unwinding of certain Fastnet securitisation structures in the half year end 30 June 2021 resulted in lower levels of restricted cash required to be held by the Group.

## 9. Debt securities

**(A) HTC and HTC&S**

| | Half year ended | | | Year ended | | |
|---|---|---|---|---|---|---|
| | 30 June 2021 | | | 31 December 2020 | | |
| | HTC | HTC&S | Total | HTC | HTC&S | Total |
| | €m | €m | €m | €m | €m | €m |
| Government bonds | 2,451 | - | 2,451 | 2,477 | - | 2,477 |
| Corporate bonds | 101 | - | 101 | 106 | - | 106 |
| Gross debt securities | 2,552 | - | 2,552 | 2,583 | - | 2,583 |

As at 30 June 2021, 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 HTC business model basis are accounted for at amortised cost. Debt securities that are managed on a HTC&S basis are accounted for at Fair Value through Other Comprehensive Income (FVOCI).

Government bonds of €2.5bn (31 December 2020: €2.5bn) comprise Irish, Spanish and Portuguese Government bonds which are designated as HTC. Corporate bonds comprise RMBSs, including a retained note in the Glenbeigh securitisation 2018-1 DAC, all RMBSs are designated as HTC. The HTC securities represent a portfolio of securities purchased for the purpose of collecting contractual cashflows to maturity.

At 30 June 2021, debt securities at amortised cost with a fair value of €198m (31 December 2020: €nil) 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 balance sheet.

The HTC&S securities which the Group held matured during 2020.

All debt securities at 30 June 2021 are stage 1 apart from the Glenbeigh securitisation which is POCI.

## 9. Debt securities (continued)

**(A) HTC and HTC&S**

The movement in HTC and HTC&S securities may be classified as follows:

| | 30 June 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | HTC | HTC&S | HTC | HTC&S |
| | €m | €m | €m | €m |
| **As at 1 January** | 2,583 | - | 1,796 | 209 |
| Change in fair value | - | - | - | (3) |
| Additions | - | - | 1,046 | - |
| Maturities / disposals | (5) | - | (214) | (200) |
| Interest net of cash receipts | (4) | - | (3) | (6) |
| Amortisation of premium / (discount) | (22) | - | (42) | - |
| **Total** | 2,552 | - | 2,583 | - |

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

**Held at amortised cost**

As at 30 June 2021, the amount arising from ECL on debt securities measured at amortised cost is €0.7m (31 December 2020: €0.7m). The ECL on debt instruments measured at amortised cost is offset against the carrying amount of the assets in the statement of financial position.

## 10. Equity securities

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| As at 1 January | 24 | 15 |
| Revaluation | 3 | 9 |
| **Total equity investments** | 27 | 24 |

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

| | 30 June 2020 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| Unlisted | 27 | 24 |
| **Total equity investments** | 27 | 24 |

PTSB Group holds Series A and Series B preferred stock in Visa Inc. at 30 June 2021 with a value of €27m. 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 €17m and €10m respectively at 30 June 2021 (31 December 2020: €16m and €8m) 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 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 25 for further details).

## 11. Derivative financial instruments

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

Certain derivative instruments do not fulfil the hedge accounting criteria under IFRS 9 and are consequently classified as Held for Trading (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 are commitments to exchange one set of cash flows for another.

Further details on the Group's risk management policies are set out in the risk management section of the report.

Derivatives held by the Group are analysed as follows:

| | 30 June 2021 | | | 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | 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 | - | - | - | 5 | - | - |
| | - | - | - | 5 | - | - |
| **Held for trading** | | | | | | |
| Forwards | 86 | 1 | - | 83 | - | - |
| Interest rate swaps | - | - | - | 7 | - | - |
| | 86 | 1 | - | 90 | - | - |
| **Derivative financial instruments as per the statement of financial position** | 86 | 1 | - | 95 | - | - |

### Fair value hedges

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in interest rates. The financial instruments hedged for interest rate risk include fixed rate loans, fixed rate debt issued and other borrowed funds. The Group uses interest rate swaps to hedge interest rate risk.

The gains/(losses) recognised in NII on the hedging instruments are designated as fair value hedges.

## 12. Loans and advances to banks

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| **Held at amortised cost:** | | |
| Placed with central banks | 3,562 | 2,813 |
| Placed with other banks | 343 | 499 |
| Loans and advances to banks | 3,905 | 3,312 |

Placements with other banks includes restricted cash of €224m (31 December 2020: €356m) of which €224m (31 December 2020: €355m) is held by the Group's securitisation entities and €nil (31 December 2020: €1m) which relates to cash collateral placed with counterparties in relation to derivative positions and repurchase agreements.

Loans and advances to banks amounting to €3,905m (31 December 2020: €3,312m) have a maturity of less than three months and therefore have been treated as cash and cash equivalents, with the exception of restricted cash.

The loan and advances balances increased for the period ended 30 June 2021 by €749m from €2,813m at year ended 31 December 2020 primarily due to balances held with the CBI as a result of increased customer accounts.

## 13. Loans and advances to customers

Loans and advances by category are set out below:

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| **Residential mortgages** | | |
| Held through special purpose entities | 3,320 | 5,724 |
| Held directly | 11,008 | 8,623 |
| | 14,328 | 14,347 |
| **Commercial mortgage loans** | 186 | 181 |
| **Consumer finance (term loans/other)** | 334 | 327 |
| **Gross loans and advances to customers** | 14,848 | 14,855 |
| Less: provision for impairment (note 14) | (703) | (728) |
| Deferred fees, discounts and fair value adjustments | 95 | 86 |
| **Total of net loans & advance and deferred fees** | 14,240 | 14,213 |

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 2021 | 31 December 2020 | 30 June 2021 | 31 December 2020 |
| | €m | €m | €m | €m |
| Tracker rate | 6,692 | 6,986 | 6,194 | 6,474 |
| Variable rate | 2,979 | 3,314 | 2,819 | 3,140 |
| Fixed-rate | 5,177 | 4,555 | 5,132 | 4,513 |
| | 14,848 | 14,855 | 14,145 | 14,127 |
| Deferred fees, discounts and fair value adjustments | 95 | 86 | 95 | 86 |
| **Total** | 14,943 | 14,941 | 14,240 | 14,213 |

## 13. Loans and advances to customers (continued)

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 2021 | 31 December 2020 |
|---|---|---|
| | €bn | €bn |
| Residential mortgages held through special purpose entities | 3.3 | 5.7 |
| Notes issued by special purpose entities | | |
| - rated | 2.1 | 2.9 |
| - unrated | 1.2 | 2.8 |

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

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €bn | €bn |
| - Sold to third parties and included within debt securities in issue (non-recourse) on the Statement of financial position (note 19) | 0.4 | 0.5 |
| - Other | - | |
| Available collateral* | 1.7 | 2.4 |
| Unrated notes | 1.2 | 2.8 |
| | 3.3 | 5.7 |

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

The €2.4bn movement in residential mortgages held through special purpose entities is mainly due to the unwind of Fastnet securitisation in the half year ended 30 June 21

## 13. Loans and advances to customers (continued)

Loans and advances balance movement for the half year ended 30 June 2021 and the year ended 31 December 2020 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 2021 | 10,575 | 3,152 | 1,127 | 1 | 14,855 |
| New assets originated* | 778 | 33 | 1 | - | 812 |
| Stage Transfers: | | | | | |
| Transfer from Stage 1 to Stage 2 | (237) | 237 | - | - | - |
| Transfer to Stage 3 | (15) | (113) | 128 | - | - |
| Transfer from Stage 2 to Stage 1 | 1,006 | (1,006) | - | - | - |
| Transfer from Stage 3 | 14 | 120 | (134) | - | - |
| Net movement arising from transfer of stage | 768 | (762) | (6) | - | - |
| Redemptions and repayments | (621) | (115) | (41) | 1 | (776) |
| Decrease due to write offs | - | (4) | (39) | - | (43) |
| Disposals | - | - | - | - | - |
| Balance as at 30 June 2021 | 11,500 | 2,304 | 1,042 | 2 | 14,848 |

*Loan originations are net of repayments in the period.

During the first half of 2021 Stage 2 balances declined by €762 million. The decline is primarily attributable to:

- PD refinements incorporating greater segmentation of default information for mortgage customers distinguishing between non-standard mortgage defaults and standard mortgage defaults (€404m move to stage 1);
- Improvements in the payment score for payment break customers after these customers resumed full payments post the expiry of the related payment breaks (€106m move to stage 1); and
- Improvement in the credit risk for non-standard mortgage customers (interest only and part capital and interest customers) as a result of customer engagement (€93m move to stage 1).

## 13. Loans and advances to customers (continued)

| | Non-credit impaired | | Credit impaired | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | €m | €m | €m | €m | €m |
| Balance as at 1 January 2020 | 10,999 | 4,340 | 1,048 | 2 | 16,389 |
| New assets originated* | 1,245 | 86 | 1 | - | 1,332 |
| Stage Transfers: | | | | | |
| Transfer from Stage 1 to Stage 2 | (932) | 932 | - | - | - |
| Transfer to Stage 3 | (55) | (273) | 328 | - | - |
| Transfer from Stage 2 to Stage 1 | 485 | (485) | - | - | - |
| Transfer from Stage 3 | 2 | 141 | (143) | - | - |
| Net movement arising from transfer of stage | (500) | 315 | 185 | - | - |
| Redemptions and repayments | (1,116) | 237 | (64) | (1) | 1,418 |
| Decrease due to write offs | (1) | (9) | (43) | - | (53) |
| Disposals | (52) | (1,343) | - | - | (1,395) |
| Balance as at 31 December 2020 | 10,575 | 3,152 | 1,127 | 1 | 14,855 |

*Loan originations are net of repayments in the period.

## 14. 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 NPL balance as at 30 June 2021 was €1,044m (31 December 2020: €1,128m). Refer to note 26 for further details.

| 30 June 2021 | Loans and advances to customers | NPLs | NPL % of total loans | ECL provisions | | | | Total ECL provisions as % of total loans |
|---|---|---|---|---|---|---|---|---|
| | | | | Stage 1 | Stage 2 | Stage 3 | Total | |
| | €m | €m | % | €m | €m | €m | €m | % |
| Residential: | | | | | | | | |
| - Home loans | 12,435 | 610 | 4.9% | 47 | 46 | 165 | 258 | 2% |
| - Buy-to-let | 1,893 | 367 | 19.4% | 32 | 173 | 153 | 358 | 19% |
| Commercial | 186 | 51 | 27.4% | 4 | 16 | 31 | 51 | 27% |
| Consumer finance: | | | | | | | | |
| - Term loans / other | 334 | 16 | 4.8% | 11 | 13 | 12 | 36 | 11% |
| Total gross loans | 14,848 | 1,044 | 7.0% | 94 | 248 | 361 | 703 | 5% |
| Impairment provision | (703) | | | | | | | |
| Deferred fees, discount and fair value adjustments | 95 | | | | | | | |
| **Balance as at 30 June** | **14,240** | | | | | | | |

| 31 December 2020 | Loans and advances to customers | NPLs | NPL % of total loans | ECL provisions | | | | Total ECL provisions as % of total loans |
|---|---|---|---|---|---|---|---|---|
| | | | | Stage 1 | Stage 2 | Stage 3 | Total | |
| | €m | €m | % | €m | €m | €m | €m | % |
| Residential: | | | | | | | | |
| - Home loans | 12,338 | 658 | 5.3% | 40 | 61 | 178 | 279 | 2% |
| - Buy-to-let | 2,009 | 418 | 20.8% | 2 | 183 | 175 | 360 | 18% |
| Commercial | 181 | 35 | 19.3% | - | 32 | 21 | 53 | 29% |
| Consumer finance: | | | | | | | | |
| - Term loans / other | 327 | 17 | 5.2% | 13 | 10 | 13 | 36 | 11% |
| Total gross loans | 14,855 | 1,128 | 7.6% | 55 | 286 | 387 | 728 | 5% |
| Impairment provision | (728) | | | | | | | |
| Deferred fees, discount and fair value adjustments | 86 | | | | | | | |
| Balance as at 31 December | 14,213 | | | | | | | |

## 14. Impairment provisions (continued)

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

30 June 2021

| | Residential mortgages | Commercial | Consumer finance | Total |
|---|---|---|---|---|
| **Total by portfolio** | €m | €m | €m | €m |
| ECL as at 1 January 2021 | 639 | 53 | 36 | 728 |
| Redemptions and repayments | (13) | (14) | - | (27) |
| Net remeasurement of loss allowance | 12 | 10 | (2) | 20 |
| Loan originations | 5 | 3 | 5 | 13 |
| **Net movement excluding derecognition** | 4 | (1) | 3 | 6 |
| Derecognition-disposals | - | - | - | - |
| Derecognition-repossessions | (1) | - | - | (1) |
| Derecognition-write offs* | (26) | (1) | (3) | (30) |
| **Derecognition** | (27) | (1) | (3) | (31) |
| ECL as at 30 June 2021 | 616 | 51 | 36 | 703 |
| **Net movement excluding derecognition (from above)** | | | | 6 |
| Interest income booked but not recognised | | | | (4) |
| Write offs net of recoveries | | | | 1 |
| Impairment charge on customer loans and advances for the half year ended 30 June 2021 | | | | 3 |

*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.

## 14. Impairment provisions (continued)

31 December 2020

| Total by portfolio | Residential mortgages | Commercial | Consumer finance | Total |
|---|---|---|---|---|
| | €m | €m | €m | €m |
| ECL as at 1 January 2020 | 756 | 38 | 24 | 818 |
| Redemptions and repayments | (12) | (11) | (1) | (24) |
| Net remeasurement of loss allowance | 117 | 21 | 12 | 150 |
| Loan originations | 9 | 9 | 6 | 24 |
| Net movement excluding derecognition | 114 | 19 | 17 | 150 |
| Derecognition-disposals | (209) | - | - | (209) |
| Derecognition-repossessions | (1) | - | - | (1) |
| Derecognition-write offs* | (21) | (4) | (5) | (30) |
| Derecognition | (231) | (4) | (5) | (240) |
| ECL as at 31 December 2020 | 639 | 53 | 36 | 728 |
| Net movement excluding derecognition (from above) | | | | 150 |
| Interest income booked but not recognised. | | | | (8) |
| Write offs net of recoveries | | | | 13 |
| Impairment charge on customer loans and advances for the year ended 31 December 2020. | | | | 155 |

*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.

## 14. Impairment provisions (continued)

| Total by Stage | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | €m | €m | €m | €m |
| **ECL as at 1 January 2021** | 55 | 286 | 387 | 728 |
| Transfer to Stage 1 | 42 | (41) | (1) | - |
| Transfer to Stage 2 | (4) | 32 | (28) | - |
| Transfer to Stage 3 | - | (16) | 16 | - |
| **Stage Transfers** | 38 | (25) | (13) | - |
| Redemptions and repayments | (2) | (7) | (18) | (27) |
| Net remeasurement of loss allowance | (4) | (11) | 35 | 20 |
| Loan originations | 7 | 6 | - | 13 |
| **Net movement excluding derecognition** | 1 | (12) | 17 | 6 |
| Derecognition-disposals | - | - | - | - |
| Derecognition-repossessions | - | - | (1) | (1) |
| Derecognition-write offs* | - | (1) | (29) | (30) |
| **Derecognition** | - | (1) | (30) | (31) |
| **ECL as at 30 June 2021** | 94 | 248 | 361 | 703 |
| Net movement excluding derecognition (from above) | | | | 6 |
| Interest income booked but not recognised | | | | (4) |
| Write offs net of recoveries | | | | 1 |
| **Impairment charge on customer loans and advances for the half year ended 30 June 2021** | | | | 3 |

*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.

## 14. Impairment provisions (continued)

| Total by Stage | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | €m | €m | €m | €m |
| ECL as at 1 January 2020 | 44 | 439 | 335 | 818 |
| Transfer to Stage 1 | 22 | (22) | - | - |
| Transfer to Stage 2 | (9) | 35 | (26) | - |
| Transfer to Stage 3 | - | (32) | 32 | - |
| Stage transfers | 13 | (19) | 6 | - |
| Redemptions and repayments | (4) | (7) | (14) | (25) |
| Net remeasurement of loss allowance | (9) | 71 | 89 | 151 |
| Loan originations | 12 | 12 | - | 24 |
| Net movement excluding derecognition | (1) | 76 | 75 | 150 |
| Derecognition-disposals | (1) | (208) | - | (209) |
| Derecognition-repossessions | - | - | (1) | (1) |
| Derecognition-write offs* | - | (2) | (28) | (30) |
| Derecognition | (1) | (210) | (29) | (240) |
| ECL as at 31 December 2020 | 55 | 286 | 387 | 728 |
| Net movement excluding derecognition (from above) | | | | 150 |
| Interest income booked but not recognised. | | | | (8) |
| Write offs net of recoveries | | | | 13 |
| Impairment charge on customer loans and advances for the year ended 31 December 2020 | | | | 155 |

*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**

At 30 June 2021 there have been no significant modified financial assets for which the loss allowance has changed from lifetime to12-month ECL (year ended 31 December 2020: none).

## 15. Deferred taxation

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| Deferred tax liabilities | (27) | (27) |
| Deferred tax assets | 379 | 376 |
| **Net deferred tax assets** | **352** | **349** |

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| At 1 January | 349 | 345 |
| Recognised through Income statement (note 6) | 4 | 6 |
| Recognised in equity | (1) | (3) |
| Recognised in other comprehensive income | - | 1 |
| **30 June/31 December** | **352** | **349** |

At 30 June 2021, the Group had a net deferred tax asset of €352m.

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 €374m at 30 June 2021. It should be noted that, with the exception of an amount of €100k relating to PTSBGH, 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 the Company's history of recent 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 COVID-19 pandemic;
- The significant progress made on the Group's NPL strategy and the deleveraging of the Group's non-core portfolios in recent years;
- The current expected trajectory of the Group's financial performance;
- The impairment performance;
- The Group's projected liquidity and capital position;
- The absolute level of deferred tax assets on tax losses compared to the Group's equity;
- The quantum of profits required to be generated to utilise the tax losses and the extended period of time over which these profits are projected to be generated;
- The challenge of forecasting over an extended period and in particular taking account of external factors such as the COVID-19 pandemic, global political uncertainty, particularly the impact of Brexit, the level of competition and disruptors to the market and market size;
- Consideration of the assumptions underpinning the Group's financial projections (on which analysis of the recoverability of the deferred tax asset on tax losses are based). The key relevant assumptions considered being:
- No material change to the Group's business activities in the medium term;
  - Further progress in addressing the Group's legacy, non-performing assets;
  - NIM is expected to be positively impacted by the evolution of the Group's lending book as new lending volumes are added and lower yielding tracker mortgages pay down; however, further material reductions in cost of funds are considered unlikely;

## 15. Deferred taxation (continued)

- An expectation that mortgage market size will continue to return to normalised levels of activities;
- Continued focus on cost management; and
- The cost of risk will continue its return to normalised levels reflecting the Group's assessment of the medium to long-term average;

Consideration of forecasting risks including a sensitivity analysis on the financial projections. This sensitivity considered the effect of higher than expected impairments, the cost of funds or operating expenditure, as well as lower than expected asset yields, new lending or ECB rates.

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 €374m of a deferred tax asset on tax losses in the PTSB legal entity on the statement of financial position as at 30 June 2021.

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 2025 and assuming a level of profitability growth consistent with GDP growth of approximately 2.5%, it will take c.20 years for the deferred tax asset on tax losses of €374m 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 COVID-19 pandemic 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 reasonable in this context.

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

The expected period of time to full utilisation of the deferred tax asset has decreased since 31 December 2020 from 22 years to 21 years. This is mainly due to slight changes in forecasted profitability in the short to medium-term. These revised profitability figures also impact the assumed long-term projections for the Group with the effect that the expected utilisation period has decreased. Other assumptions underpinning the deferred tax asset recoverability analysis are broadly in line with prior periods.

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.

## 16. Other assets

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| Other | 3 | 5 |
| | 3 | 5 |

Other includes accruals for miscellaneous debtors of €3m at 30 June 2021 (€5m at 31 December 2020).

## 17. Interest in associated undertakings

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| Synch Payments and Clearpay | 1 | - |
| | 1 | - |

During 2021, the Group invested in Synch Payments DAC and Clearpay DAC and acquired non-controlling interests. These investments are accounted for under the equity method in the financial statements.

## 18. Customer accounts

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| Term deposits | 2,558 | 3,062 |
| Demand deposits | 7,371 | 7,132 |
| Current accounts | 6,472 | 5,779 |
| Notice and other accounts | 2,104 | 2,066 |
| Customer accounts | 18,505 | 18,039 |

An analysis of the contractual maturity profile of customer accounts is set out in the liquidity risk section of note 26.

## 19. Debt securities in issue

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| **At amortised cost** | | |
| Bonds and medium-term notes | 355 | 351 |
| Non-recourse funding | 402 | 458 |
| | 757 | 809 |

| **Maturity analysis** | 30 June 2021 | 31 December 2020 |
|---|---|---|
| Repayable in less than 1 year | 6 | 2 |
| Repayable in greater than 1 year but less than 5 years | 349 | 349 |
| Repayable in greater than 5 years | 402 | 458 |
| | 757 | 809 |

**Non-recourse funding**

As at 30 June 2021 the Group had advances of €0.4bn (31 December 2020: €0.5bn) collateralised on residential property loans of €0.4bn (31 December 2020: €0.4bn) subject to non-recourse funding by way of residential mortgage securitisations. Residential mortgage securitisations involve transferring the interest in pools of mortgages to special purpose entities which issue mortgage-backed floating rate notes to fund the purchase of the interest in mortgage pools. These loans, which have not been de-recognised, are shown within loans and advances to customers while the non-recourse funding is shown as a separate liability.

Non-recourse funding reduced by €0.1bn between 31 December 2020 and 30 June 2021 to €0.4bn, primarily due to pay down of non-recourse funding during the year. The Group did not have any defaults of principal or interest or other breaches with respect to non-recourse funding during 2021.

Under the terms of these securitisations, the rights of the providers of the related funds are limited to the mortgage loans in the securitised portfolios, together with any related income generated by the portfolios and the subordinated loans provided by the Group, without further recourse to the Group. During the term of the transactions, any amounts realised from the portfolios in excess of that due to the providers of the funding, less any related administrative costs, will be paid to the Group. The providers of this funding have agreed in writing (subject to the customary warranties and covenants) that they will seek repayment of the finance, as to both principal and interest, only to the extent that sufficient funds are generated by the mortgages and related security and any subordinated loans provided by the Group, and that they will not seek recourse in any other form.

## 20. Other liabilities

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| **Amounts falling due within one year** | | |
| PAYE and social insurance | - | 4 |
| Other taxation including deposit interest retention tax (DIRT) | - | 1 |
| Other | 84 | 68 |
| Lease liability | 7 | 7 |
| Total amounts falling due within one year | 91 | 80 |
| | | |
| **Amounts falling due greater than one year** | | |
| Lease liability | 24 | 27 |
| Total amounts falling due greater than one year | 24 | 27 |
| | | |
| Total other liabilities | 115 | 107 |

Other includes accruals for sundry creditors of €73m at 30 June 2021 (€48m at 31 December 2020) and miscellaneous liabilities.

## 21. Provisions

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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** | 28 | 29 | 20 | 77 | 2 | 25 | 14 | 41 |
| Provisions made during the period | 5 | 4 | - | 9 | 28 | 21 | 11 | 60 |
| Write-back of provisions during the period | - | - | (4) | (4) | (1) | (2) | (5) | (8) |
| Provisions used during the period | (16) | (12) | - | (28) | (1) | (15) | - | (16) |
| **As at 30 June/31 December** | 17 | 21 | 16 | 54 | 28 | 29 | 20 | 77 |

The provision at 30 June 2021 is €54m (31 December 2020: €77m) 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 €5m was made and an amount of €16m was utilised as part of this programme. The remaining provision of €16m 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 12 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.

## 21. Provisions (continued)

**Provision for legacy, legal and compliance liabilities**

As at 30 June 2021, the Group has provisions of €21m relating to legal, compliance and other costs of on-going disputes in relation to legacy business issues (31 December 2020: €29m).

A provision of €4m was made during 2021 relating to legal, compliance and other costs of on-going disputes in relation to legacy business issues.

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

**Other**

As at 30 June 2021, the provision of €16m (31 December 2020: €20m) primarily relates to indemnities and guarantees provided by the Group, together with further costs, relating to deleveraging of various asset portfolios.

## 22. Subordinated liabilities

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| **At amortised cost:** | | |
| €250m Tier 2 capital notes due August 2031, Callable 2026 | 250 | - |
| | 250 | - |

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| **Maturity date** | €m | €m |
| Repayable in less than 1 year | 1 | - |
| Repayable in greater than 1 year but less than 5 years | - | - |
| Repayable in greater than 5 years | 249 | - |
| | 250 | - |

**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 matures on 19 August 2031 with a call date of any date from and including 19 May 2026 to and including 19 August 2026 with the call subject to approval of the regulatory authorities, with approval conditional on meeting the requirements of the EU CRR.

The interest rate will be reset 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.

## 23. 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 PTSBGH plc.

**Authorised share capital**

**30 June 2021**

| | | 30 June 2021 |
|---|---|---|
| | **Number of shares** | **€m** |
| Ordinary shares of €0.50 each | **1,550,000,000** | 775 |

31 December 2020

| | | 31 December 2020 |
|---|---|---|
| | Number of shares | €m |
| Ordinary shares of €0.50 each | 1,550,000,000 | 775 |

**Issued share capital**

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

**Balance as at 30 June 2021**

| | **€0.50 Ordinary shares** | **Total €m** |
|---|---|---|
| **As at 1 January 2021** | **454,695,492** | |
| **Movement** | - | |
| **As at 30 June 2021** | **454,695,492** | |
| **Issued share capital (€m)** | **227** | **227** |
| **Shares held under employee benefit trust** | **4,580** | |
| **% of Authorised capital issued** | | **29%** |

Balance as at 31 December 2020

| | €0.50 Ordinary shares | Total €m |
|---|---|---|
| As at 1 January 2020 | 454,695,492 | |
| Movement | - | |
| As at 31 December 2020 | 454,695,492 | |
| Issued share capital (€m) | 227 | 227 |
| Shares held under employee benefit trust | 4,580 | |
| % of Authorised capital issued | | 29% |

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

### 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 unrealised gains or losses, net of tax and hedge accounting, on debt and equity instruments measured at FVOCI, less the ECL allowance recognised in the income statement.

**Other capital reserves (Non-distributable)**

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

**Retained earnings**

Retained earnings include distributable and non-distributable earnings. This reserve represents the retained earnings of the holding company and subsidiaries after consolidation adjustments.

On 1 April 2021 a loss of €3m was recognised in the retained earnings on the redemption of the AT1 securities issued in 2015.

Furthermore €16m (2020: €11m) coupon interest on the AT1 securities was paid from this reserve during 2021.

**Other equity instruments - Non-distributable**

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| As at 1 January | 245 | 122 |
| **Issued during the period:** | | |
| Additional Tier 1 Securities - net of transaction costs | - | 123 |
| **Redemption during the period:** | | |
| Additional Tier 1 Securities (issued 2015) | (122) | - |
| **Additional Tier 1 securities** | 123 | 245 |

On 25 November 2020, the PTSBGH plc ('Company') issued €125m AT1 securities as part of a capital raise. The first reset date for the fixed rate is 25 May 2026.

The principal terms of the AT1 securities issued on 25 November 2020 are described below:

The AT1 securities are perpetual and redeemable financial instruments with a semi-annual coupon of 7.875%. 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.

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%.

On 6 May 2015, PTSB issued €125m fixed rate resettable 'AT1 securities' as part of the capital raise. The first reset date for the fixed rate was 1 April 2021.

The AT1 securities, on the first rest date being 1 April 2021 were redeemed in full, following the attainment of the required approval of the Supervisory Authority.

## 24. 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 2021 | Revaluation reserve | Fair value reserve | Total |
|---|---|---|---|
| | €m | €m | €m |
| Other comprehensive income/(expense) (net of tax) | | | |
| Revaluation of property | - | - | - |
| Fair value reserve (equity instruments): | | | |
| Change in value of equity instruments | - | 2 | 2 |
| Fair value reserve (debt instruments): | | | |
| Change in fair value of debt instruments | - | - | - |
| Amortisation of discontinued hedges | - | - | - |
| **Total other comprehensive income/(expense), net of tax** | - | 2 | 2 |

| Twelve months to 31 December 2020 | Revaluation reserve | Fair value reserve | Total |
|---|---|---|---|
| | €m | €m | €m |
| Other comprehensive income/(expense) (net of tax) | | | |
| Revaluation of property | (2) | - | (2) |
| Fair value reserve (equity instruments): | | | |
| Change in value of equity instruments | - | 6 | 6 |
| Fair value reserve (debt instruments): | | | |
| Change in fair value of debt instruments | - | (3) | (3) |
| Amortisation of discontinued hedges | - | 3 | 3 |
| Total other comprehensive (expense), net of tax | (2) | 6 | 4 |

*Fair value reserve: previously classified as 'available for sale' reserve under IAS 39.

| Six months to 30 June 2020 | Revaluation reserve | Fair value reserve | Total |
|---|---|---|---|
| | €m | €m | €m |
| Other comprehensive income/(expense) (net of tax) | - | - | - |
| Revaluation of property | - | - | - |
| Fair value reserve (equity instruments): | - | - | - |
| Change in value of equity instruments | - | 1 | 1 |
| Fair value reserve (debt instruments): | - | - | - |
| Change in fair value of debt instruments | - | (3) | (3) |
| Amortisation of discontinued hedges | - | 2 | 2 |
| Total other comprehensive (expense), net of tax | - | - | - |

## 25. 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.

| 30 June 2021 | Note | Held at amortised cost | At fair value through OCI | At fair value through profit or loss | Total carrying value | Fair value |
|---|---|---|---|---|---|---|
| | | €m | €m | €m | €m | €m |
| **Financial assets:** | | | | | | |
| Cash at bank | 8 | 43 | | | 43 | 43 |
| Items in the course of collection | 8 | 11 | - | - | 11 | 11 |
| Debt securities | 9 | 2,552 | - | - | 2,552 | 2,598 |
| Equity securities | 10 | - | 27 | - | 27 | 27 |
| Derivative assets | 11 | - | - | 1 | 1 | 1 |
| Loans and advances to banks | 12 | 3,905 | - | - | 3,905 | 3,905 |
| Loans and advances to customers | 13, 14 | 14,240 | - | - | 14,240 | 13,373 |
| Financial liabilities: | | | | | | |
| Customer accounts | 18 | 18,505 | - | - | 18,505 | 18,508 |
| Debt securities in issue | 19 | 757 | - | - | 757 | 764 |
| Subordinated liabilities | 22 | 250 | - | - | 250 | 255 |

| 31 December 2020 | Note | Held at amortised cost | At fair value through OCI | At fair value through profit or loss | Total carrying value | Fair value |
|---|---|---|---|---|---|---|
| | | €m | €m | €m | €m | €m |
| Financial assets: | | | | | | |
| Cash at bank | 8 | 71 | - | - | 71 | 71 |
| Items in the course of collection | 8 | 20 | - | - | 20 | 20 |
| Debt securities | 9 | 2,583 | - | - | 2,583 | 2,662 |
| Equity securities | 10 | - | 24 | - | 24 | 24 |
| Derivative assets | 11 | - | - | - | - | - |
| Loans and advances to banks | 12 | 3,312 | - | - | 3,312 | 3,312 |
| Loans and advances to customers | 13, 14 | 14,213 | - | - | 14,213 | 13,558 |
| Financial liabilities: | | | | | | |
| Customer accounts | 18 | 18,039 | - | - | 18,039 | 18,044 |
| Debt securities in issue | 19 | 809 | - | - | 809 | 808 |
| Subordinated liabilities | - | - | - | - | - | - |

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

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.

The following table sets out the fair value of financial instruments that the Group holds at 30 June 2021. It categorises these financial instruments into the relevant level on the fair value hierarchy.

| 30 June 2021 | Note | Total | Level 1 | Level 2 | Level 3 | Total fair |
|---|---|---|---|---|---|---|
| | | €m | €m | €m | €m | €m |
| **Financial assets:** | | | | | | |
| Cash at bank | 8 | 43 | 43 | - | - | 43 |
| Items in the course of collection | 8 | 11 | - | 11 | - | 11 |
| Debt securities | 9 | 2,552 | 2,559 | - | 39 | 2,598 |
| Equity securities | 10 | 27 | 17 | - | 10 | 27 |
| Derivative assets | 11 | 1 | 1 | | | 1 |
| Loans and advances to banks | 12 | 3,905 | - | 3,905 | - | 3,905 |
| Loans and advances to customers | 13,14 | 14,240 | - | - | 13,373 | 13,373 |
| Financial liabilities: | | | | | | |
| Customer accounts | 18 | 18,505 | - | 18,508 | - | 18,508 |
| Debt securities in issue | 19 | 757 | 362 | 402 | - | 764 |
| Subordinated liabilities | 22 | 250 | 255 | - | - | 255 |

| 31 December 2020 | Note | Total | Level 1 | Level 2 | Level 3 | Total fair |
|---|---|---|---|---|---|---|
| | | €m | €m | €m | €m | €m |
| **Financial assets:** | | | | | | |
| Cash at bank | 8 | 71 | 71 | - | - | 71 |
| Items in the course of collection | 8 | 20 | - | 20 | - | 20 |
| Debt securities | 9 | 2,583 | 2,621 | - | 41 | 2,662 |
| Equity securities | 10 | 24 | 16 | - | 8 | 24 |
| Derivative assets | 11 | - | - | - | - | - |
| Loans and advances to banks | 12 | 3,312 | - | 3,312 | - | 3,312 |
| Loans and advances to customers | 13,14 | 14,213 | - | - | 13,558 | 13,558 |
| Financial liabilities: | | | | | | |
| Customer accounts | 18 | 18,039 | - | 18,044 | - | 18,044 |
| Debt securities in issue | 19 | 809 | 350 | 458 | - | 808 |
| Subordinated liabilities | 22 | - | - | - | - | - |

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

The Group's accounting policy on valuation of financial instruments is described in note 1 and note 2 of the consolidated financial statements for 2020 which contains details on the critical accounting estimates and judgements made by management in relation to the fair value measurement of financial instruments. The fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

#### Cash 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 (HTC securities)

Debt securities as at 30 June 2021 are €2,552m (31 December 2020: €2,583m) of which wholly consists of HTC securities. HTC securities are derived from observable inputs through independent pricing sources such as Bloomberg, apart from one corporate bond €38m (31 December 2020: €39m) which is derived using unobservable inputs. The Group applies a weighted average price to the Group's retained holding in the securitisation which is derived from the securitisations externally priced notes.

#### 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.

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

**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. Where a readily available market price is unavailable in relation to the instrument, an estimated price is calculated using observable inputs for similar instruments. If observable inputs are not available, an appropriate credit spread linked to similar instruments, is used within the valuation technique.

**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 FVOCI. Derivative assets and liabilities are HFT and fair valued through the income statement.

**Derivative assets and liabilities**

The fair values of derivatives are determined using valuation techniques such as discounted cash flow and pricing models which are commonly used by market participants. These valuations are provided by third party brokers and the models used incorporate observable inputs such as current interest rate, time to maturity, forward FX rates, yield curves and volatility measures.

## Equity securities

PTSB Group holds Series A and Series B preferred stock in Visa Inc. at 31 December 2020. The Series A preferred stock was acquired during 2020 upon the conversion of Series B preferred stock by Visa Inc.

The fair values of the preferred stock in Visa Inc. 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.

30 June 2021

| | Note | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| | | €m | €m | €m | €m |
| Financial assets measured at fair value | - | - | - | - | - |
| Equity instruments | 10 | 17 | - | 10 | 27 |
| Derivative assets | 11 | 1 | - | - | 1 |

| 31 December 2020 | Note | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| | | €m | €m | €m | €m |
| Financial assets measured at fair value | | | | | |
| Equity instruments | 10 | 16 | - | 8 | 24 |
| Derivative assets | 11 | - | - | - | - |
| Derivative liabilities | 11 | - | - | - | - |

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

**Reconciliation of level 3 fair value measurements of financial assets**

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| Equity instruments | | |
| As at 1 January | 24 | 15 |
| Revaluation movement | 3 | 9 |
| As at 30 June/31 December | 27 | 24 |

There has been no transfers in/out of level 3 per the fair value hierarchy in the period 30 June 2021 or in the year ended 31 December 2020.

## 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:

| 30 June 2021 | 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% | 10 | 0 - 90% |

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

| 31 December 2020 | 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% | 8 | 0-90% |

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

Visa Inc. Series A and Series B preferred stock the conversion rate variability of the Visa Inc. Series B preferred stock.

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

### 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 €17m and €10m respectively at 30 June 2021 (31 December 2020: €24m) 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 31 December 2020. Future conversions are calculated using discounted cash flows. 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 A and Series B preferred stock is denominated in US dollars and is exposed to FX risk.

## 26. 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 2021 | 31 December 2020 |
|---|---|---|---|
| | | €m | €m |
| Cash at bank | 8 | 43 | 71 |
| Items in the course of collection | 8 | 11 | 20 |
| Debt securities (i) | 9 | 2,552 | 2,583 |
| Derivative assets | 11 | 1 | - |
| Loans and advances to banks (ii) | 12 | 3,905 | 3,312 |
| Loans and advances to customers (iii) | 13 | 14,240 | 14,213 |
| | | 20,752 | 20,199 |
| Commitments and contingencies | 27 | 1,183 | 1,069 |
| | | 21,935 | 21,268 |

## 26. Financial risk management (continued)

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 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.

**i) Debt securities**

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| Rating | | |
| Aaa | 63 | 67 |
| A2 | 1,461 | 1,488 |
| Baa1 | 516 | 515 |
| Baa3 | 474 | 474 |
| Unrated | 38 | 39 |
| **Total** | 2,552 | 2,583 |

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

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| Country | | |
| Ireland | 1,562 | 1,594 |
| Portugal | 474 | 474 |
| Spain | 516 | 515 |
| **Total** | 2,552 | 2,583 |

**(ii) 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.

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| Rating | | |
| Aaa | 3,563 | 2,813 |
| Aa2 | 196 | 209 |
| Aa3 | 113 | 254 |
| A1 | 29 | 32 |
| A2 | 4 | 3 |
| Baa2 | - | 1 |
| **Total** | 3,905 | 3,312 |

## 26. Financial risk management (continued)

**The following sections detail additional disclosures on Asset Quality.**

(iii) 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.

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| **Measured at amortised cost** | **€m** | €m |
| Residential mortgages: | | |
| Home loan | **12,435** | 12,338 |
| Buy-to-let | **1,893** | 2,009 |
| **Total residential mortgages** | **14,328** | 14,347 |
| Commercial | **186** | 181 |
| Consumer finance | **334** | 327 |
| **Total measured at amortised cost** | **14,848** | 14,855 |
| **Analysed by ECL staging:** | | |
| Stage 1 | **11,500** | 10,575 |
| Stage 2 | **2,304** | 3,152 |
| Stage 3 | **1,042** | 1,127 |
| POCI | **2** | 1 |
| **Total measured at amortised cost** | **14,848** | 14,855 |
| | | |
| Of which at the reporting date: | | |
| Neither past due nor Stage 3 | **13,746** | 13,692 |
| Past due but not Stage 3 | **58** | 35 |
| Stage 3 | **1,044** | 1,128 |
| **Total measured at amortised cost** | **14,848** | 14,855 |
| **Of which are reported as NPLs** | **1,044** | 1,128 |
| **Deferred fees, discounts and fair value adjustments** | **95** | 86 |

## 26. Financial risk management (continued)

| Asset Quality: 30 June 2021* | Home loan | Buy-to-let | Total | Commercial | Consumer | Total |
|---|---|---|---|---|---|---|
| **Stage 1** | €m | €m | €m | €m | €m | €m |
| Excellent | 6,739 | 251 | 6,990 | 7 | 154 | 7,151 |
| Satisfactory | 3,775 | 406 | 4,181 | 41 | 68 | 4,290 |
| Fair Risk | 16 | - | 16 | 4 | 6 | 26 |
| Standardised | - | - | - | - | 33 | 33 |
| | 10,530 | 657 | 11,187 | 52 | 261 | 11,500 |
| **Stage 2** | | | | | | |
| Excellent | 207 | 204 | 411 | 1 | 2 | 414 |
| Satisfactory | 369 | 301 | 670 | 17 | 15 | 702 |
| Fair Risk | 719 | 364 | 1,083 | 65 | 28 | 1,176 |
| Standardised | - | - | - | - | 12 | 12 |
| | 1,295 | 869 | 2,164 | 83 | 57 | 2,304 |
| **Stage 3** | | | | | | |
| Default | 610 | 367 | 977 | 51 | 16 | 1,044 |
| Total measured at amortised cost | 12,435 | 1,893 | 14,328 | 186 | 334 | 14,848 |

*The information in the shaded box has not been subject to review by the Group's independent auditor.

| Asset Quality: 31 December 2020* | Home loan | Buy-to-let | Total Residential Mortgages | Commercial | Consumer | Total |
|---|---|---|---|---|---|---|
| **Stage 1** | €m | €m | €m | €m | €m | €m |
| Excellent | 6,596 | 101 | 6,697 | 4 | 172 | 6,873 |
| Satisfactory | 3,548 | 46 | 3,594 | - | 70 | 3,664 |
| Fair Risk | 13 | - | 13 | - | 7 | 20 |
| Standardised | - | - | - | - | 18 | 18 |
| | 10,157 | 147 | 10,304 | 4 | 267 | 10,575 |
| **Stage 2** | | | | | | |
| Excellent | 260 | 407 | 667 | 3 | 1 | 671 |
| Satisfactory | 421 | 674 | 1,095 | 58 | 9 | 1,162 |
| Fair Risk | 842 | 363 | 1,205 | 81 | 28 | 1,314 |
| Standardised | - | - | - | - | 5 | 5 |
| | 1,523 | 1,444 | 2,967 | 142 | 43 | 3,152 |
| **Stage 3** | | | | | | |
| Default | 658 | 418 | 1,076 | 35 | 17 | 1,128 |
| Total measured at amortised cost | 12,338 | 2,009 | 14,347 | 181 | 327 | 14,855 |

*The information in the shaded box has not been subject to review by the Group's independent auditor.

## 26. 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 2021 | Home loans | Buy-to-let | Commercial | Total |
|---|---|---|---|---|
| | €m | €m | €m | €m |
| 0-30 days | 13 | 18 | - | 31 |
| 31-60 days | 2 | 11 | - | 13 |
| 61-90 days | 1 | 3 | - | 4 |
| **Total past due not Stage 3** | 16 | 32 | - | 48 |
| Fair value of collateral held | 16 | 29 | - | 45 |

| Fair value of collateral held | Home loans | Buy-to-let | Commercial | Total |
|---|---|---|---|---|
| | €m | €m | €m | €m |
| 0-30 days | 13 | 16 | - | 29 |
| 31-60 days | 2 | 10 | - | 12 |
| 61-90 days | 1 | 3 | - | 4 |
| Total past due not Stage 3 | 16 | 29 | - | 45 |

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

| 31 December 2020 | Home loans | Buy-to-let | Commercial | Total |
|---|---|---|---|---|
| | €m | €m | €m | €m |
| 0-30 days | 15 | 2 | - | 17 |
| 31-60 days | 3 | 1 | - | 4 |
| 61-90 days | 2 | - | - | 2 |
| Total past due not Stage 3 | 20 | 3 | - | 23 |
| Fair value of collateral held | 20 | 3 | - | 23 |

| **Fair value of collateral held** | Home loans | Buy-to-let | Commercial | Total |
|---|---|---|---|---|
| | €m | €m | €m | €m |
| 0-30 days | 15 | 2 | - | 17 |
| 31-60 days | 3 | 1 | - | 4 |
| 61-90 days | 2 | - | - | 2 |
| Total past due not Stage 3 | 20 | 3 | - | 23 |

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.

## 26. Financial risk management (continued)

**Non-performing loans**

NPLs are loans which are credit impaired or loans which are classified as defaulted in accordance with the Group's definition of default. The Group's definition of default considers objective indicators of default including the 90 days past due criterion, evidence of exercise of concessions or modifications to terms and conditions is designed to be consistent with EBA guidance on the definition of forbearance.

NPAs are defined as NPLs plus foreclosed assets.

| 30 June 2021 | Stage 3 | | | | |
|---|---|---|---|---|---|
| | Home loans | Buy-to-let | Commercial | Consumer finance | Total |
| | €m | €m | €m | €m | €m |
| NPL is < 90 days | 425 | 256 | 45 | 1 | 727 |
| NPL is > 90 days and < 1 year past due | 46 | 48 | 1 | 6 | 101 |
| NPL is 1-2 years past due | 38 | 18 | - | 1 | 57 |
| NPL is 2-5 years past due | 26 | 6 | 1 | 2 | 35 |
| NPL is > 5 years past due | 75 | 39 | 4 | 4 | 122 |
| POCI | - | - | - | 2 | 2 |
| **Non-performing loans** | 610 | 367 | 51 | 16 | 1,044 |
| **Foreclosed assets*** | 7 | 22 | - | - | 29 |
| **Non-performing assets** | 617 | 389 | 51 | 16 | 1,073 |
| **NPLs as % of gross loans** | 4.9% | 19.4% | 27.4% | 4.8% | 7.0% |

*Foreclosed assets are held on the balance sheet which are obtained by taking possession of collateral or by calling on similar credit enhancements.

| 31 December 2020 | Stage 3 | | | | |
|---|---|---|---|---|---|
| | Home loans | Buy-to-let | Commercial | Consumer finance | Total |
| | €m | €m | €m | €m | €m |
| NPL is < 90 days | 464 | 319 | 28 | 1 | 812 |
| NPL is > 90 days and < 1 year past due | 42 | 32 | 1 | 9 | 84 |
| NPL is 1-2 years past due | 42 | 14 | - | 1 | 57 |
| NPL is 2-5 years past due | 21 | 4 | 2 | 1 | 28 |
| NPL is > 5 years past due | 89 | 49 | 4 | 4 | 146 |
| POCI | - | - | - | 1 | 1 |
| Non-performing loans | 658 | 418 | 35 | 17 | 1,128 |
| Foreclosed assets* | 25 | 5 | - | - | 30 |
| Non-performing assets | 683 | 423 | 35 | 17 | 1,158 |
| NPLs as % of gross loans | 5.3% | 20.8% | 19.3% | 5.2% | 7.6% |

*Foreclosed assets are held on the balance sheet which are obtained by taking possession of collateral or by calling on similar credit enhancements.

NPLs as a percentage of total loans and advances were 7.0% at 30 June 2021, a reduction from 7.6% at 31 December 2020.

## 26. Financial risk management (continued)

**Total portfolio Loss allowance: statement of financial position**

The tables below outline the ECL loss allowance total at 30 June 2021 and 31 December 2020 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 2021 was €3m, compared to a charge of €155m for the year ended 31 December 2020.

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| **Loss allowance - statement of financial position** | | |
| Stage 1 | 94 | 55 |
| Stage 2 | 248 | 286 |
| Stage 3 | 361 | 387 |
| **Total loss allowance** | 703 | 728 |

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | % | % |
| **Provision coverage ratio*** | | |
| Stage 1 | 0.8% | 0.5% |
| Stage 2 | 10.8% | 9.1% |
| Stage 3 | 34.6% | 34.3% |
| Total provisions/total loans | 4.7% | 4.9% |

*Provision coverage ratio is calculated as loss allowance/impairment provision as a percentage of gross loan balance.

## 26. Financial risk management (continued)

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 residential mortgage portfolios is 64% at 30 June 2021 compared to 66% at 31 December 2020.

The Group's residential mortgage lending LTVs at June 2021 reflect updated valuations obtained on high-exposure NPLs (largely impacting on high-exposure buy-to-let properties).

| 30 June 2021 | Home loans | Buy-to-let | Total |
|---|---|---|---|
| | % | % | % |
| Less than 50% | 33% | 26% | 32% |
| 50% to 70% | 28% | 15% | 26% |
| 71% to 90% | 33% | 17% | 31% |
| 91% to 100% | 2% | 10% | 4% |
| Subtotal | 96% | 68% | 93% |
| 101% to 110% | 1% | 10% | 2% |
| 111% to 120% | 1% | 7% | 1% |
| 121% to 130% | 1% | 4% | 1% |
| 131% to 140% | 1% | 3% | 1% |
| 141% to 150% | - | 2% | 1% |
| 151% to 160% | - | 1% | - |
| 161% to 170% | - | 1% | - |
| 171% to 180% | - | 1% | - |
| Greater than 180% | - | 3% | 1% |
| Subtotal | 4% | 32% | 7% |
| Total | 100% | 100% | 100% |
| **Weighted average LTV:** | | | |
| Stock of residential mortgages | 61% | 83% | 64% |
| New residential mortgages | 72% | 52% | 72% |
| Stage 3 mortgages | 85% | 115% | 96% |

## 26. Financial risk management (continued)

| 31 December 2020 | Home loans | Buy-to-let | Total |
|---|---|---|---|
| | % | % | % |
| Less than 50% | 32% | 24% | 31% |
| 50% to 70% | 26% | 15% | 24% |
| 71% to 90% | 34% | 15% | 31% |
| 91% to 100% | 3% | 10% | 5% |
| Subtotal | 95% | 64% | 91% |
| | | | |
| 101% to 110% | 2% | 11% | 3% |
| 111% to 120% | 1% | 8% | 2% |
| 121% to 130% | 1% | 5% | 1% |
| 131% to 140% | - | 3% | 1% |
| 141% to 150% | - | 2% | - |
| 151% to 160% | - | 2% | 1% |
| 161% to 170% | - | 1% | - |
| 171% to 180% | - | - | - |
| Greater than 180% | 1% | 4% | 1% |
| Subtotal | 5% | 36% | 9% |
| | | | |
| Total | 100% | 100% | 100% |
| Weighted average LTV: | | | |
| Stock of residential mortgages | 63% | 89% | 66% |
| New residential mortgages | 75% | 55% | 75% |
| Stage 3 mortgages | 91% | 131% | 106% |

**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 on the following page set out the volume of loans for which the Group has entered formal temporary and permanent forbearance arrangements with customers as at 30 June 2021 and 31 December 2020.

## 26. Financial risk management (continued)

**(i) Residential home loan mortgages:**

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

| 30 June 2021 | All loans | | Stage 3 | |
|---|---|---|---|---|
| | Number | Balances | Number | Balances |
| | | €m | | €m |
| Interest only | 175 | 33 | 161 | 26 |
| Reduced payment (less than interest only) | 92 | 14 | 90 | 14 |
| Reduced payment (greater than interest only) | 2,350 | 331 | 1,314 | 197 |
| Payment moratorium | 116 | 14 | 106 | 13 |
| Arrears capitalisation | 572 | 76 | 313 | 43 |
| Term extension | 491 | 38 | 250 | 19 |
| Hybrid* | 372 | 60 | 204 | 35 |
| Split mortgages | 428 | 81 | 428 | 81 |
| **Total** | **4,596** | **647** | **2,866** | **428** |

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

| 31 December 2020 | All loans | | Stage 3 | |
|---|---|---|---|---|
| | Number | Balances | Number | Balances |
| | | €m | | €m |
| Interest only | 138 | 30 | 111 | 23 |
| Reduced payment (less than interest only) | 71 | 12 | 41 | 7 |
| Reduced payment (greater than interest only) | 2,694 | 391 | 1,369 | 213 |
| Payment moratorium | 119 | 15 | 61 | 7 |
| Arrears capitalisation | 668 | 88 | 367 | 48 |
| Term extension | 557 | 42 | 263 | 20 |
| Hybrid* | 385 | 65 | 204 | 37 |
| Split mortgages | 434 | 83 | 434 | 83 |
| Total | 5,066 | 726 | 2,850 | 438 |

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

The tables above reflect a decrease of 470 cases in the half year ended 30 June 2021 for the Group in the number of residential home loan in forbearance arrangements, a decrease of €79m in balances. The average balance of forborne loans is €0.141m at 30 June 2021 (31 December 2020: €0.143m).

## 26. Financial risk management (continued)

(ii) Residential buy-to-let mortgages:

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

| 30 June 2021 | All loans | | Stage 3 | |
|---|---|---|---|---|
| | Number | Balances | Number | Balances |
| | | €m | | €m |
| Interest only | 69 | 31 | 37 | 14 |
| Reduced payment (less than interest only) | 4 | 2 | 4 | 1 |
| Reduced payment (greater than interest only) | 244 | 76 | 171 | 57 |
| Payment moratorium | 2 | 1 | 2 | 1 |
| Arrears capitalisation | 65 | 32 | 24 | 11 |
| Term extension | 36 | 8 | 16 | 4 |
| Hybrid* | 73 | 29 | 45 | 14 |
| Split mortgages | 99 | 27 | 99 | 27 |
| **Total** | 592 | 206 | 398 | 129 |

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

| 31 December 2020 | All loans | | Stage 3 | |
|---|---|---|---|---|
| | Number | Balances | Number | Balances |
| | | €m | | €m |
| Interest only | 79 | 33 | 44 | 15 |
| Reduced payment (less than interest only) | 7 | 2 | 6 | 2 |
| Reduced payment (greater than interest only) | 311 | 94 | 239 | 76 |
| Payment moratorium | 10 | 2 | 7 | 2 |
| Arrears capitalisation | 68 | 35 | 24 | 10 |
| Term extension | 34 | 11 | 15 | 3 |
| Hybrid* | 69 | 27 | 42 | 16 |
| Split mortgages | 101 | 27 | 101 | 27 |
| Total | 679 | 231 | 478 | 151 |

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

The tables above reflect a decrease of 87 cases in the half year to 30 June 2021 for the Group in the number of residential buy-to-let in forbearance arrangements, a decrease of €25m in balances. The average balance of forborne loans is €0.348m at 30 June 2021 (31 December 2020: €0.340m).

## 26. Financial risk management (continued)

iii) Commercial mortgages

The incidence of the main type of forbearance arrangements for commercial mortgages are analysed below:

| Commercial mortgages | 30 June 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | Number | Balances | Number | Balances |
| | | €m | | €m |
| Interest only | 1 | - | 1 | - |
| Reduced payment (less than interest only) | - | - | - | - |
| Reduced payment (greater than interest only) | 14 | 24 | 15 | 7 |
| Payment moratorium | 1 | 1 | - | - |
| Arrears capitalisation | 5 | 7 | 2 | 1 |
| Term extension | 9 | 4 | 11 | 5 |
| Hybrid* | 12 | 6 | 15 | 7 |
| Split mortgages | - | - | - | - |
| **Total** | 42 | 42 | 44 | 20 |

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

The table above reflect a decrease of 2 cases in the half year ended 30 June 2021 for the Group in the number of commercial mortgages in forbearance arrangements, an increase of €22m in balances.

**(i) 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 2021**

| | Residential mortgages | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Home loans cases | Home loans balances | Buy -to-let cases | Buy-to-let balances | Commercial cases | Commercial balances | Total cases | Total balances |
| | | €m | | €m | | €m | | €m |
| Opening balance 1 January 2021 | 5,066 | 726 | 679 | 231 | 44 | 20 | 5,789 | 977 |
| New forbearance extended during the period* | 342 | 43 | 29 | 9 | 6 | 24 | 377 | 76 |
| Deleveraged loans | - | - | - | - | - | - | - | - |
| *Exited forbearance* | | | | | | | | |
| - re-classified to Stage 3 non-forborne | (17) | (3) | (4) | (1) | - | - | (21) | (4) |
| - expired forbearance treatment | (585) | (83) | (81) | (23) | (3) | (1) | (669) | (107) |
| - expired loan paid down | (210) | (24) | (31) | (6) | (5) | (1) | (246) | (31) |
| Balance shift** | - | (12) | - | (4) | - | - | - | (16) |
| **Closing balance of loans in forbearance for half year ended 30 June 2021** | 4,596 | 647 | 592 | 206 | 42 | 42 | 5,230 | 895 |

*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.

## 26. Financial risk management (continued)

31 December 2020

| | Residential mortgages | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Home loans cases | Home loans balances | Buy -to-let cases | Buy-to-let balances | Commercial cases | Commercial balances | Total cases | Total balances |
| | | €m | | €m | | €m | | €m |
| Opening balance 1 January 2020 | 5,788 | 827 | 589 | 201 | 38 | 19 | 6,415 | 1,047 |
| New forbearance extended during the year* | 1,323 | 186 | 240 | 79 | 10 | 7 | 1,573 | 272 |
| Deleveraged loans | - | - | (26) | (11) | - | - | (26) | (11) |
| *Exited forbearance* | | | | | | | | |
| Exited forborne to non-forborne stage 3 | (42) | (6) | (4) | (1) | - | - | (46) | (7) |
| - expired forbearance treatment | (1,679) | (228) | (80) | (23) | (1) | - | (1,760) | (251) |
| - expired loan paid down | (324) | (34) | (40) | (9) | (3) | (5) | (367) | (48) |
| Balance shift** | - | (19) | - | (5) | - | (1) | - | (25) |
| Closing balance of loans in forbearance as at 31 December 2020 | 5,066 | 726 | 679 | 231 | 44 | 20 | 5,789 | 977 |

*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 2021

| | Home loan cases | Home loan balances | Buy-to-let cases | Buy-to-let balances | Commercial cases | Commercial balances | Total cases | Total balances |
|---|---|---|---|---|---|---|---|---|
| | | €m | | €m | | €m | | €m |
| Opening balance 1 January 2021 | 2,850 | 438 | 478 | 151 | 36 | 14 | 3,364 | 603 |
| New Stage 3 forbearance extended during the period* | 449 | 56 | 32 | 11 | 5 | 24 | 486 | 91 |
| Deleveraged loans | - | - | - | - | - | - | - | - |
| Exited forborne Stage 3, now performing forborne | (185) | (23) | (16) | (9) | - | - | (201) | (32) |
| Exited forbearance | | | | | | | - | - |
| - exited forborne Stage 3, now Stage 3 non-forborne | (15) | (2) | (4) | (1) | - | - | (19) | (3) |
| - expired forbearance treatment | (87) | (18) | (65) | (17) | (1) | (1) | (153) | (36) |
| - expired loan paid down | (146) | (18) | (27) | (5) | (4) | - | (177) | (23) |
| Balance shift** | - | (5) | - | (1) | - | - | - | (6) |
| Closing balance loans in forbearance for half year ended 30 June 2021 | 2,866 | 428 | 398 | 129 | 36 | 37 | 3,300 | 594 |

*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.

## 26. Financial risk management (continued)

| 31 December 2020 | 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 2020 | 2,602 | 401 | 405 | 145 | 33 | 17 | 3,040 | 563 |
| New Stage 3 forbearance extended during the year* | 845 | 119 | 172 | 53 | 6 | 3 | 1,023 | 175 |
| Deleveraged loans | - | - | - | - | - | - | - | - |
| Exited forborne stage 3, now performing | (335) | (38) | (66) | (34) | - | - | (401) | (72) |
| Exited forbearance | - | - | - | - | - | - | - | - |
| - exited forborne Stage 3, now Stage 3 non-forborne | (32) | (6) | (4) | (1) | - | - | (36) | (7) |
| - expired forbearance treatment | (56) | (8) | (5) | (1) | - | - | (61) | (9) |
| - expired loan paid down | (174) | (22) | (24) | (7) | (3) | (5) | (201) | (34) |
| Balance shift** | - | (8) | - | (4) | - | (1) | - | (13) |
| Closing balance of loans in forbearance as at 31 December 2020 | 2,850 | 438 | 478 | 151 | 36 | 14 | 3,364 | 603 |

*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.

## 26. Financial risk management (continued)

**(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 non-repayment of the loan facility. The following tables outline the main movements in this category during the period.

| Stock of collateral in possession* | 30 June 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | Number | Balance outstanding at transfer of ownership | Number | Balance outstanding at transfer of ownership |
| **Residential collateral in possession** | | €m | | €m |
| Home loans | 39 | 15 | 41 | 13 |
| Buy-to-let | 182 | 45 | 207 | 56 |
| **Total** | 221 | 60 | 248 | 69 |

Collateral in possession assets are sold as soon as practicable. These assets which total €29m as at 30 June 2021 (31 December 2020: €30m) are included in assets held for sale (see note 29 for further details).

During the period the ownership of 42 properties were transferred to the Group.

The details of the transfers are provided in the table below:

| | Number |
|---|---|
| Home loans | 6 |
| Buy-to-let | 36 |
| **Total** | 42 |

During the period 69 properties were disposed.

The details of the disposals are provided in the table below:

| | Number |
|---|---|
| Home loans | 8 |
| Buy-to-let | 61 |
| **Total** | 69 |

## 26. Financial risk management (continued)

| 30 June 2021 | Number of disposals | Balance outstanding at transfer of ownership | Gross sales proceeds | Costs to sell | Pre provisioning loss on sale* |
|---|---|---|---|---|---|
| | | €m | €m | €m | €m |
| Collateral in possession | | | | | |
| ROI: | | | | | |
| Home loans | 8 | 2 | 1 | - | 1 |
| Buy-to-let | 61 | 16 | 8 | 1 | 9 |
| Commercial | - | - | - | - | - |
| Period ended 30 June 2021 | 69 | 18 | 9 | 1 | 10 |

*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 2020 | Number of disposals | Balance outstanding at transfer of ownership | Gross sales proceeds | Costs to sell | Pre provisioning loss on sale* |
|---|---|---|---|---|---|
| | | €m | €m | €m | €m |
| Collateral in possession | | | | | |
| Home loans | 62 | 18 | 9 | - | 9 |
| Buy-to-let | 206 | 52 | 28 | 1 | 25 |
| Commercial | 4 | 1 | - | - | 1 |
| Year ended 31 December 2020 | 272 | 71 | 37 | 1 | 35 |

*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 Groups' funding profile as at 30 June 2021 can be broken down into the below component parts:

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | % | % |
| Customer accounts | 95 | 96 |
| Long-term debt | 5 | 4 |
| Short-term debt | - | - |
| | 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.

## 26. 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 2021 | Up to 1 month | 1-3 months | 3-6 months | 6-12 months | 1-2 years | Over 2 years | Total |
|---|---|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m | €m | €m |
| **Liabilities** | | | | | | | |
| Customer accounts | 15,092 | 1,373 | 533 | 715 | 362 | 446 | 18,521 |
| Debt securities in issue | 1 | 1 | 2 | 4 | 8 | 778 | 794 |
| Subordinated liabilities | 1 | 1 | 2 | 4 | 7 | 310 | 325 |
| Lease liabilities | 2 | - | 2 | 3 | 4 | 21 | 32 |
| **Total liabilities** | 15,096 | 1,375 | 539 | 726 | 381 | 1,555 | 19,672 |

| 31 December 2020 | Up to 1 month | 1-3 months | 3-6 months | 6-12 months | 1-2 years | Over 2 years | Total |
|---|---|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m | €m | €m |
| Liabilities | | | | | | | |
| Customer accounts | 14,149 | 1,565 | 490 | 777 | 555 | 524 | 18,060 |
| Debt securities in issue | 1 | 1 | 2 | 4 | 8 | 851 | 867 |
| Subordinated liabilities | - | - | - | - | - | - | - |
| Lease liabilities | 2 | - | 2 | 3 | 5 | 24 | 36 |
| Total liabilities | 14,152 | 1,566 | 494 | 784 | 568 | 1,399 | 18,963 |

## 27. 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 statement of financial position.

| Credit commitments | 30 June 2021 | 31 December 2020 |
|---|---|---|
| | €m | €m |
| **Guarantees and irrevocable letters of credit** | 2 | 2 |
| Commitments to extend credit: | | |
| - less than 1 year | 1,113 | 985 |
| - 1 year and over | 68 | 82 |
| **Total commitments to extend credit** | 1,181 | 1,067 |
| **Total credit commitments** | 1,183 | 1,069 |

## 27. 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 21, the Group does not believe that any such litigation will have a material impact on its income statement or statement of financial position.

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 these 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. At 30 June 2021, the Group believes that the crystallisation of any claim against the Group is unlikely and as a result has not included a provision. This is consistent with the Group's position at 31 December 2020.

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. It is not practicable to predict the final outcome of FSPO decisions, their timing and their likely impact, if any on the Group.

ECL held against commitments and contingencies are reported under loans and advances to customers.

## 28. 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 ExCo. The Executive Directors and members of the ExCo are set out in note 39 of the 2020 Annual Report.

On 20 March 2021, Celine Fitzgerald and Anne Bradley were appointed Non-Executive Directors of the Group.

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

| | 30 June 2021 | 31 December 2020 |
|---|---|---|
| Non-Executive Directors | 10 | 8 |
| Executive Directors and Senior Management | 9 | 9 |
| | 19 | 17 |

### Balances and transactions with key management personnel

There were no significant transactions with key management personnel during the first six months of 2021.

### (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.

## 28. 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 €1,461m (31 December 2020: €1,488m).
- 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.
- At 30 June 2021 the Company had an intercompany balance of €355m (31 December 2020: €351m) with its principal subsidiary PTSB plc relating to the MREL issuance.
- 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 made an investment in associated undertakings of €1m during the half year ended 30 June 2021 involving participants that are deemed related parties due to the common ownership by the Government.
- A levy imposed by the Government through the Finance Bill 2014 is payable in the second half of each calendar year. This levy is provided for on the occurrence of the event identified by the legislation that triggers the obligation to pay the levy. The Group incurred bank levy of €24m for the year ended 31 December 2020. The Group expects to incur a similar bank levy in the second half of 2021. As announced by the Minister of Finance in October 2015, the bank levy was extended to 2021.
- 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 2021, the Group had recorded a payable of €1m due under the FIA (31 December 2020: €0.7m).

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

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

| | | Loans and advances to banks | Debt securities held | Derivative assets | Derivative liabilities | Deposits by Banks |
|---|---|---|---|---|---|---|
| | | €m | €m | €m | €m | €m |
| Bank of Ireland | | | | | | |
| | 30 June 2021 | 4 | - | - | - | - |
| | 31 December 2020 | 2 | - | - | - | - |

## 29. Assets classified as held for sale

At 30 June 2021, assets classified as held for sale amounted to €29m (31 December 2020: €31m). This consists of the following:

1) €29m (31 December 2020: €30m) relates to collateral in possession, these properties are expected to be sold within the next 12 months.
2) €nil (31 December 2020: €1m) relates to one branch property (31 December 2020: two branch properties) which is no longer occupied by the Group, the sale of these property is expected to complete within the next 12 months.

## 30. Reporting currency and exchange rates

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

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

| | 30 June 2021 | 31 December 2020 | 30 June 2020 |
|---|---|---|---|
| € / £ exchange rate | | | |
| Closing | 0.8581 | 0.8990 | 0.9124 |
| Average | 0.8655 | 0.8895 | 0.8773 |
| € / US$ exchange rate | | | |
| Closing | 1.1884 | 1.2271 | 1.1198 |
| Average | 1.2025 | 1.1473 | 1.1033 |

## 31. Events after the reporting period

The Group issued Fastnet 17 and 16, retained securitisation with notes valued at €1bn and c.€3.9bn on the 14 July and the 21 July 2021 respectively.

On 23 July 2021, Permanent TSB Group Holdings plc announced that Permanent TSB plc, a wholly owned subsidiary, has entered into a non-binding Memorandum of Understanding (the MOU) with NatWest Group Plc (NatWest or NWG) and Ulster Bank Ireland DAC (Ulster Bank or UB) regarding a potential acquisition involving certain elements of the Ulster Bank Retail and SME business in the Republic of Ireland.

There were no other material post balance sheet events.

# Interim Report

for the six months
ended 30 June 2021

# General Information

We are a community
serving the community.

permanent tsb

**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 2021 ITS returns to the CBI.

EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the COVID-19 crisis are still applicable in 2021 however, PTSB does not have any EBA compliant payment breaks still active at 30 June 2021. In addition, PTSB does not have any exposures which qualify for Template 3 of these Guidelines (newly originated exposures subject to public guarantee schemes) at 30 June 2021.

| | In millions of euro | 30 June 2021 |
|---|---|---|
| | **Available own funds (amounts)** | |
| 1 | Common Equity Tier 1 (CET1) capital | **1,481** |
| 2 | Tier 1 capital | **1,604** |
| 3 | Total capital | **1,894** |
| | **Risk-weighted exposure amounts** | |
| 4 | Total risk exposure amount | **8,486** |
| | **Capital ratios (as a percentage of risk-weighted exposure amount)** | |
| 5 | Common Equity Tier 1 ratio (%) | **17.45%** |
| 6 | Tier 1 ratio (%) | **18.90%** |
| 7 | Total capital ratio (%) | **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%** |
| EU 7b | of which: to be made up of CET1 capital (percentage points) | **1.94%** |
| EU 7c | of which: to be made up of Tier 1 capital (percentage points) | **2.59%** |
| EU 7d | Total SREP own funds requirements (%) | **11.45%** |
| | **Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)** | |
| 8 | Capital conservation buffer (%) | **2.50%** |
| 9 | Institution specific countercyclical capital buffer (%) | **0.00%** |
| 11 | Combined buffer requirement (%) | **2.50%** |
| EU 11a | Overall capital requirements (%) | **13.95%** |
| 12 | CET1 available after meeting the total SREP own funds requirements (%) | **10.31%** |
| | **Leverage ratio**** | |
| 13 | Total exposure measure | **21,564** |
| 14 | Leverage ratio (%) | **7.44%** |
| | **Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)** | |
| EU 14d | Leverage ratio buffer requirement (%) | **0.00%** |
| EU 14e | Overall leverage ratio requirement (%) | **3.00%** |
| | **Liquidity Coverage Ratio** | |
| 15 | Total high-quality liquid assets (HQLA) (Weighted value -average) | **5,155** |
| EU 16a | Cash outflows - Total weighted value | **2,032** |
| EU 16b | Cash inflows - Total weighted value | **91** |
| 16 | Total net cash outflows (adjusted value) | **1,941** |
| 17 | Liquidity coverage ratio (%) | **266.42%** |
| | **Net Stable Funding Ratio** | |
| 18 | Total available stable funding | **18,974** |
| 19 | Total required stable funding | **11,157** |
| 20 | NSFR ratio (%) | **170.06%** |

*Rows EU 8a, EU 9a, 10, EU 10a, EU 14a, EU 14b and EU 14c 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/EU 14c: 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

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

## Abbreviations

**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
**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
**CRO** Chief Risk Officer
**CRR** Capital Requirements Regulation
**CSO** Central Statistics Office
**CVA** Credit Valuation Adjustment
**D&I** Diversity and inclusion
**DGS** Deposit Guarantee Scheme
**DIRT** Deposit Interest Retention Tax
**DoF** Department of Finance
**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
**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
**IAS** International Accounting Standards
**IASB** International Accounting Standards Board
**IBCB** Irish Banking Culture Board
**ICAAP** Internal Capital Adequacy Assessment Process
**ICF** International 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
**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
**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
**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
**S&P** Standard & Poor's
**SBCI** Strategic Banking Corporation of Ireland
**SEAR** Senior Executive Accountability Regime
**SICR** Significant increase in Credit Risk
**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