



Strategic Report

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Forward Looking Statements

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

The words "expect", "anticipate", "intend", "plan", "estimate", "aim", "forecast", "project", "target", "goal", "believe", "may", "could", "will", "seek", "would", "should", "continue", "assume" and similar expressions (or their negative) identify certain of these forward-looking statements but their absence does not mean that a statement is not forward looking. The forward-looking statements in this document are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Forward-looking statements involve inherent known and unknown risks, uncertainties and contingencies because they relate to events and depend on circumstances that may or may not occur in the future and may cause the actual results, performance or achievements of the Group to be materially different from those expressed or implied by such forward looking statements. Many of these risks and uncertainties relate to factors that are beyond the Group's ability to control or estimate precisely, such as future global, national and regional economic conditions, levels of market interest rates, credit or other risks of lending and investment activities, competition and the behaviour of other market participants, the actions of regulators and other factors such as changes in the political, social and regulatory framework in which the Group operates or in economic or technological trends or conditions. Past performance should not be taken as an indication or guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance. Nothing in this document should be considered to be a forecast of future profitability or financial position and none of the information in this document is intended to be a profit forecast or profit estimate.

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

Permanent TSB at a Glance

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

Customers

Personal

SME

Profile

c 1.1 million customers served

c 2,400 employees

77 Branches

Geography

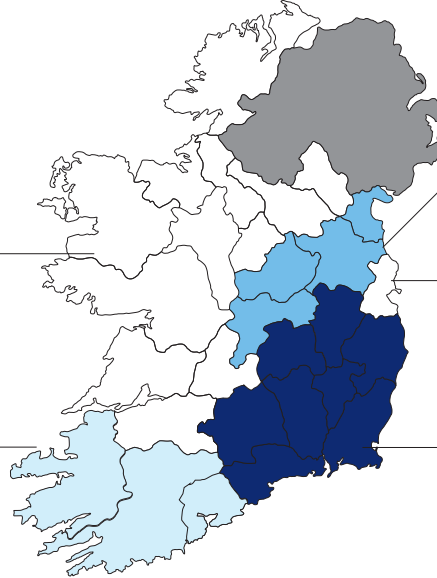
○ West
14 Branches

○ South
16 Branches

● North East
15 Branches

○ Dublin Region
17 Branches

● South East
15 Branches



Financial Highlights

Net Interest Margin

2016 1.48%

2015 1.12%

Gross New Lending

2016 €591m

2015 €519m

Adjusted Cost Income Ratio*

2016 65%

2015 74%

NPLs

2016 €5.9bn

2015 €6.6bn

Impairment Write-Back / (Charge)

2016 €68m

2015 (€35m)

Customer Deposits

2016 €17.0bn

2015 €18.6bn

Profit Before Exceptional Items

2016 €188m

2015 €26m

CET1 Ratio (Fully Loaded)

2016 14.9%

2015 15.0%

Loss For The Year

2016 (€266m)

2015 (€425m)

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

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

Exclusive Focus on Retail and SME Banking in Ireland

2016 was another year of significant progress for Permanent TSB ('the Bank'), with further key milestones achieved which leave the Bank well set for the next phase of its strategic journey. I have been Chairman of the Group since 2011, and at the end of March 2017, I will reach the end of my term in office. As I reach the end of my term, I considered it a sensible and appropriate time to step down from my position as Chairman considering where the business is at today. The coming years will bring both growth and change in the Irish banking market, and the challenge for the Bank is to seize those opportunities and maximise the value for its owners.

Restructuring Completed

The Bank has had a challenging journey since the beginning of the financial crisis. Starting as part of a larger group, with a mix of banking activities in Ireland and the UK, it is now a standalone full-service retail and SME banking business focused exclusively on the Irish market. Recapitalised by the taxpayer in 2011, it has gone on to restructure and reorganise its business, rebuild its funding base, raise capital in the public markets and divest Non-Core activities. It has also, I believe, greatly improved the governance and oversight of the business which is the key foundation of a well-run bank.

Resolving Customer Issues

However, while excellent progress has been made, not all of the legacy issues from the financial crisis have been resolved. The Bank has made provisions for losses on its customer loans but the position of some 13,000 customers, whose loans are in arrears or in default, has yet to be resolved. This is a priority – on the one hand to provide customers with security and certainty as to where they stand in relation to their financial commitments and, on the other, for the Bank to expedite a resolution and free up resources to focus on the many growth opportunities for the business.

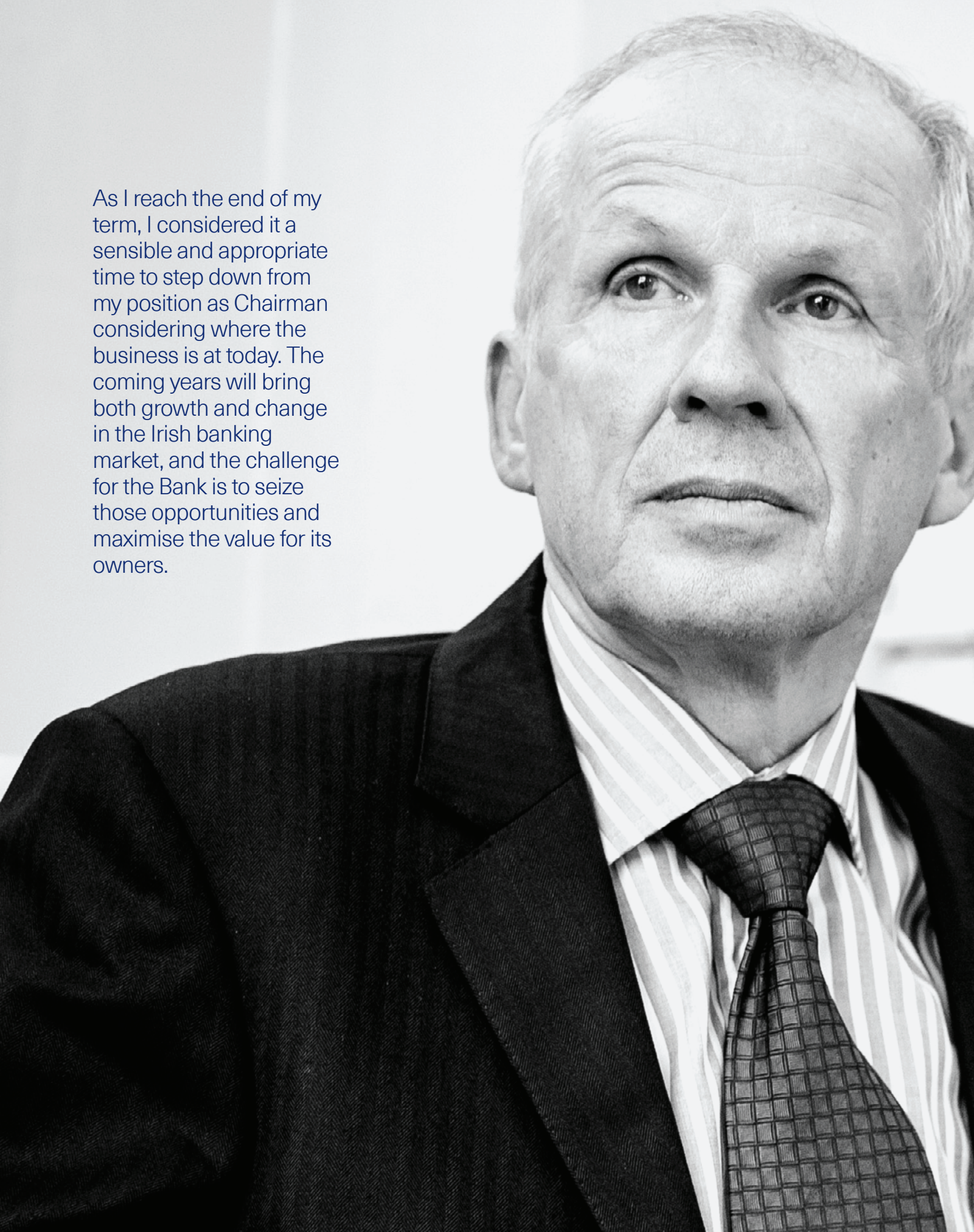
Equally, the completion of the review of legacy mortgage loan books in order to ensure the correct terms and conditions have been correctly applied, has been, and continues to be, a top priority for the Board and Management. We have made significant progress in 2016. The majority of Permanent TSB and Springboard customers identified as part of the 2015 Mortgage Redress Programme have now been fully redressed. In respect of Springboard, the related enforcement action by the Central Bank is now closed. We continue to work with the Central Bank on its industry-wide review of Tracker Mortgages and have made good progress. It is important for both the customers who may have been affected and the Bank, the exercise is concluded and that full redress is made as quickly as possible.

Opportunities and Challenges Ahead

With most of the heavy lifting behind it, the Bank can now get back to focus on profitable growth opportunities in Ireland. The outlook for retail and SME banking in general, and mortgage lending in particular, is positive as the economic recovery in Ireland continues, and supply issues are addressed in the housing market. The Bank is determined to participate fully in that growth and we are investing in our people and technology to ensure we have the necessary capabilities to serve our customers better.

However, rebuilding the Bank as a competitive business will not be without challenge. The competitive dynamics in the market and the cost of doing business are also changing. The industry has scaled back from the bloated balance sheets of the period prior to the financial crisis while regulatory and Government oversight, and associated compliance requirements and costs, have increased significantly. The consequence is

As I reach the end of my term, I considered it a sensible and appropriate time to step down from my position as Chairman considering where the business is at today. The coming years will bring both growth and change in the Irish banking market, and the challenge for the Bank is to seize those opportunities and maximise the value for its owners.



Group Chairman's Statement

(continued)

that the increase in fixed costs and capital requirements will discourage competition. In particular, we hope that smaller banks will be treated more proportionately by regulators and Government or those banks will have to seek increased scale for scale's sake which, in itself, is no guarantee of either achieving target returns on capital or better customer outcomes.

Corporate Social Responsibility (CSR)

CSR is ultimately about the values underpinning the way an organisation conducts and manages its business and the standards to which it operates. For the Bank, this means meeting our governing objective of maximising sustainable returns to shareholders will be achieved by:

- Delivering quality products and service to customers to earn and maintain their trust;
- Making the Bank a great place to work for our colleagues;
- Giving back to the communities in which we operate; and
- Minimising the impact of our business on the wider environment.

I am happy to report that, in 2016, the Board approved a comprehensive CSR strategy. Management has now put in place, for 2017 onwards, a framework which sets out our CSR objectives in each of the key areas above with a commitment to monitor, measure and report annually on progress against those objectives.

Board of Directors

As a Board, we have always been conscious of our responsibilities to our shareholders, customers, colleagues and other stakeholders. We continue to adopt an approach of forthright, independent challenge to ideas and plans that Management present to us. As the Bank enters the next phase of its strategic journey, delivering sustainable returns for shareholders remains the governing objective of the Board.

Dominic Dodd and David Stewart retired at the Annual General Meeting in 2016. I would like to thank them both for their contribution and commitment to the Bank.

Stephen Groarke, the Chief Risk Officer, was appointed to the Board as an Executive Director on 17 May 2016. Ronan O'Neill and Andrew Power were appointed to the Board as Non-Executive Directors

on 26 July 2016 and 27 September 2016 respectively. I would like to welcome Stephen, Ronan and Andrew to the Board.

The Company Secretary, Ciarán Long will retire this year after a long and distinguished service in Irish Life Assurance, Irish Life & Permanent and Permanent TSB. I would like to thank Ciarán for his admirable dedication and commitment during what was the most difficult period of the Bank's history. The Board has commenced the recruitment process for a replacement.

The Board has appointed Robert Elliott as my successor. I am delighted to welcome Robert to the Bank; I am sure his background and experience will be a positive addition to the Board. I look forward to watching the Group's continued transformation under Robert's leadership.

Thank You

My term of office has been challenging but always inspiring and fulfilling. The CEO, Management Team and all the staff in the Bank have demonstrated exceptional leadership, resilience and commitment to get the Bank to where it is today. On behalf of the Board, I thank them for this.

In addition, I extend my thanks to my fellow Board members for their continued valuable contribution and I would like to express my gratitude for all the assistance that the Department of Finance, the Central Bank of Ireland and European Central Bank continued to give to the Bank throughout my term as Chairman.

Outlook

I am conscious of how far the Bank has travelled over the past six years and what has been achieved despite the enormous difficulties and hurdles. The work, commitment and support of all those people who made this possible give me great confidence in the future of the Bank.

I note that this is my final Annual Report as Chairman. With that in mind, and after the tumultuous journey we have been on, I would like to close with the following remarks:

The financial crisis which engulfed all the banks in Ireland should never have occurred. It exacted an enormous toll on many people including, of course, shareholders and staff in all the banks. Most seriously, it exacted a terrible toll on the citizens of Ireland, many of whom

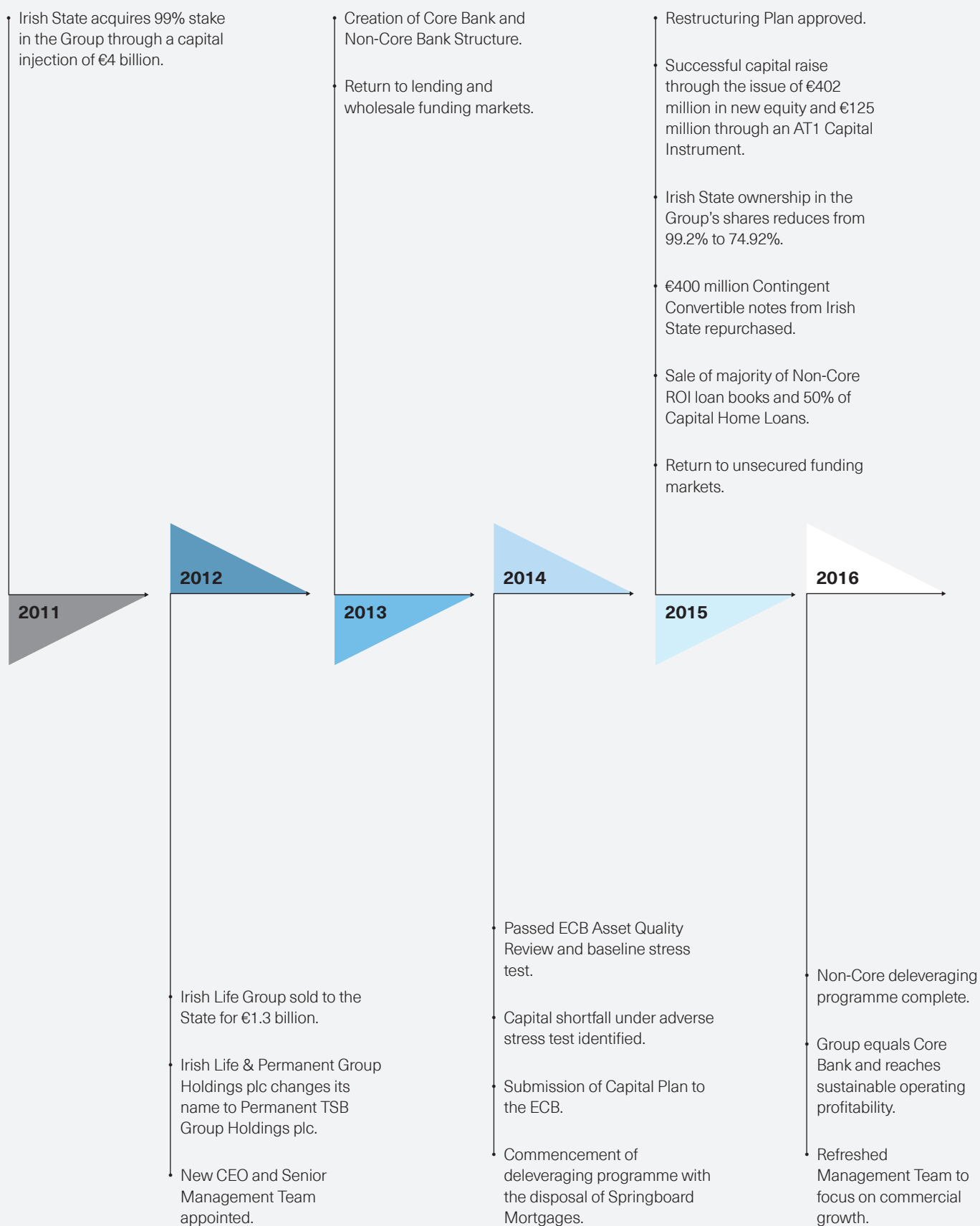
continue to struggle with the legacy of a decade of poor decision making. These are the real victims of this crash and they must be foremost in our thoughts.

As a community, Ireland must do all it can to help those who continue to struggle in the aftermath of this crisis. As a country, it must do all it can to ensure that nothing similar ever occurs again.



Alan Cook
Group Chairman

Group Historical Timeline



A Successful Year

The Bank is a recovery story and will remain so for some time to come. Having said that, 2016 was a significant year marked by important progress on a number of fronts. We ended 2016 in a better place than when it started and I believe we can look forward with confidence. In 2016, we delivered strong financial results with both improved operating profitability and the completion of a three-year deleveraging programme of over €9 billion that now allows us to focus exclusively on our core Irish business.

Profits for the year, before tax and exceptional items, was €188 million and the Common Equity Tier 1 capital ratio (on a transitional basis) at 31 December 2016 was 17.2%, well above the regulatory requirement of 11.45%. The disposal of Non-Core loans, a condition of our Restructuring Plan, was successfully completed leaving the Bank leaner, and in a stronger capital position, after absorbing an exceptional charge of €399 million associated with the disposals.

These are important milestones and achievements which position the Bank for the next stage of its journey. The Bank's priority now is to focus on growing our business profitably by rebuilding the trust with our customers, finding solutions for those customers that are still in arrears and, developing deeper and stronger customer relationships going forward.

During the year, we substantially completed our Mortgage Redress Programme (MRP) for some 1,400 customers and continued to conduct a wider review of the full mortgage book which was subsequently amalgamated into the Central Bank's Industry-Wide Review of Tracker Mortgages. In addition, good progress was made in reducing mortgage arrears and Non-Performing Loans (NPLs); however, there is more to be done in this space and this is a top priority in the current year.

The Bank performed well against the backdrop of a strongly performing Irish economy which showed GDP growth of 4.0% (Q3 2016, CSO), unemployment falling to 6.9% - its lowest level since 2008 - and residential property prices rising by 8.1% (CSO) over the 12 months. While the economic outlook for Ireland remains positive, the UK's decision to exit the European Union gives rise to risks given the close trading relationship between the two countries. The implications as a result of Brexit and the UK's subsequent relationship with the EU remain to be determined; however, while there are risks, we may well see Brexit-related opportunities for Ireland in the years to come.

Meanwhile, the regulatory environment continues to evolve, from MREL, IFRS 9 and Basel IV to the ECB's Targeted Review of Internal Models ("TRIM") and, in general, increasing requirements for capital and balance sheet management. These initiatives absorb significant resources. That said, we have achieved great results in the transformation of the Bank's funding mix and the management of its capital base and are now, of course, addressing these new requirements. A moratorium on regulatory change, even for a short period, would provide a welcome respite to allow us to direct all our energies to driving the business forward. While fully appreciating that the recent crisis in the European banking system demands a more robust regulatory environment, we have to ensure that whatever regulatory environment we operate in supports a competitive, responsible sector rather than obstructing it.

In 2016, we delivered strong financial results with improved operating profitability and the completion of a three-year deleveraging programme of over €9 billion that now allows us to focus exclusively on our core Irish business.



Group Chief Executive's Review

(continued)

Financial Performance

Operating Profit

The Group recorded a loss for the year of €266 million in 2016 which compares to a loss of €425 million in 2015. We reported a Profit before Tax and Exceptional Items (which mainly included losses from the sale of non-core assets) of €188 million, compared to €26 million in 2015 reflecting the Group's improved operational performance and enhanced loan book impairment outturn.

Net Interest Margin

The Net Interest Margin for 2016 improved by 36 basis points to 1.48%. The increase in margin predominantly reflects a reduction in the cost of funds of retail and corporate deposits in line with the trend across Ireland. Asset margins have reduced marginally in 2016 mainly as a result of the maturity of certain high yielding Treasury Assets.

Net Other Income

Net Other Income increased by €37 million to €71 million during 2016. This increase is primarily due to a gain from the sale of the share held by the Group in Visa Europe Ltd of €29 million.

Total Operating Expenses (excluding Exceptional Items, Bank Levy and Regulatory Charges)

Excluding Exceptional Items, Bank Levy and Regulatory Charges (and €10 million of Regulatory Charges which are included in Administration Expenses in 2015), Total Operating Expenses for 2016 remained static compared to 2015.

The adjusted Cost Income Ratio (excluding Exceptional Items and Bank Levy and Regulatory Charges and Visa Europe share sale gain) improved by 9 percentage points to 65%, reflecting the increase in Total Operating Income.

Bank Levy and Regulatory Charges

These costs (including €10 million of Regulatory Charges which are in Administration Expenses in 2015) have significantly increased by €24 million or 65% in 2016. Key drivers of this are an increase in the contribution to the Single Resolution Fund of €6 million, the contribution to the Deposit Guarantee Scheme of €14 million and, an increase in Central Bank Industry Funding levy and Other Regulatory Fees of €4 million during the year.

Impairments Charge / Write-Backs

Total Impairment Charge decreased by €103 million resulting in a write-back of €68 million in 2016. The majority of this relates to our ROI mortgage portfolio.

Included within the net write-back of €68 million is €89 million which relates to a revision to the house price assumptions reflecting an improvement in the CSO index. The Group continues to maintain an appropriate buffer relative to the CSO residential property price index.

Aside from the €89 million house price assumption write-back, the Group recorded a net underlying Impairment Charge of €21 million for 2016 which included the impact of updated valuations obtained on high exposure NPLs, with the most significant impact on buy-to-let properties.

Exceptional Items

In 2016, the Group completed the disposal of both its non-core UK and IOM loan portfolios which resulted in the recognition of losses on these transactions of €399 million.

Exceptional Items also include Restructuring Costs of €22 million which are offset by the release of a €9 million accrual for legacy legal costs.

Capital

At 31 December 2016, the Group's Common Equity Tier 1 (CET1) capital ratio marginally decreased to 14.9% on a Fully Loaded Basis and marginally increased to 17.2% on a Transitional Basis compared to 2015. The changes in capital ratios are primarily due to the reduction in the level of risk weighted assets offset by losses incurred in the year. During 2016, the Single Supervisory Mechanism (SSM) has advised that the Group's Supervisory Review Evaluation Process (SREP) requirement for 2017 is to maintain a CET 1 ratio at a minimum of level of 11.45% (including a Pillar 2 Guidance of 2.25%), calculated on a transitional basis.

Capital is a critical issue for the European banking sector. On the one hand, we must ensure that banks are properly capitalised to deal with any challenges which might emerge. On the other hand, we have to ensure the capital requirements set down for banks do not end up discouraging competition or investor sentiment, leading to poor customer outcomes.

The Net Interest Margin for 2016 improved by 36 basis points to 1.48%. The increase in margin predominantly reflects a reduction in the cost of funds of retail and corporate deposits in line with the trend across Ireland.

For our part, we believe that, as the Bank evolves into a domestically-focused Irish Retail and SME bank, the level of capital to support its activities should be proportionate to the simple structure of the business model. This is because capital has a cost that must be recuperated through the prices charged by the Bank for its products and services.

Of course, capital is the buffer against unexpected losses so this cushion is an important protection mechanism for depositors and other bondholders. However, too much capital is a drag on competitiveness, earnings and growth. In addition, high capital intensity restricts the payment of dividends or reinvestment in the business, neither of which is aligned with a functioning capital market where investors expect to be rewarded for the equity risk they bear.

The Bank's expectation is that its capital requirements will evolve in line with the underlying risk and complexity of its business model.

Trading Performance

The overall trading performance for 2016 showed steady progress as we broadened and improved our product offerings and refreshed our brand with our customers and the wider market.

As we transition the business away from an organisation which has been principally focused on rebuilding and on resolving legacy issues, we are firmly focused on delivering commercial and profitable growth for the Bank.

Current Accounts and Deposits

A compelling current account offering is key to attracting and retaining customers and, as such, we introduced our new Explore Account in the first half of the year. The Explore Account is targeted at new customers in key demographic segments, incentivising them to use online and automated banking which provides better value, service and is more cost effective to deliver. Some 37,000 new current accounts were opened in 2016 and balances increased by 12% to €3.4 billion at 31 December 2016.

The continued reduction in deposit interest rates, and their low absolute level, has greatly reduced the attractiveness of deposit accounts for personal customers across the Irish banking industry. This has

led to Irish Retail deposit balances reducing by €0.8 billion or 7% in 2016. Despite this, customer deposits continue to represent a large proportion of our funding base at approximately 80%.

Mortgage Lending

Gross new mortgage lending for 2016 was €525 million, up 14% on 2015. Growth in the mortgage market continues to be subdued due to supply constraints in the Irish housing market. The average loan-to-value of new lending in 2016 was 67% reflecting both our approach to responsible lending and strict regulatory requirements on borrowing limits.

The Bank's mortgage product range was also refreshed and enhanced in 2016. In the first half of the year, we launched our new flagship proposition "3-in-1", offering 2% cashback, a first year discount and greater repayment flexibility. In the third quarter, we also re-entered the fixed rate market with a range of competitively priced products which have been well received by customers. We are committed to designing products and propositions which are competitive, attractive and offer optionality and value to our customers.

The completion of the Bank's restructuring chapter will now allow us to focus on competing hard in the mortgage and other markets.

Term Lending

New term lending in 2016 was €66 million, 10% ahead of the previous year. We plan to grow our term lending portfolio and saw a strong pick-up in the new lending run rate following the launch of our market-leading online personal lending platform in the third quarter. This allows our existing customers to access a personal loan in less than 15 minutes through a fast, efficient and customer friendly service with robust credit controls.

SME Lending

We are proceeding cautiously in the SME market with a focus on building capabilities, processes and long-term customer relationships. The Bank's focus is the Owner Managed Enterprise segment and lending will grow as we develop relationships with our customers and increase our own expertise. We are confident that this is a profitable opportunity for the Bank.

Group Chief Executive's Review

(continued)

Rebuilding Customer Trust and Confidence

Customers must be front and centre if we are to succeed in our ambitions to grow the business. Like other institutions, we lost the trust of many of our customers during the financial crisis. It is essential that, over time, we restore that trust and rebuild customer confidence in the Bank.

Mortgage Redress

The Mortgage Redress Programme (MRP) was set up in 2015 to address the position of 1,372 customer accounts in Permanent TSB and Springboard Mortgages who might, for example, have chosen a different option if they had received a more comprehensive explanation of the consequences of decisions taken in respect of their mortgage account or who should automatically have moved to a tracker rate. This programme has now offered redress and compensation to all the accounts identified in that exercise and the vast majority have now received the appropriate payment. The Springboard enforcement action by the Central Bank is now closed. We await the findings of the Central Bank's enforcement investigation of Permanent TSB.

Following from the lessons of the MRP, the Bank initiated a wide ranging review across our entire mortgage book to identify any other instances where redress might be required. This review was subsequently incorporated into the industry-wide review of Tracker Mortgages initiated by the Central Bank. There are various timelines and deliverables which the Bank is working towards meeting in 2017. We expect that this industry-wide review will extend into 2018 and we continue to work with the Central Bank.

Non-Performing Loans

As of 31 December 2016, ROI Home and Buy-To-Let NPLs were €5.7 billion, down by €0.5 billion over the previous year. So far, we have renegotiated, and put in place, forbearance arrangements for 54% of these loans, approximately 90% of which are performing to their restructured terms. We remain focused on working with these customers to improve the profile of their treatments over time, as this benefits both customers and the Bank.

Our focus now is on the remaining 46% of 'Untreated' NPLs, comprising some 13,000 customer accounts. In this regard, we will continue to attempt to find a long-term treatment for our customers. However, for those customers where we believe there is no reasonable prospect of affordability, or where there is no engagement with us, regrettably we will be forced to seek alternative solutions to recover the outstanding capital.

Customer Franchise

Resolving customer issues is, of course, only part of the story and, for the great majority of our customers, our message is that we are open for business, readily accessible through a variety of channels and have the competitive products and the service to meet their financial needs. The trust of customers is easier lost than won back but the efforts we are making are beginning to bear fruit, albeit that we have some way to go.

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Investment in Processes and People

Improved Processes

As stated in my Report last year, investment in our digital channels was an important theme going into 2016. As part of the refresh of our brand earlier in the year, our online offering was enhanced with increased functionality. We redesigned our mobile apps and launched our first tablet app offering key transactional functionality and better customer experience. The introduction of the Bank's new term loan process was delivered seamlessly and addresses our customers' desire for convenient access to lending through an online channel.

Strengthened Team

2016 saw a number of important additions to the Senior Executive Team. Stephen Groarke has taken up the position of Chief Risk Officer and joined the Board as an Executive Director; Mark Coan joined us as our new Commercial Director; and, most recently, we announced the appointment of Eamonn Crowley as our new Chief Financial Officer. These appointments show that the Bank will continue to refresh its top team to ensure it has the best executives at any point-in-time to meet the challenges ahead.

Next Phase of Strategy

2016 has been a challenging but rewarding year that leaves the Bank ready for the next phase in its strategic journey. Having successfully stabilised the Bank after the financial crisis, the focus of our effort over the past two to three years has been on fixing legacy problems, reorganising and refocusing the business, and rebuilding the capabilities necessary to make the Bank a competitive and successful Irish retail and SME business. With this work substantially complete, our focus is now on growing the business profitably, building its scale and improving its efficiency, while restoring the Bank's customer franchise.

The economic backdrop for our business – particularly for the residential property market – is strongly positive notwithstanding the risks that Brexit poses for the Irish economy. Underlying demand for new housing in Ireland is currently estimated to be in excess of 20,000 units per annum and forecast to rise to over 30,000 units by the middle of the next decade (ESRI, December 2016). Current supply falls significantly short of this level, but if the supply side bottlenecks are cleared, new housing and associated mortgage demand is likely to grow strongly.

The Bank's task is to ensure that we participate fully in that growth in order to increase our scale as a business and to boost profitability.

Thank You

I wish once again to take the opportunity to thank our customers for their continued loyalty and custom and for bearing with us when we haven't gotten it right. I would like to thank my colleagues for their relentless hard work, exceptional commitment and drive to succeed in moving the business on to where it is today.

Finally, I want to extend a warm thank you, on my own behalf and on behalf of the Staff and Management, to Alan Cook, our retiring Chairman. Alan's leadership of the Group over the last six hugely challenging years has been clear sighted, deft and decisive and we would not be where we are today without him. At a personal level, I want to thank him for the support and encouragement he has shown me and I wish him well in his future endeavours.



Jeremy Masding
Group CEO

Group Chief Executive's Q&A

Jeremy Masding, Group CEO, discusses some of the key challenges and opportunities that lie ahead for Permanent TSB as it enters into another exciting year.

1. Looking at 2016, the year under review, what do you consider to be real highlights for the business and were there any disappointments?

When commenting on 2016's performance, it is appropriate to reflect on where the Bank has come from. Back in 2012, the balance sheet was weak, the losses were significant and the customer franchise was becoming irrelevant. To be in a position by the end of 2016 whereby we have an approved European Commission Restructuring Plan, a broad shareholder base, a solutions-based arrears management business, a profit generating operating business and positive commercial momentum, is testament to the fundamental transformation of the Bank. It is easily forgotten that anything else other than survival would have added a significant bill to the taxpayer bail-out of the Irish banking system. My colleagues deserve credit and recognition for their resilience and skill in delivering the transformation.

On the other hand, the continued management of legacy issues is both a drain on resources and, most importantly, damaging to our relationship with our customers. There is a direct correlation between the management of legacy issues and the static nature of the Group's commercial performance; for example, in mortgages where we have just about maintained market share.

Legacy issues drain morale, time, resources and the energy that is required to design and deliver compelling customer propositions. In addition, legacy issues are a blight on the banking profession. They do nothing to eradicate the ongoing negativity surrounding the profession; negativity that is harmful to the prosperity of Ireland as it both affects the internal culture of banks (where risk avoidance is not healthy for an economy) and, the ability to attract and retain good people who want to fix what went wrong before. In Permanent TSB, we will continue to accept our responsibilities and accountabilities, and remediate those affected to the best of our ability. We are humble in our desire to learn from the past and excited about our future prospects.

2. Can you talk about the role of Permanent TSB in the Irish Banking landscape?

I believe there is a role in the Irish banking landscape for a focused Retail and SME Bank offering simple and transparent propositions, across customer channels of choice underpinned by the personal touch.

In 2012, the Troika approved a plan for Permanent TSB which was predicated on the transformation of the Group into a domestic Irish Retail and SME Bank. The plan has now been delivered and we are at the 'start of the beginning'. Now we must deliver a high performance organisation that competes with skill and care in its chosen markets, that delivers valuable propositions to its customers, that becomes a great place to work and, as a result, that maximises sustainable returns for its shareholders.

After nearly five difficult years, these are exciting times where the Team has earned the right to compete as a challenger bank in the Republic of Ireland.

3. What do you and your staff pride yourself on?

My Team and I pride ourselves on having traditional banking values that support modern banking practices. We are committed to making Permanent TSB a better place to bank, work and invest and have a clear plan on how to do this.

In delivering our vision of rebuilding trust and confidence, we understand that we are the custodians of shareholders' equity, depositors' funds and capital market funding, so above all else, we place good risk management, governance and control at the heart of what we do.

We understand that banking is different because we understand the impact that bad banking can have on a country and its economy. However, we also understand the positive contribution that good banking can make to our customers' lives. Accordingly, we aim to put banking back to where it should be – as a respected and trusted profession that does good things for society. We understand that we are far from this place; however, we will keep doing the right things day in, day out, and, where we make mistakes, we will do all we can to rectify those mistakes quickly and to the benefit of our customers.

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4. Could you discuss some of the key challenges facing Permanent TSB through changing customer behaviours and do you believe the role of the branches is becoming obsolete?

The way customers wish to transact and build relationships with their banks is changing. We observe an increase in customers transacting and purchasing through voice and digital channels, and becoming selective in when they want a face-to face conversation. In PTSB, we meet our customers in their homes, at their places of work, in our branches, through our intermediaries, and through our voice and digital channels. We will continue to meet the needs of our customers and tailor our investments accordingly to ensure we have the optimal channel mix into the future.

The role of the branch will change over time, and how we meet the needs of our customers will change with it. We are investing significantly in the refurbishment of our network as we speak, with almost half of the programme completed to date. We think branches have a really important role to play in a modern bank.



Market and Regulatory Context

As Ireland's only pure domestic retail and SME bank, our performance is closely linked with the performance of the Irish Economy and the Regulatory Environment in which we operate.

Irish Economic Trends

The Irish economy is expected to continue to be one of the fastest growing economies in Europe, with forecasts of 3.3% growth for 2017 (January 2017 Central Bank Quarterly Bulletin). The uncertain outcome of Brexit is, of course, a risk that could hinder the speed of the recovery in Ireland, as the UK is a key trading partner for the Irish economy. However, domestic sources of growth are expected to remain relatively robust, with building and construction investment picking up towards the end of 2016. This growth is expected to continue in 2017. Residential Property Prices rose by 8.1% (CSO) in 2016 while the labour market continues to improve and the unemployment rate, recorded at 6.9% in December 2016, is expected to continue its downward trajectory. Prices on average, as measured by the Consumer Price Index ('CPI'), remained unchanged in December 2016 compared with December 2015. The above factors, and a muted inflation forecast, are likely to support good consumer growth in the medium term.

The domestic markets in which we operate have continued to recover, albeit the banking industry is still deleveraging. The Government's Help-to-Buy Scheme and the slight relaxation of the Macro Prudential Rules by the Central Bank of Ireland should see a positive impact on the growth trajectory of the Residential Mortgage Market in Ireland in 2017. That being said, the lack of supply is contributing to strong price increases. For example, data from the Residential Property Price Register showed that although €10.9 billion Irish housing transactions were recorded in 2016, up 1.3% on 2015, transaction volumes actually contracted in the year, falling to 44,956 (down 7.8%). The residential mortgage market grew to €5.7 billion (BPF1) in 2016, a 16% (BPF1) year-over-year increase. This market is expected to double in size by 2020 assuming the house building levels can be ramped up. Overall, house building levels remain well below the expected annual demand of 30,000 new houses per annum.

Mortgage pricing continues to be a key focus with the Central Bank Variable Rate Mortgages Bill proceeding through the legal process. During 2016, Central Bank data showed that although competition has reduced new mortgage rates, increased volumes of new non-mortgage lending have continued to contribute to a steady lending yield. Despite the unknown impact of Brexit, the Irish economy is expected to remain on a path of recovery; albeit, forecasts have been downgraded slightly to allow for the various possible exit strategies by the UK. The expectation of a lower for longer interest rate environment remains the working assumption which will continue to impact the banking sector's profitability.



Market Overview

(continued)

Regulatory Environment

The regulatory environment continues to evolve, from MREL, IFRS 9 and Basel IV to the ECB's Targeted Review of Internal Models ("TRIM") with the aim of harmonisation internal capital models across Europe. Regulation is, in general, increasing the requirements for capital and balance sheet management and forcing the industry to rethink traditional business models. However, these regulations don't just come with higher capital requirements but with an increasing regulatory cost base. Regulatory costs for banks operating in Ireland comprise of the Single Resolution Fund Contribution (SRF), the Deposit Guarantee Scheme, the Irish Bank Levy, and Central Bank of Ireland, ECB and SSM fees. The cost of regulation has a direct impact on a bank's ability to generate the level of profitability to meet its cost of capital. This is especially meaningful when the regulatory cost base is disproportionate to the size of the bank. That being said, there is value in the smooth functioning of European financial markets through a harmonised approach to European supervision. A harmonised approach should lead to a more efficient and robust architecture contributing to stable growth prospects within the European economy.

The Directive on Payment Services (PSD2), will drive the payments ecosystem to be faster, safer and more competitive. It should reduce barriers to entry for payments providers, align charging and steering practices across the EU, and further standardise the payment process. The directive is set to accelerate the digital disruption that is reshaping the financial services industry. PSD2 presents opportunities to grow new revenue streams, capture new customers and progress toward an extended ecosystem focused on the Everyday Bank.

A number of 'Codes of Conduct' exist within the banking sector which aims to provide customers with a stable framework and protection when conducting retail banking activities. Two examples of these are the Code of Conduct on Mortgage Arrears and the Consumer Protection Code. These codes play a fundamental role in shaping how banks interact with their customers today.

Retail Banking Trends

The retail banking landscape is being shaped by simplified approaches, optimisation of data and information, a creative culture that not only produces innovation but fosters it, and, a proactive approach to building robust regulatory, risk and governance frameworks.

Technology is becoming an increasingly important factor in the retail banking market with online and mobile lending, mobile servicing, social media servicing and advertising among the new areas where banks are being forced to adapt and grow. The traditional banking industry faces competition from many non-traditional players, including technology companies, payment specialists, crowd-funding initiatives and aggregators.

In a changing financial services landscape, customers can easily avail of the products of multiple financial providers (including niche FinTech firms) rather than the traditional view of one relationship with one bank. FinTech is a dynamic segment at the intersection of the financial services and technology sectors, where technology-focused start-ups and new market entrants develop innovative products and services which were previously only available from the traditional financial services industry.

The retail banking landscape is being shaped by simplified approaches, optimisation of data and information, a creative culture that not only produces innovation but fosters it, and, a proactive approach to building robust regulatory, risk and governance frameworks.



Business Model & Strategy

Recovery from Financial Crisis

In 2011, the Bank began a new and critical phase in its history when the State recapitalised the business, and took over majority ownership, following the losses sustained as a result of the financial crisis. The strategic imperative for the Board and Management following that intervention was to stabilise and secure the business, and then go on to rebuild its capabilities to allow it grow and prosper.

The past five years have focused on the first two challenging phases of this journey – stabilising and securing the business, and then rebuilding it. This involved the implementation of a new funding model, deleveraging and disposal of non-core business, investment in risk management capabilities and major changes to the organisational structure. In 2015, the Bank raised capital in the public markets and returned to underlying profitability. In 2016, the final major deleveraging project was completed.

These achievements provide a strong foundation for the next phase of the Bank's strategic journey which is to grow the business profitably.

Business Model Today

Permanent TSB now operates a simple and focused banking business:



Delivering a full-service Retail and SME bank with a low risk appetite



Operating exclusively in the Republic of Ireland with 77 branches



Offering personal financial needs to over 1 million personal and business customers



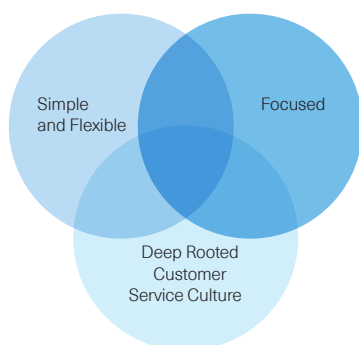
Providing mainstream transactional banking, lending, saving and deposit taking services



Providing personal investment, pension and insurance products and services



Operating multi-channel access to, and distribution of, products and services



Competitive Strengths

We are well placed to provide effective competition to the larger banks in Ireland. We have the potential for organic growth at a meaningful scale across a broad range of products.

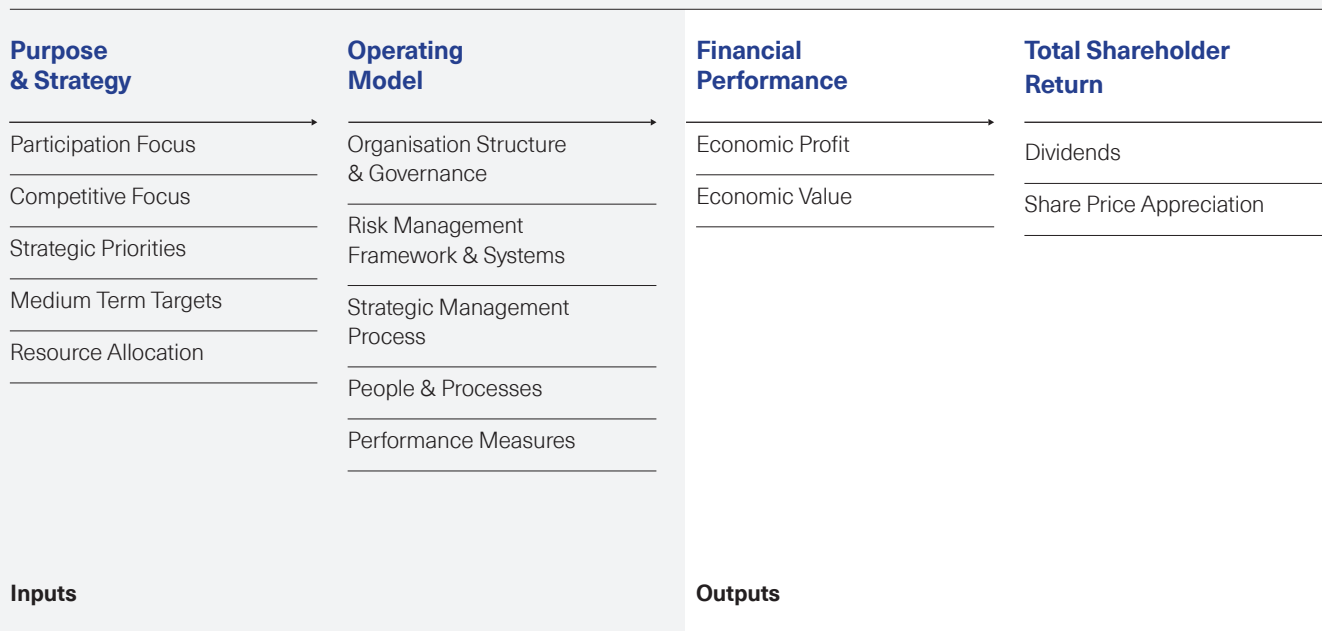
Our strategy is underpinned by Permanent TSB's core strengths:

- An exclusive **Focus** on Ireland and the retail and SME banking sector which reduces complexity and creates an absolute imperative to succeed in our chosen competitive space;
- A **Simple and Flexible** organisation increasing our capability to deliver a consistent customer centric experience and providing the agility to respond quickly to changes and emerging market opportunities and threats; and
- A deep rooted culture of **Customer Service** which delivers a different and distinctive customer experience and creates the basis for building and maintaining enduring relationships with our customers.

Value Creation

We use integrated strategic, financial, organisational and management processes to generate consistent and sustainable shareholder returns over time. We employ a low risk, customer-focused banking model that is focused solely on Ireland, delivering straightforward, transparent products that treat customers fairly.

How We Create Value



Business Model & Strategy

(continued)

Our Purpose and Strategy

Our Purpose



The Bank has a clear Purpose and Strategy that guides where we participate and how we compete in the market. The direction we set and the choices we make directly impact the results we achieve, i.e. value creation. Our Purpose and Strategy are translated into Strategic Priorities and Medium Term Targets which, in turn, inform resource allocation throughout the organisation.

Our Purpose and Strategy are underpinned by a strong Operating Model which includes organisation and governance structures (see page 51), a Risk Management Framework (see page 50), and an Integrated Planning Process. This enables better decision making and allocation of resources, efficient processes, a culture of high performance and clear performance measures.

Our governing objective is to maximise sustainable shareholder returns. We achieve this by delivering value to our customers, making Permanent TSB a great place to work for our colleagues, making a positive contribution to the communities in which we operate and minimising the impact our business has on the wider environment in which we operate. Our Corporate Social Responsibility strategy is explained further on page 28.

Our Strategy

The Bank's Strategy is focused on developing deeper banking relationships with our new and existing Customers and is the umbrella for everything we do.

We review and refresh our Strategy every year as part of our Integrated Planning Process which comprises strategic, financial and risk planning. This planning process informs resource allocation and trade-offs. The Bank's Strategy evolves over time to address changing opportunities and risks in our operating environment, evolving consumer preferences and needs, technological changes and innovation, regulatory requirements, market developments and the macro-economic environment.

Our Strategic Priorities for the medium term set out how we will deliver our Strategy.



Business Model & Strategy

(continued)

Strategic Priorities

We have set out five areas of priority to deliver our Strategy over the medium term. These centre around Profitable Growth, Operational Effectiveness and Efficiency, Capital Management, Effective Management of Legacy Issues and Value & Values-Based Culture.

Strategic Priority	Description
Achieving Profitable Growth	We will develop growth opportunities within our risk appetite. We want to improve our market share in our core retail and SME segments to what we consider is the Bank's natural level, making the most of our strong brand and multi-channel distribution network.
Improving Operational Effectiveness and Efficiency	We will create operational capability which is simpler and more efficient than today through further systems and process enhancement and integration. We want to become more responsive to changing customer expectations while reducing inefficiencies.
Optimising Capital	We will undertake strict capital management to support the maximisation of returns at all times. We want to align our business decisions to capital allocation and, rigorously plan and monitor capital consumption while at the same time ensuring the capital requirements set by the regulators are commensurate with the Bank's business model.
Managing Legacy Issues Effectively	We will manage NPLs by continuing to focus on placing customers on long term treatments where appropriate. Also, where relevant, we want to pursue alternative strategies to expedite resolution for customers for whom long term forbearance treatments are not sustainable or affordable. For customers who are currently on long term treatments, we want to continue to engage with them with a view to improving their treatment profile. We will co-operate fully to conclude on the Central Bank Industry-Wide Review of Tracker Mortgages as quickly as possible while ensuring the affected customers are appropriately redressed and compensated.
Embedding A Value and Values-Based Culture	We want to build a business that has the capabilities to deliver the governing objective of the Bank; namely, to maximise sustainable shareholder returns. To achieve this, we will emphasise the right values and behaviours to ensure that the governing objective is a sustainable ambition, not one driven by short term and short sighted decision making. We want to embed a culture of high performance that embraces risk management and to champion collaborative working whilst embedding a customer-centric mindset.

Initiatives	Targeted Outcomes
• Tailoring products and propositions to suit customer needs; • Investing in digital channels and capabilities; • Focusing on improving sales and distribution effectiveness; and • Committing to high standards and continuing to invest in service.	• Improving market share across key product segments; • Increasing sales through digital channels; and • Optimising sales and distribution effectiveness.
• Providing seamless multi-channel distribution across branch, online, mobile and telephony; and • Redesigning processes to reduce complexity, waste and cost.	• Improving overall Customer Experience (evidenced through improving Net Promoter Scores); and • Decreasing controllable costs.
• Continuing to work with regulators to optimise the SREP capital requirement; • Optimising capital mix and distribution to portfolios whilst maintaining minimum capital requirements of regulatory authorities and to meet the Bank's risk appetite; and • Developing and delivering an appropriate dividend strategy.	• Reducing regulatory capital requirements; and • Improving return on capital employed.
• Engaging with those customers who are yet to be placed on a long term treatment and expedite an appropriate resolution; • Expediting customers who have chosen the closure route to recover the capital as quickly as possible; • Engaging with customers who are on long term treatment, through the 3 year recurring customer reviews, to improve their treatment profile with a view to increase cash collection and reduce capital risk; and • Continuing to work with the Central Bank to progress the Industry-Wide Review of Tracker Mortgages in line with their timelines.	• Increasing cash collected and reducing capital that was warehoused for repayment at the end of the term; • Increasing the number of customers for whom a resolution has been identified; • Decreasing outstanding balances of customers who chose the closure route; and • Delivering various milestones set by the Central Bank with respect to the Tracker Review.
• Ensuring all decisions and resource allocation are linked to the governing objective; • Embedding a cultural programme within the organisation that aligns colleagues around a common set of values; • Implementing an enhanced Performance Management System; • Implementing a new Career Development Framework; and • Delivering ongoing educational support and development opportunities.	• Maintaining a high level of employee engagement; • Ensuring a strong risk culture is embedded throughout the organisation; • Delivering a collaborative working environment that enables colleagues to work together better for the benefit of the customers; and • Delivering on Strategic Priorities.

Strategy in Action

Explore Current Account

Strategy

The Bank's strategy is focused on developing deeper banking relationships with our new and existing Customers and is the umbrella for everything we do. It builds on our core strength and is what sets us apart from the competition – our connection with our customers.

At the core of our Strategy is understanding our customers and delivering what matters to them through every stage of their financial journey. All of this is underpinned by a relentless drive towards reducing complexity, waste and costs across the company.

The Bank's new product proposition, the "Explore" Current Account, is the embodiment of our Strategy in that it delivers a compelling Current Account offering which meets our customers' financial needs and fits their lifestyle while being cost effective for the Bank to deliver.

In the Irish banking market, the inertia in Current Account switching is high. The Bank's initial customer research identified three common reasons for inertia: hassle, fear, and futility. Customers are reluctant to move to a different Current Account due to the hassle of the switching process and the fear that something may go wrong in the journey. The consensus across the research was that customers felt that there was no point of differentiation within the industry, all current accounts operate in the same way regardless of the institution, and that the market is dominated by a culture of transaction charges, and quarterly fees.

Through customer research and subsequent proposition testing, we recognised the need to think outside of traditional banking processes in order to offer customers a product that was bold, unique, and innovative in that it rewards customers for using their debit card rather than charging them for the service.

From the Bank's perspective, deepening the relationship with our customers through a compelling Current Account offering provides sticky and low cost funding at a time when term deposits are becoming less attractive due to the low interest rate environment.

From the Bank's perspective, deepening the relationship with our customers through a compelling Current Account offering provides sticky and low cost funding at a time when term deposits are becoming less attractive due to the low interest rate environment.

Explore Current Account

The Bank introduced its new Explore Current Account in June 2016.

The Explore account is targeted at customers in key demographic segments who have the highest potential for delivering value to the Bank through their financial lifecycle. Explore incentivises customers to use online and automated banking which gives customers better value, service and is more cost effective for the Bank to deliver.



10c back as you Pay



Cashback on Bills



GoREWARDS



Strategy in Action

Explore Current Account

Explore is the first Current Account of its kind in the Irish banking market that works to reward customers as they spend using their card.

Key features of Explore Current Account:

1. 10c Cashback when you pay using your card on the first 50 transactions each month

- Where other banks charge for transactions, "Explore" rewards customers for their service.

2. Cashback on Bills with our exclusive Explore partners

- The Bank has partnered with some of Ireland's top brands relevant to our customers' lifestyle (Sky, SSE Airtricity, iD Mobile & Topaz Petrol stations); and
- Customers who pay their bill by direct debit from their Explore account earn 2%-5% cashback on the total cost of the bill. This saving is paid directly back into their Explore account or another account of their choice.

3. GoREWARDS

- Explore account customers have access to card linked offers; a new way of giving customers cashback from shopping their favourite high street and online brands using their card.

To ensure that the customer was at the centre of this new product proposition, Management have worked hard to provide the customer with opportunities to personalise the way in which they interact with Explore through delivering a positive customer experience that provides customers with options, choices and convenience.

Explore allows customers to customise their rewards and savings by allowing them to choose which Permanent TSB account they want their cashback deposited into. Customers can receive payment into their "Explore" account, or another bank account they hold at Permanent TSB.

Explore customers are able to keep track of cashback earned to date, and view what is due to them for next month via a new rewards hub that the Bank built within its online banking channel "Open24".

The Response

Explore has allowed us to broaden our customer base. Since the launch, the Explore account offering has received positive feedback from customers and the wider banking community.

The achievements of Explore are best recognised through the following:

- Over 23,000 Current Accounts opened since the launch of the "Explore Product" (to end February 2017), with balances of approximately €70 million;
- Our customers have made approximately €140,000 in overall savings from the 10c cashback, cashback on bills, and GoREWARDS features;
- Explore scored 94 out of 100 for "New and Different" as seen by post-launch research conducted amongst our target demographic; and
- The Explore account picked up the 'Highly Recommended' award at the Card and Payments Awards in London on 5 February 2017 and was shortlisted for three more awards under 'Best Loyalty Programme of the Year', 'Best Debit Card Programme', and 'Best Campaign of the Year'.

Explore allows customers to customise their rewards and savings by allowing them to choose which Permanent TSB account they want their cashback deposited into. Customers are able to receive payment into their "Explore" account, or another bank account they hold with us at Permanent TSB.



Corporate Social Responsibility Policy & Strategy

Back To The Future

Corporate Social Responsibility ('CSR') is a modern business term but the principles underlying it, which recognise the shared responsibilities and the interdependencies of businesses and their stakeholders, are long accepted.

Permanent TSB traces its origins back over 200 years to community based savings groups, such as the Irish Savings Bank, which thrived in Ireland in the early years of the 19th century. The foundation of its growth and success was the close and trusted relationships with customers and its integration into the communities they served.

Today's banking world is very different with sophisticated products, a variety of channels to service customers, in addition to a branch network, new technology transforming how business is done and new stakeholders – from powerful regulators to global providers of capital – playing key roles. Notwithstanding all the changes, the appreciation of the interdependency of the business and its various stakeholders is even more relevant now than it ever was.

Review of Policy & Practice

In 2016, at the direction of the Board, a review of CSR policy and practice across the Bank was undertaken with a view to developing a comprehensive CSR Plan. This entailed identifying best in class CSR objectives appropriate to our business, assessing where we now stood relative to those objectives and preparing a multi-year plan to close the gaps. This exercise was undertaken with the involvement of staff from all areas of the bank, drawing on their past experience and inviting new ideas, together with the support of Business in the Community Ireland (BITCI) who provided a guide to best practice.

Plan Objectives

Ultimately, CSR is about ensuring that we have the right values and standards embedded in the way we conduct and manage all areas of our business such that our governing objective, of maximising shareholder value, is achieved through trusted relationships with other stakeholders. Clearly, this was not the case in the recent past when lax standards and weak governance were starkly exposed by the financial crisis.

The plan to embed CSR in Permanent TSB is built around four pillars – customers, colleagues, community and environment – for which the following overarching objectives have been set:

- delivering quality products and service to customers to earn and maintain their trust;
- making Permanent TSB a great place to work for our colleagues;
- repaying our debts and giving back to the communities in which we operate; and
- minimising the impact of our business on the wider environment;

thus delivering sustainable returns to shareholders.

Full achievement of these objectives will be transformational and our plan recognises that it will take time. Further work remains to be done to set specific goals for each of the key elements of the four pillars, the achievement of which will represent key milestones on the journey to a fully embedded CSR.

Over the timeline of this Plan, 2017 – 2021, we want to:

- Achieve the "Business Working Responsibly Mark" from BITCI;
- Be recognised as a leader in Ireland against one of the four pillars; and
- Prepare an independently audited annual CSR Report on activities and progress against objectives.



Corporate Social Responsibility Policy & Strategy

(continued)

Building on Existing Practice & Activities

Permanent TSB has a strong and positive heritage from its prior mutual roots and from the close connection of our people with customers in local communities. This has endured notwithstanding the difficult circumstances of recent years providing a solid platform from which to build the comprehensive CSR programme that is now envisioned for the Bank. Below is a selection of some of our current policies, practices, activities and initiatives which evidence an ongoing commitment to CSR values and ways of doing business.

Customers

- The Bank has adopted a strategy of long-term forbearance for those customers in arrears and its policy is to seek an equitable and sustainable resolution;
- A formal Product Approval process was put in place in 2016 to provide greater assurance and protection to customers that they will receive their full entitlement under the terms and conditions of any product or service they obtain from the Bank;
- All EU resident customers can avail of a Basic Payment Account with basic features free of charge where they are over the age of 18 and where they do not already hold a payment account in the state; and
- As a Bank, we are committed to the fair treatment of customers through fair and decent customer outcomes while delivering sustainable returns to shareholders.

Colleagues

- “Health & Wellbeing” and “Employee Assistance” programmes are in place to assist and support our people;
- Our people are supported financially and with study leave to pursue professional qualifications and to assist their career development;
- During 2016, our colleagues received an average of three days of learning per person in training time; and
- We are committed to the development and retention of Senior Leadership and talent throughout the Bank.

Community

- The Bank has entered into a partnership with Social Entrepreneurs Ireland (SEI) and the intention is that Permanent TSB will support SEI on a number of projects where there will also be opportunities for bank staff to participate and assist;
- Right across the branch network staff are involved in community activities in their locality with financial support provided from their branch; and
- Almost a quarter of a million euro was donated in 2016 to two staff nominated charities - Cork University Hospital Children's Unit and Cystic Fibrosis Ireland - with the Bank matching the €121,000 raised by staff through a variety of local and national activities.

Environment

- Procurement policy imposes sustainability criteria in selecting suppliers of goods and services;
- Centralised printing was launched in 2016 to encourage staff to eliminate waste by foregoing excess printing; and
- The Bank continues to invest in Building Management Systems for our facilities to reduce Energy Consumption and Environmental Waste.

Governance

The review of CSR and the development of a plan was undertaken under the direction of the Board with the full support of Management. Good progress has been made but the goals and objectives for the plan are ambitious and will require sustained effort, vigilance and time to be fully embedded. Many of the activities and initiatives will continue to be resourced and led from within the business. A dedicated, Senior CSR resource will be appointed at Group level to coordinate, through a cross divisional CSR Working Group, and to provide leadership across the full programme of activities. The Board will exercise final oversight over the implementation of the Plan.

Permanent TSB will set and publish its goals and objectives for CSR and report annually thereon.

Permanent TSB has a strong and positive heritage from its prior mutual roots and from the close connection of our people with customers in local communities.



Financial Review

Summary Consolidated Income Statement

	Year ended 31 December 2016	Year ended 31 December 2015	Change
	€m	€m	%
Net interest income (Pre ELG)	394	358	10%
ELG fees	(4)	(14)	(71%)
Net other income	71	34	109%
Total operating income	461	378	22%
Total operating expenses (excl. Exceptional items and Bank levy and regulatory charges)	(280)	(290)	(3%)
Bank Levy and regulatory charges	(61)	(27)	126%
Operating profit before impairment charges and exceptional items	120	61	97%
Impairment write-back/(charge) on loans and advances to customers, repossessed assets and debt securities	68	(35)	(294%)
Operating profit before exceptional items	188	26	
Exceptional items (net) comprises:	(414)	(460)	
- Loss on disposal of assets	(399)	(401)	
- Restructuring and other costs	(15)	(7)	
- Loss on repurchase of Contingent Capital Notes	-	(52)	
Loss before taxation	(226)	(434)	
Taxation	(40)	9	
Loss for the year	(266)	(425)	

Financial Performance Headlines

- Improved underlying performance within the Group has resulted in Operating profit before exceptional items for the year increasing by €162m to €188m. The Group's deleveraging and restructuring programme resulted in Exceptional costs of €414m, which is a reduction of €46m on the prior year. The overall Loss for the year before tax has improved by €208m to €226m.
- **Net Interest Income (pre-Eligible Liabilities Guarantee "ELG")** increased by 10% during 2016 to €394m. This growth represents a 36 basis point increase in net interest margin from 1.12% to 1.48% at 31 December 2016. This is largely due to a reduction in retail funding costs and lower interest expense in relation to wholesale funding along with the impact of deleveraging in 2015 and 2016.
- **Net Other Income** increased by 109% to €71m during the year. This increase is primarily due to a gain from the sale of the share held by the Group in Visa Europe Ltd of €29m and mark-to-market gains on various derivatives of €9m.
- **Total Operating Expenses (excluding Exceptional items, Bank levy and regulatory charges)** decreased slightly by €10m or 3% to €280m during 2016. However Regulatory charges of €10m for the year ended 31 December 2015 are included in Total operating expenses while the 2016 equivalent is included within Bank levy and regulatory charges (see note 9 for further details). Therefore Total operating expenses remained static compared to 2015.
- **Bank Levy and Regulatory Charges** increased by 126% to €61m during 2016. As noted above, Regulatory charges for the year ended 2016 are included within Bank levy and regulatory charges, while €10m of Regulatory charges for the year ended 31 December 2015 are included in Total operating expenses. Taking this into account, Bank levy and regulatory charges have increased by €24m or 65%. This increase is largely attributable to €14m Deposit Guarantee Scheme fees and an increase of other regulatory charges payable during 2016. See note 9 for further details.
- **Impairment Write-back** of €68m during 2016 represents an improvement of €103m from the prior year. The impairment write-back for 2016, was driven by a revision to the Group's house price assumptions reflecting an improvement in the CSO Residential Property Price index, which resulted in a provision release of €89m. This is partially offset by a net underlying impairment charge of €21m for 2016 which included the impact of updated valuations obtained on high exposure NPLs with the most significant impact on buy-to-let properties.
- **Exceptional Items** decreased by €46m to €414m during 2016. The Group deleveraged its remaining UK and IOM loan portfolios during 2016 resulting in a loss of €399m. The remaining costs largely relate to the restructure of the Group Risk function along with the release of a provision held for legacy legal costs.
- **Tax** increased by €49m due to a charge of €40m for the year ended 31 December 2016. This tax charge primarily relates to the utilisation of tax losses carried forward and a revision to certain prior year tax calculations regarding the deductibility of certain historic expenditure.

Summary Consolidated Statement of Financial Position

	31 December 2016	31 December 2015	Change
	€m	€m	%
Assets			
ROI home loans	13,939	14,445	(4%)
ROI buy-to-let	4,519	4,633	(2%)
Total ROI residential mortgages	18,458	19,078	(3%)
UK home loans	-	226	(100%)
UK buy-to-let	-	3,289	(100%)
Total UK residential mortgages	-	3,515	(100%)
Commercial mortgages	162	197	(18%)
Consumer finance	266	240	11%
Total loans and advances to customers	18,886	23,030	(18%)
Loans and advances to banks	1,185	1,516	(22%)
Debt securities	2,682	3,839	(30%)
Equity securities	9	23	(61%)
Other assets	838	822	2%
Assets held for sale	1	91	(99%)
Total assets	23,601	29,321	(20%)
Liabilities and equity			
Current accounts	3,355	3,006	12%
Retail deposits	10,587	11,521	(8%)
Corporate & institutional deposits	3,042	4,023	(24%)
Total customer accounts	16,984	18,550	(8%)
Deposits by ECB	1,380	4,650	(70%)
Deposits by banks and other financial institutions	1,523	2,099	(27%)
Deposits by banks	2,903	6,749	(57%)
Debt securities in issue	1,324	1,003	32%
Subordinated liabilities	22	22	-
Other liabilities	268	601	(55%)
Total liabilities	21,501	26,925	(20%)
Total equity	2,100	2,396	(12%)
Total equity and liabilities	23,601	29,321	(20%)

Total assets decreased by €5,720m or 20% to €23,601m during the year ended 31 December 2016. This is primarily as a result of the Group's deleveraging programme with the Group's UK and IOM loan portfolios being sold during the year, along with a reduction in debt securities from maturities of government bonds and NAMA bond redemptions.

Total liabilities decreased by €5,424m or 20% to €21,501m during the year ended 31 December 2016. The Group's deleveraging programme has resulted in a reduction in the Group's funding requirement, with both customer accounts and deposits by banks reducing during the year. The Group further reduced its reliance on ECB funding, which decreased by 70% to €1,380m.

Financial Review

(continued)

Segmental Performance

The following tables set out selected consolidated income statement data for the years ended 31 December 2016 and 2015 by Core Bank and Non-Core. The Group has two operating segments as outlined in Note 3 to the consolidated financial statements namely, Core and Non-Core.

In €m

	Year Ended 31 December 2016		
	Core Bank	Non-Core	Total
Net interest income/(expense)	398	(8)	390
Other operating income/(expense)	70	1	71
Total net interest income/(expense)	468	(7)	461
Operating expenses excluding exceptional items	(332)	(9)	(341)
Operating profit/(loss) before impairments and exceptional items	136	(16)	120
Write-back of impairment of loans and advances, repossessed assets and debt securities	63	5	68
Operating profit/(loss) before exceptional items and tax	199	(11)	188

In €m

	Year Ended 31 December 2015		
	Core Bank	Non-Core	Total
Net interest income/(expenses)	346	(2)	344
Other operating income	33	1	34
Total net interest income/(expense)	379	(1)	378
Operating expenses excluding exceptional items	(297)	(20)	(317)
Operating profit/(loss) before impairments and exceptional items	82	(21)	61
(Charge)/write-back of impairment of loans and advances, repossessed assets and debt securities	(63)	28	(35)
Operating profit before exceptional items and tax	19	7	26

In €m

Key Balance Sheet Metrics	31 December 2016			31 December 2015 Restated		
	Core	Non-Core	Group	Core	Non-Core	Group
Loans and advances to customers (Gross)	21,309	-	21,309	21,613	4,114	25,727
Loans and advances to customers (Net)*	18,886	-	18,886	19,188	3,933	23,121
Non-performing loans	5,850	-	5,850	6,221	354	6,575
Non-performing loans impaired and >90 days in arrears	5,036	-	5,036	5,231	332	5,563
Impaired loans	4,912	-	4,912	5,103	329	5,432
NPL Provision Coverage Ratio**	42%	-	42%	44%	52%	41%
Provision Coverage Ratio ("PCR")***	49%	-	49%	48%	55%	48%

* Including assets held for sale of €Nil for the year ended 31 December 2016 and €91m for the prior year.

**NPL Provision Coverage Ratio is calculated as impairment provisions as a % of total non-performing loans.

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

Restated: During 2016, the Group revised its application of the definition of non-performing loans. This resulted in the reclassification of certain loans, where a forbearance arrangement to maintain part capital and interest was in place and the terms were being met, to non-performing loans. The Group has restated the non-performing loan disclosures for the prior year by €0.5bn, as set out within note 34 in order to more appropriately reflect and enhance comparability.

Core Bank

The Core Bank focuses on Irish retail consumer business with a gross loan portfolio of €21.3bn, which largely comprises ROI residential mortgages, which are primarily funded by customer deposits and wholesale market funding. The Core Bank targets mainstream Irish retail personal and non-personal customers and offers a comprehensive range of retail banking products including deposit accounts, current accounts, mortgages, term loans, SME loans and consumer finance through multiple channels. During the year ended 31 December 2016, the remaining component of the commercial real estate portfolio (€382m) which was previously classified as Non-core was transferred into Core.

The Core Bank reported net interest income of €398m, an increase of €52m from the prior period due to lower cost of funds and lower ELG fees as covered liabilities decrease, which is partially offset by decreased income from loans and advances.

Total operating expenses for the Core Bank were €332m, an increase of €35m from the prior period mainly due to an increase in regulatory charges and professional fees. The adjusted cost-to-income ratio (defined as total operating expense divided by total operating income (excluding exceptional items, Visa Europe Ltd share sale gain and bank levy and regulatory charges)) decreased by 7 percentage points from 69% to 62% mainly due to an increase in total operating income.

The Core Bank reported an operating profit before exceptional items and tax of €199m for the year to 31 December 2016 which is an improvement of €180m on the prior year. This is predominately driven by an increase in net interest income and a write-back of impairment provisions, which is partially offset by an increase in operating expenses excluding exceptional items.

Non-core

During the year ended 31 December 2016, the Group sold its residual Non-core loan books, being the UK and IOM loan portfolios. At 31 December 2016, Non-core solely consists of a customer deposit portfolio in an Isle of Man subsidiary amounting to €374m.

The Non-core operating loss before exceptional items was €11m for the year to 31 December 2016, as compared to a profit of €7m for the prior year. This is principally driven by a write-back of impairment charge which amounted to €5m in 2016 compared to €28m for the prior year.

Net Interest Income

	Year ended		Percentage change
	31 December 2016	31 December 2015	
	€m	€m	
Interest Income	568	694	(18%)
Interest Expense (excluding ELG)	(174)	(336)	(48%)
Net Interest Income (excluding ELG)	394	358	10%
ELG Fees	(4)	(14)	(71%)
Net Interest Income	390	344	13%

Interest income has decreased by €126m or 18% to €568m for the year ended 31 December 2016. Interest income primarily comprises both income on loans and advances to customers and income from debt securities and other fixed-income securities.

- Interest income on loans and advances to customers has decreased by €80m or 14% to €492m. This is primarily due to both reducing loan volumes arising from the sales of the UK and IOM loan portfolios, along with the effect of lower ECB rates on the tracker mortgage portfolio and the continued effect of managed variable rates.
- Interest income on debt securities and other fixed-income securities has decreased by €44m or 37% to €75m for the year ended 31 December 2016. This is primarily due to a reduction of debt securities held (reduced by 30%) as a result of the maturity of Irish Government bonds and the redemption of NAMA bonds.

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Interest expense (excluding ELG) has decreased by €162m or 48% to €174m for the year ended 31 December 2016. Interest expense primarily comprises interest expense on customer accounts, deposits by banks and interest expense on debt securities in issue and derivative liabilities.

- Interest expense on customer accounts and amortisation of core deposit intangibles has decreased by €124m or 50% to €122m for the year ended 31 December 2016. This is principally due to reduced market interest rates during the year and the reduction of the average balance on customer accounts by €2,188m or 11% as the Group continues to actively manage down its cost of funds.
- Interest expense on deposits from banks reduced by €20m or 35% to €37m for the year ended 31 December 2016. This is principally due to lower bank deposits in 2016 as a result of deleveraging and a change in the funding mix to reduce reliance on ECB funding.
- Interest expense on debt securities in issue and derivative liabilities and loans and advances to banks increased by €6m or 67% to €15m for the year ended 31 December 2016, primarily as a result of deleveraging in 2015.
- Interest on subordinated liabilities reduced from €24m for the prior year to €nil for the year ended 31 December 2016 as a result of the repurchase of the Contingent Convertible Capital Note during 2015.

ELG fees reduced by €10m or 71% to €4m. Liabilities covered by the scheme have reduced from €760m for the prior year to €273m for the year ended 31 December 2016.

	Year ended		Percentage change
	31 December 2016	31 December 2015	
	€m	€m	%
Total average interest-earning assets	26,701	31,859	(16.2%)
Total average interest-bearing liabilities	24,816	30,385	(18.3%)
Average yield on average interest-earning assets	2.13%	2.18%	(5 bps)
Average rate on average interest-bearing liabilities (excluding ELG fees)	0.70%	1.11%	(41 bps)
Net Interest Margin (excluding ELG fees)*	1.48%	1.12%	36 bps

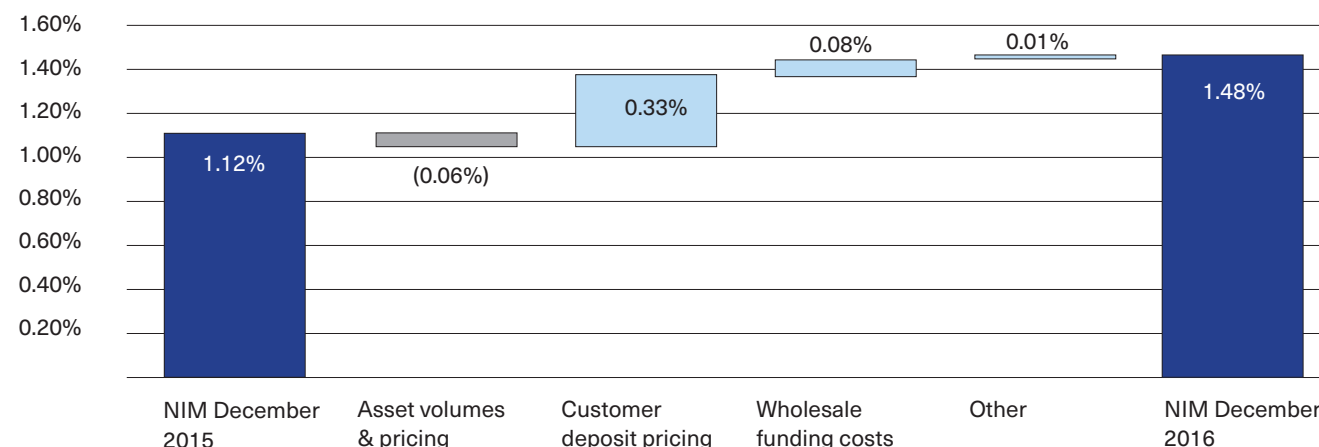
* Measured as net interest income (excluding ELG fees), divided by average interest-earning assets.

- Average yield on average interest-earning assets decreased by 5 basis points to 2.13% for the year ending 31 December 2016. This is primarily driven by maturities of older, higher yielding debt securities.
- Average rate on average interest-bearing liabilities (excluding ELG fees) reduced by 41 basis points to 0.70% for the year ended 31 December 2016. This reduction is primarily driven by a reduction in interest rates offered on both retail and corporate deposits. This is partially offset by an increase in the cost of debt securities in issue and derivative liabilities. The Group also continues to reduce its reliance on cheaper ECB funding.

NIM movement since December 2015

The Group's net interest margin (excluding ELG fees) increased from 1.12% for the year ended 31 December 2015 to 1.48% for the year ended 31 December 2016.

The key drivers of the NIM movement in 2016 were as follows:



Asset pricing: Changes in asset pricing contributed to a 6 basis point decrease in net interest margin, primarily due to lower yields received on treasury securities which was partially offset by an increase in average rates on loans and advances to customers, primarily as a result of deleveraging lower yielding UK and IOM loan portfolios.

Customer deposit pricing: The on-going reduction in the cost of retail and corporate deposits, which reflected a recalibration of the Group's deposit rates to align with the market, contributed 33 basis points to net interest margin improvement.

Wholesale funding costs: Reduced wholesale funding costs contributed 8 basis points to the net interest margin improvement due to the early repurchase of the Contingent Capital Note in 2015 together with favourable rates achieved on the new issuance of mortgage backed securities.

Key NIM Drivers: Average Balance Sheet and Interest Rate Data

The following table sets out the average balances of interest-earning assets and interest-bearing liabilities for the years ended 31 December 2016 and 2015. The table also outlines the amount of interest income earned and interest expense (excluding ELG fees) incurred by the Group in the years ended 31 December 2016 and 2015, as well as the average interest rates at which interest income was earned on such assets and interest expense was incurred on such liabilities. For the purpose of the table below, average balances are calculated from month end positions from 31 December 2015 to 31 December 2016 and similar for the comparative period.

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

	Year ended 31 December 2016			Year ended 31 December 2015		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
	€m	€m	%	€m	€m	%
Interest-earning assets						
Loans and advances to banks	1,606	-	0.00%	1,988	2	0.10%
Loans and advances to customers	21,881	492	2.25%	25,545	572	2.24%
Debt securities and derivative assets	3,214	76	2.36%	4,326	120	2.77%
Total average interest-earning assets	26,701	568	2.13%	31,859	694	2.18%
Interest-bearing liabilities						
Customer accounts	17,281	122	0.71%	19,469	246	1.26%
Deposits by banks	6,212	37	0.60%	8,380	57	0.68%
Debt securities in issue and derivative liabilities	1,301	15	1.15%	2,367	9	0.38%
Subordinated liabilities	22	-	0.00%	169	24	14.20%
Total average interest-bearing liabilities	24,816	174	0.70%	30,385	336	1.11%
Total average equity attributable to owners	2,382			2,188		

The Group's net average balance of loans and advances to customers decreased to €21,881m for the year ended 31 December 2016 from €25,545m for the prior year (a 14% decrease). This was as a result of the sale of both the UK and IOM loan portfolios during 2016, net loan repayments and deleveraging in 2015. The average interest rate on loans and advances to customers increased to 2.25% for the year ended 31 December 2016 from 2.24% for the prior year. This increase is partially driven by the deleveraging of the UK and IOM loan portfolios where interest rates were lower, which was offset by the reduction in mortgage rates as a result of the combined effect of managed variable rates together with the impact of lower interest income as a result of the cut in the ECB Base Rate.

The Group's average balance of debt securities and derivative assets decreased by €1,112m for the year ended 31 December 2016, to €3,214m from €4,326m for the prior year (a 26% decrease) primarily as a result of NAMA bond redemptions and disposal/maturity of government bonds. The average interest rate on debt securities and derivative assets decreased to 2.36% for the year ended 31 December 2016 from 2.77% for the prior year, principally as a result of the maturity of certain high yielding government bonds during the year.

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The Group's average balance of customer accounts reduced by €2,188m for the year ended 31 December 2016 from €19,469m for the prior year, primarily due to both a reduced requirement for funding arising from the Group's deleveraging of its UK and IOM loan portfolios as well as a continued drive by the Group to manage its cost of funds. The average interest rate on customer accounts decreased to 0.71% for the year ended 31 December 2016 from 1.26% for the prior year, reflecting rate reductions implemented on both retail and corporate deposits.

The Group's average balance of deposits by banks decreased to €6,212m for the year ended 31 December 2016 from €8,380m for the prior year (a 26% decrease) partially driven by the reduction in ECB funding. The average interest rate on deposits by banks reduced to 0.60% for the year ended 31 December 2016 from 0.68% for the prior year.

The Group's average balance of debt securities in issue and derivative liabilities decreased to €1,301m for the year ended 31 December 2016 from €2,367m for the prior year (a 45% decrease) due to maturities and early calls of certain medium-term notes. The average interest rate on debt securities in issue and derivative liabilities increased to 1.15% for the year ended 31 December 2016 from 0.38% for the prior year, as a result of deleveraging in 2015.

The Group's average balance of subordinated liabilities decreased to €22m for the year ended 31 December 2016 from €169m for the prior period due to the repurchase of the Contingent Capital Note in May 2015.

Net Other Income

The following table sets out the components of the Group's net other income in the years ended 31 December 2016 and 2015, and the amount and percentage change in each of the components between these two years.

	Year ended		Change %
	31 December 2016 €m	31 December 2015 €m	
Fees and commission income	57	56	2%
Fees and commission expenses	(18)	(17)	(6%)
Net fees and commission income	39	39	-
Net trading income/(expense)	3	(4)	175%
Other operating income	29	2	1350%
Other operating expense	-	(3)	100%
Total net other income	71	34	109%

Net fees and commission income of €39m for the year ended 31 December 2016 remained in line with the prior year. Net trading income of €3m for the year ended 31 December 2016 increased by €7m from the prior period primarily due to mark-to-market gains on certain derivatives being classified as trading derivatives as they do not meet the criteria for hedge accounting. This is partially offset by other negative foreign exchange movements during the year.

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

Total Operating Expenses (excluding exceptional items)

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

The following table sets out the components of the Group's total operating expenses (excluding exceptional items) in the years ended 31 December 2016 and 2015, and the amount and percentage change in each of the components between these two years.

	Year ended		Change %
	31 December 2016 €m	31 December 2015 €m	
Staff Costs:			
Wages and salaries including commission paid to sales staff	111	109	2%
Social insurance	13	12	8%
Pension Costs	11	11	-
Total staff costs	135	132	2%
Other general and administrative expenses	127	130	(2%)
Administrative, staff and other expenses (excluding exceptional items and regulatory charges, see note 9)	262	262	-
Depreciation of property and equipment	12	13	(8%)
Write-back of impairments on revaluation of property	(2)	(2)	-
Amortisation of intangible assets	8	7	14%
Total operating expenses (excluding exceptional items and regulatory charges, see note 9)	280	280	-
Bank levy	27	27	-
Regulatory charges	34	10	240%
Total Operating Expenses (excluding exceptional items)	341	317	8%
Headline cost-to-income ratio*	74%	84%	(10 ppts)
Adjusted cost-to-income ratio**	65%	74%	(9 ppts)

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

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

Total operating expenses excluding exceptional items increased by €24m, or 8%, to €341m for the year ended 31 December 2016 primarily due to higher regulatory charges along with professional costs on one-off projects, which are partially offset by a reduction in legacy, legal and compliance costs.

Staff costs increased by €3m or 2% to €135m for the year ended 31 December 2016, primarily as a result of both a pay and modernisation programme which commenced during the second half of 2016 and an increase in average staff numbers by 60 during the year.

A full year contribution for the Single Resolution Fund and the new Deposit Guarantee Scheme of €9m and €14m was incurred during the year ended 31 December 2016, which is an increase of €20m on the prior year. The Central Bank industry funding levy and other regulatory charges amounted to €11m, which is an increase of €4m on the prior year.

Depreciation of property and equipment and amortisation of intangible assets remained at €20m for the year ended 31 December 2016 similar to the prior period.

The adjusted cost-to-income ratio improved by 9 percentage points to 65% as result of an increase in operating income, while operating expenses, excluding exceptional items, bank levy and other regulatory charges remained flat at €280m.

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Impairment charges

The following table sets out the components of the Group's impairment (write-back)/charge in the years ended 31 December 2016 and 2015, and the percentage change in each of the components between these two years.

	Year ended		Change %
	31 December 2016 €m	31 December 2015 €m	
ROI residential mortgages			
- Home loans	(66)	(12)	(450%)
- Buy-to-let	14	66	(79%)
Total ROI residential mortgages	(52)	54	(196%)
Commercial	(4)	(27)	85%
Consumer finance	(9)	2	(550%)
	(65)	29	(324%)
UK residential mortgages			
- Home loans	-	-	
- Buy-to-let	-	6	(100%)
Total UK residential mortgages	-	6	(100%)
Total impairment (write-back)/charge on loans and advances to customers*	(65)	35	(286%)
Impairment (write-back)/charge on repossessed assets & debt securities:			
Impairment (write-back)/charge on repossessed assets	(3)	1	(400%)
Impairment charge on debt securities	-	(1)	(100%)
Total impairment (write-back)/charge	(68)	35	(294%)
Cost of risk ratio**	0.10%	0.14%	(0.04%)

* Includes impairment charge on assets of €91m held for sale as at 31 December 2015

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

During the year ended 31 December 2016, the total impairment charge decreased by €103m or 294% to a write-back of €68m from a charge of €35m for the prior year.

The total impairment charge on ROI residential and buy-to-let mortgages for the year decreased by €106m or 196% to a write-back of €52m from a charge of €54m in 2015.

The following should be taken into account when analysing the write-back in 2016:

(i) During the year a revision to the Group's house price assumptions, reflecting an improvement in the CSO residential property price index, resulted in a provision release of €89m. The Group continues to maintain an appropriate buffer relative to the CSO residential property price index.

(ii) The Group recorded a net underlying impairment charge of €21m, which included the impact of updated valuations obtained on high exposure NPLs (largely impacting high exposure buy-to-let properties).

Total impairment write-backs on commercial mortgages amounted to €4m, compared to €27m for the prior year. The write-back for the prior year predominately related to loans which were redeemed in 2015.

Improved performance experienced on the consumer finance portfolios resulted in an impairment write-back of €9m for the year compared to a charge of €2m for the prior year.

There was no impairment charge on the UK loan portfolio during the year ended 31 December 2016. These loans were disposed of during the year.

Reposessed Assets

An impairment write-back of €3m was incurred in respect of reposessed assets for the year ended 31 December 2016, this compared to a charge of €1m for the prior year.

Exceptional items

The following table sets out the components of the Group's exceptional items in the years ended 31 December 2016 and 2015, and the percentage change in each of the components between these two years.

	Year ended		Change %
	31 December 2016 €m	31 December 2015 €m	
Loss on disposal of assets	(399)	(401)	-
Restructuring costs and other	(15)	(7)	(114%)
Loss on repurchase of Contingent Capital Notes	-	(52)	100%
Exceptional items (net)	(414)	(460)	10%

During the year ended 31 December 2016, the Group deleveraged both its UK and IOM loan portfolios, which resulted in the Group recognising losses on these transactions of €360m and €42m accordingly. The IOM sale agreement included a put option whereby the purchaser could require the Group to repurchase a small tranche of loans (£7m) in certain circumstances. The Group also realised a net gain of €3m from mark to market gains on a cashflow hedge which was primarily offset by adjustments related to previously deleveraged portfolios.

Restructuring costs and other in the current year primarily relates to on-going costs arising from the development of the Group Risk function to comply with the emerging regulatory framework, which amount to €22m, offset by the release of a €9m provision which had been held for legacy legal costs.

Asset Quality

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

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

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

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

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The tables below outline total loans and advances to customers (including assets held for sale at 31 December 2015) for the Group's ROI and UK residential mortgages analysed by home loans, buy-to-let, commercial and consumer finance. The analysis is based on excellent, satisfactory, fair risk in line with the IRB rating system and, neither past due nor impaired, past due but not impaired and impaired in line with IFRS 7.

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

31 December 2015 Restated	ROI residential mortgages		UK residential mortgages		Comm*	Consumer finance	Total
	Home loan	Buy-to-let	Home loan	Buy-to-let			
	€m	€m	€m	€m			
Excellent	9,254	991	52	2,012	17	153	12,479
Satisfactory	1,449	2,391	135	1,055	140	49	5,219
Fair risk	911	729	6	107	30	19	1,802
Neither past due nor impaired	11,614	4,111	193	3,174	187	221	19,500
Past due but not impaired	536	125	14	50	58	12	795
Impaired	3,712	1,360	27	111	137	85	5,432
	15,862	5,596	234	3,335	382	318	25,727
Provision for impairment losses	(1,498)	(963)	(8)	(46)	(94)	(79)	(2,688)
	14,364	4,633	226	3,289	288	239	23,039
Deferred fees, discounts and fair value adjustments	81	-	-	-	-	1	82
	14,445	4,633	226	3,289	288	240	23,121

* Includes €91m of assets classified as held for sale

During 2016, the Group revised its application of the definition of non-performing loans. This resulted in the reclassification of certain loans, where a forbearance arrangement to maintain part capital and interest was in place and the terms being met, to non-performing loans. The Group has restated the non-performing loan disclosures for the prior year by €0.5bn. This has resulted in the movement of €334m of ROI Home loans from Satisfactory to Fair Risk, and €24m of ROI Buy-to-let loans from Satisfactory to Fair Risk.

Impairment Provisions

During the year ended 31 December 2016 impairment provisions reduced by €206m or 8% to €2,482m. This is mainly due to an improved performance in the ROI residential portfolio and the deleveraging of the UK and IOM loan portfolios.

Provision for impairment losses represent 12% of total gross loans and advances to customers as at 31 December 2016, compared to 11% for the prior year.

Non-Performing Loans

The following tables provide details of non-performing loans, non-performing loans as a percentage of loans and advances to customers (including assets held for sale at 31 December 2015) and the provision coverage ratios by type of loan as at 31 December 2016 and 2015.

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

31 December 2016

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

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

**NPL Provision Coverage Ratio is calculated as impairment provisions as a % of total non-performing loans.

31 December 2015

Restated	ROI residential mortgages		UK residential mortgages		Comm.	Consumer finance	Total
	Home loan	Buy-to-let	Home loan	Buy-to-let			
	€m	€m	€m	€m	€m	€m	€m
Non-performing loans no arrears	489	419	2	5	4	-	919
Not impaired < 90 days in arrears	63	21	3	6	-	-	93
Not impaired > 90 days in arrears	127	4	-	-	-	-	131
Impaired loans	3,712	1,360	27	110	138	85	5,432
Non-performing loans	4,391	1,804	32	121	142	85	6,575
NPLs as % of gross loans	28%	32%	14%	4%	37%	27%	26%
Provision coverage ratio*	39%	71%	30%	42%	68%	93%	48%
NPL provision coverage ratio**	34%	53%	25%	38%	66%	93%	41%

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

**NPL Provision Coverage Ratio is calculated as impairment provisions as a % of total non-performing loans.

NPLs reduced by €725m, or 11% to €5,850m for the year ended 31 December 2016. This comprises a reduction of €494m in the ROI home loans and buy-to-let portfolio mainly resulting from loan cures arising from better arrears treatment outcomes. The reduction also included €153m within UK home loans and buy-to-let mortgages which were sold during the year. There was also a reduction of €78m within consumer and commercial loan portfolios.

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Weighted average LTVs of Residential Mortgage Portfolio

The tables below outline the level of loans with an LTV up to 100% and greater than 100% for both past due and not impaired loans and loans which are 90 days past due or impaired in the ROI residential portfolio. This is weighted based on the loan balance as a factor of the overall ROI residential loan portfolio.

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

As at 31 December 2015	Neither past due and nor impaired		Loans which are 90 days past due or impaired		Total Portfolio
	Home loan	Buy-to-let	Home loan	Buy-to-let	
	%	%	%	%	
Up to 100%	74%	51%	40%	20%	67%
> 100%	26%	49%	60%	80%	33%
Total	100%	100%	100%	100%	100%

	31 December 2016	31 December 2015
	%	%
ROI Home loan	84%	85%
ROI Buy-to-let	121%	112%
UK Home loan	-	76%
UK Buy-to-let	-	73%
Total including ROI and UK mortgages	93%	90%

In general, property prices have shown an increasing trend in ROI (as reflected in the CSO Residential Property Price Index). ROI Home Loans LTV improved to 84%, while the ROI buy-to-let deteriorated from 112% to 121% during the year 31 December 2016. This deterioration in buy-to-let LTVs is mainly attributable to the updated valuations obtained on high exposure NPLs, along with the redemption of lower LTV mortgages and the implementation of the new CSO Residual Property Price Index.

Forbearance Arrangements – ROI residential mortgages

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

The tables below set out the asset quality and volume of loans for which the Group has entered formal temporary and permanent forbearance arrangements with customers for the years ended 31 December 2016 and 2015. The number and balances of loans in forbearance arrangements for residential home loan mortgages and buy-to-let residential mortgages are analysed below.

	All Loans		Loans >90 days in arrears and/or impaired	
	Number	Balances	Number	Balances
		€m		€m
ROI Residential home loan mortgages				
As at 31 December 2016	28,128	4,376	16,859	2,953
As at 31 December 2015	28,532	4,435	18,010	3,108
ROI Residential buy-to-let mortgages				
As at 31 December 2016	4,008	1,413	1,944	687
As at 31 December 2015	3,940	1,389	2,008	701

The tables above reflect a decrease of €59m as at 31 December 2016 for the Group in the balance of ROI residential home loans in forbearance arrangements, a decrease of 1% compared to the prior year.

It also reflects an increase of €24m as at 31 December 2016 for the Group in the balance of ROI residential buy-to-let in forbearance arrangements, an increase of 2% compared to the prior year.

As at 31 December 2016, 59% of the number of loans in forbearance are greater than 90 days in arrears and/or impaired compared to 62% for the prior year.

More details on forborne loans are provided in note 34 financial risk management in the consolidated financial statements.

Loans and Advances to Banks

The following table outlines the Group's loans and advances to banks as at 31 December 2016 and 2015.

	31 December 2016	31 December 2015	Change
	€m	€m	%
Cash balances at central banks	228	458	(50%)
Placements with other banks	957	1,058	(10%)
Total loans and advances to banks	1,185	1,516	(22%)

During the year ended 31 December 2016, loans and advances to banks reduced by €331m or 22% to €1,185m. This reduction is primarily due to a reduction in collateral held with counterparty banks, which is offset by an increase in restricted cash held by the Group's securitisation entities.

Placements with other banks included restricted cash of €668m (31 December 2015: €839m) of which €466m (31 December 2015: €300m) is held by the Group's securitisation entities and €202m (31 December 2015: €539m) relates to cash collateral placed with counterparties in relation to derivative positions and repurchase agreements.

Debt Securities

The following table outlines the Group's debt securities as at 31 December 2016 and 2015.

	31 December 2016	31 December 2015	Change
	€m	€m	%
Irish Government bonds	2,436	3,077	(21%)
NAMA bonds	246	762	(68%)
Gross debt securities	2,682	3,839	(30%)

The Group's debt securities comprise Irish Government bonds and NAMA bonds.

During the year ended 31 December 2016, the debt securities portfolio decreased by €1,157m or 30% to €2,682m. This reduction is mainly as a result of maturities of both Irish Government bonds and NAMA bond redemptions.

Financial Review

(continued)

Liabilities

Customer Accounts

The following table outlines the Group's customer accounts as at 31 December 2016 and 2015.

	31 December 2016	31 December 2015	Change
	€m	€m	%
Term deposits	8,790	10,682	(18%)
Demand deposits	2,938	2,920	1%
Current accounts	3,355	3,006	12%
Notice and other accounts	1,901	1,942	(2%)
Total customer accounts	16,984	18,550	(8%)

The following table sets forth the Group's customer accounts by customer type as at 31 December 2016 and 2015.

	31 December 2016	31 December 2015	Change
	€m	€m	%
Current accounts	3,355	3,006	12%
Retail deposits	10,213	11,007	(7%)
Irish retail deposits (including current accounts)	13,568	14,013	(3%)
Isle of Man	374	514	(27%)
Total retail deposits (including current accounts)	13,942	14,527	(4%)
Corporate deposits	2,638	2,580	2%
Institutional deposits	404	1,443	(72%)
Total customer accounts	16,984	18,550	(8%)

During the year ended 31 December 2016, customer accounts reduced by €1,566m or 8% to €16,984m due primarily to the maturity of €1,039m of institutional deposits. Retail deposits have decreased by €794m or 7% to €10,213m in line with a decrease in interest rates. Current accounts increased by €349m or 12% to €3,355m, while corporate deposits increased by €58m or 2% to €2,638m.

Isle of Man customer accounts decreased by €140m or 27% to €374m, due to both negative foreign exchange movements and a decrease in interest rates in line with a decrease in Bank of England interest rates.

Deposits by banks (including central banks)

The following table outlines the Group's deposits by banks as at 31 December 2016 and 2015.

	31 December 2016	31 December 2015	Change
	€m	€m	%
Placed by the ECB	1,380	4,650	(70%)
Placed by other banks and institutions on repurchase agreements	1,522	1,072	42%
Other	1	1,027	(100%)
Deposits by banks	2,903	6,749	(57%)

During the year ended 31 December 2016, deposits by banks decreased by €3,846m or 57% to €2,903m. Deposits placed by the ECB reduced by €3,270m or 70% to €1,380m reflecting changes in the Group's funding mix to reduce reliance on ECB funding. The proportion of the Group's funding now being sourced from the ECB stood at 7%* compared to 18%* for the prior year. This reduction was partly offset by a €450m or 42% increase in deposits placed by other banks and institutions on repurchase agreements compared to the prior year.

At 31 December 2015, other deposits included a secured loan facility used to partially fund the Group's UK loan portfolio. This facility was repaid in full during the year following deleveraging of the UK loan portfolios.

* Calculated as ECB funding as a percentage of total funding (being customer accounts, deposits by banks, debt securities in issue and subordinated liabilities) which amounted to €21,233m for the year ended 31 December 2016 and €26,324m for the prior year.

Debt securities in issue

The following table outlines the Group's debt securities in issue as at 31 December 2016 and 2015.

	31 December 2016	31 December 2015	Change
	€m	€m	%
Bonds and medium-term notes	374	470	(20%)
Non-recourse funding	950	533	78%
Debt securities in issue	1,324	1,003	32%

During the year ended 31 December 2016, debt securities in issue increased by €321m or 32% to €1,324m.

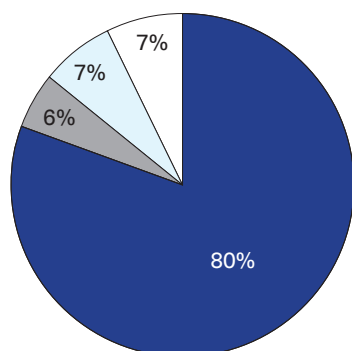
Bonds and medium-term notes reduced by €96m or 20% to €374m during the year, with €25m reaching their maturity date and a further €71m repaid early as a result of a call option included within the bond which was triggered during the year. The Group has not issued any new medium-term notes during the year.

Non-recourse funding is funding by way of residential mortgage-backed securities. This form of funding increased by €417m or 78% to €950m, due to the issuance of a €500m securitisation during the year. Repayments during the year amounted to €83m.

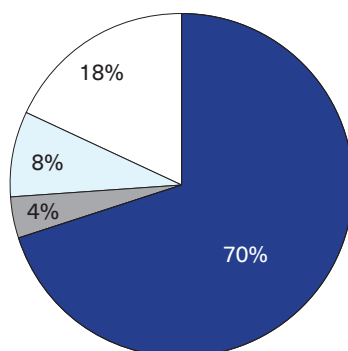
Funding and Liquidity

The following charts show the Group's funding profile as at 31 December 2016 and 2015:

December 2016



December 2015



- Customer Accounts
- Debt securities in issue
- Deposits by banks
- Deposits by ECB

Group funding requirements have decreased as a result of the successful completion of the deleveraging of the Group's Non-core portfolio. For the year ended 31 December 2016, customer accounts amounted to €16,984m, which made up 80% of the total funding, compared to €18,550m, or 70% of the total funding for the prior year. The Group continues to reduce its reliance on ECB funding which now amounts to €1,380m or 7% of the Group's funding requirements compared to €4,650m or 18% for the prior year. The remaining funding requirements comprise deposits by banks (on repurchase agreements) at €1,522m, debt securities in issue at €1,324m and subordinated liabilities at €22m.

The majority of debt securities in issue mature after one year, with €957m of these maturing after 5 years. Customer deposits along with ECB funding and deposits by banks are predominately short term in nature, being less than 1 year. Further detail on the maturity profile of these deposits is provided in note 34.

Financial Review

(continued)

Regulatory capital

The Group's regulatory capital position as at 31 December 2016 under CRD IV / CRR is summarised as follows:

	31 December 2016		31 December 2015		Change	
	Transitional	Fully Loaded	*Restated		Transitional	Fully Loaded
	€m	€m	€m	€m	%	%
Capital Resources:						
Common Equity Tier 1	1,827	1,579	2,086	1,837	(12.4%)	(14.0%)
Additional Tier 1	98	82	105	79	(6.7%)	3.8%
Tier 1 Capital	1,925	1,661	2,191	1,916	(12.1%)	(13.3%)
Tier 2 Capital	78	68	91	70	(14.3%)	(2.9%)
Total Capital	2,003	1,729	2,282	1,986	(12.2%)	(12.9%)
Risk Weighted Assets	10,593	10,593	12,210	12,260	(13.2%)	(13.6%)
Capital Ratios:						
Common Equity Tier 1 Capital	17.2%	14.9%	17.1%	15.0%	0.1%	(0.1%)
Tier 1 Capital	18.2%	15.7%	17.9%	15.6%	0.3%	0.1%
Total Capital	18.9%	16.3%	18.7%	16.2%	0.2%	0.1%
Leverage Ratio**	7.8%	6.8%	6.7%	5.9%	1.1%	0.9%

* The amount of Additional Tier 1 Capital and Tier 2 instruments included within the consolidated capital of the holding company is restricted within the limits laid down under the CRR. This has resulted in a restatement of the transitional Tier 1 Capital from €122m to €105m, fully loaded Tier 1 Capital from €122m to €79m, transitional Tier 2 Capital from €94m to €91m and fully loaded Tier 2 Capital from €79m to €70m.

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

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

	31 December 2016		31 December 2015	
	Transitional	Fully Loaded	Transitional	Fully Loaded
	€m	€m	€m	€m
Total Equity	2,100	2,100	2,396	2,396
Less: AT1 Capital	(122)	(122)	(122)	(122)
Captive Insurance Equity	(10)	(10)	(10)	(10)
Adjusted Capital	1,968	1,968	2,264	2,264
Prudential Filters:				
Intangibles	(34)	(34)	(36)	(36)
Deferred Tax	(71)	(355)	(47)	(404)
Cashflow Hedge Reserve	-	-	13	13
AFS Reserves	(24)	-	(94)	-
Revaluation Reserve	(12)	-	(14)	-
Common Equity Tier 1	1,827	1,579	2,086	1,837

The Group's Transitional Common Equity Tier 1 (CET1) ratio at 31 December 2016 is 17.2%. This has increased by 0.1% since 31 December 2015 reflecting the net impact of a decrease in risk weighted assets (RWA) (+2.6%) and annual losses after taxation (-2.5%). The Fully loaded CET1 ratio is 14.9% at 31 December 2016 (31 December 2015: 15.0%).

The Transitional Total Capital ratio of 18.9% is 0.2% higher than the position at 31 December 2015 while the Fully Loaded position has increased by 0.1% to 16.3%.

CET1 capital resources are €1,827m at 31 December 2016. This has decreased by €259m primarily due to losses on the disposals of the UK and Isle of Man loan portfolios (€399m). This is offset by annual profits after taxes *(€123m excluding losses on disposals) and other regulatory adjustments and movements in reserves (€18m). Transitional Tier 2 Capital is €13m lower due to a reduction in loan provisions in excess of expected losses.

The Group's RWA decreased by €1.6bn during the year from €12.2bn to €10.6bn. The disposal of the UK and IOM loan portfolios resulted in a decrease of €1.4bn with a net reduction of €0.2bn related to the ROI portfolio. The gross decrease in the ROI portfolio was €0.8bn, however, the Group has adjusted its RWA upwards by €0.6bn in order to maintain RWA at 30 June 2016 levels. The Group did not consider it prudent to continue to recognise on-going RWA reductions, in the expectation that the ECB's Targeted Review of Internal Models ("TRIM") is likely to increase the Group's RWAs.

The Leverage Ratio on a transitional basis at 31 December 2016 is 7.8%, 1.1% higher than the position at 31 December 2015 due to a decrease in loan assets and Securities Financing Transaction (SFT) exposures.

The Group exceeded its 2016 SREP transitional CET1 requirement of 11.45% by 5.75% at 31 December 2016. The SREP requirement is subject to annual review by the ECB. The Group has been notified by the ECB of its 2017 SREP requirement which is effective from 1 January 2017. The SREP decision requires that the Group maintains a Common Equity Tier 1 ("CET 1") ratio of 9.2% and a Total Capital ratio of 12.7% on a transitional basis.

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

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

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

*Profits after tax are net of a €10m AT1 coupon payment.

Risk Management



Group Risk Management and Governance

Risk taking is fundamental to a financial institution's business profile and hence prudent risk management, limitation and mitigation forms an integral part of the Group's governance structure.

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

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

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

Group Risk Management Framework

The Group Risk Management Framework (GRMF) is an overarching Risk Management Framework articulating the Risk Management Process governing risks within the following key risk categories: Financial Risk (including Market, Credit, Liquidity, Funding, Capital Adequacy and Viability), and Non-Financial Risk (including Operational & IT, Regulatory Compliance, Conduct, Strategic and Volatility). The GRMF describes the Group-wide approach to the identification, assessment, mitigation, monitoring and reporting of risk across the outlined risk categories. The Group must manage, mitigate, monitor and report

its risk exposure through a set of Risk Management processes, activities and tools.

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

Risk Appetite and Strategy

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

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

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

Risk Governance

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

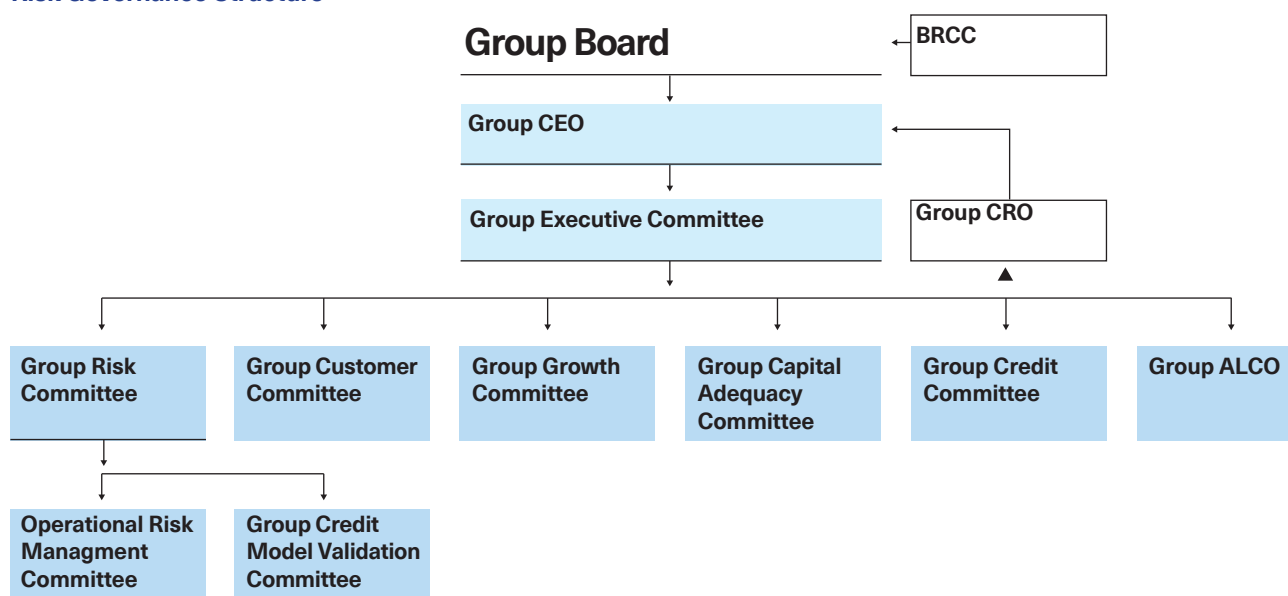
- Ensure the delegation of responsibility for risk oversight and management is appropriate to the nature and types of risk faced by the Group;
- Promote robust dialogue and decision-making around key risk matters;
- Enable the Group to accept and take a level of risk appropriate to its strategic objectives,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

These objectives are fulfilled through:

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

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

Risk Governance Structure



Key Risk Governance Roles and Responsibilities

Governance Forum/Role

Key Responsibilities

Board

Responsible for approving the Group's Risk Appetite and for approving the design of the Group's Risk Management Frameworks, the Group's Risk Policies and systems of Risk Management and reporting.

The Board oversees adherence to the Group's Risk Appetite, Risk Management Frameworks and Risk Policies by:

- Establishing and upholding a robust Risk Governance structure;
- Approving systems of Risk Management and Reporting;
- Reviewing Board-level Risk Reporting;
- Challenging the Group Executive Committee on the risk-taking activities of the Group;
- Overseeing Executive decisions to ensure the appropriate balance between risk and reward;
- Setting the tone for appropriate Risk Culture across the Group; and
- Approving the Group's Medium Term Plan (MTP), ICAAP, ILAAP and Recovery Plan (RP).

Board Risk and Compliance Committee (BRCC)

Oversees and provides advice to the Board on Risk Governance and the current and future risk exposures of the Group. It supports the Board in carrying out its responsibilities of ensuring that risks are properly identified, reported, assessed and controlled, and that the Group's strategy is consistent with the Group's approved Risk Appetite.

The Board Risk and Compliance Committee advises the Board on matters relating to risk by:

- Reviewing and making recommendations on the Group's risk profile, both current and emerging;
- Reviewing the Group's Risk Appetite Framework and RAS and recommending to the Board;
- Monitoring and escalating positions outside Risk Appetite to the Board, within agreed timeframes;
- Approving and overseeing proposed remediation plans aimed at restoring the Group's risk profile to within the approved Risk Appetite;
- Communicating all issues of material Group reputational risk directly to the Board;
- Reviewing and making recommendations to the Board on the adequacy of capital and liquidity in the context of the Group's current and planned activities;
- Reviewing and approving key components of the Group's Risk Management Architecture and relevant supporting documents;
- Promoting a sound Risk Culture across the Group; and
- Reviewing the Group's ICAAP, ILAAP and Recovery Plan (RP) and recommending to the Board.

Risk Management

(continued)

Governance Forum/Role	Key Responsibilities
Group Executive Committee (ExCo) The ExCo is the Senior Management Executive Committee of the Group, which is chaired by the Group Chief Executive Officer (CEO). ExCo is supported by several risk sub-committees, and may not override or modify decisions of these sub-committees, but may appeal decisions to the Board (or relevant Board Committee).	In the context of Risk Management, the ExCo is primarily responsible for: • Defining the Group's organisational structure including that of the Group Risk Function; • Delivering the Group's Management Agenda and financial plans (MTP and Budget); • Ensuring that all risks are within the Group's Risk Appetite and are managed effectively and prudently; • Defining the Group's operating principles and decision rules; • Setting Group standards and policies; and • Ensuring risk/reward trade-offs are appropriately considered in strategic decision-making.
Group Risk Committee (GRC) A forum for Group-wide Risk Management topics, this is a sub-committee of the Group Executive Committee with the Chair having unfettered access to the Chair of the Board Risk and Compliance Committee.	The GRC monitors and enforces adherence to the Group's Risk Frameworks, Risk Policies and Risk Limits. It is the guardian of the Group's Risk Registers and is responsible for monitoring the total risk profile of the Group. Key activities of Group Risk Committee include: • Measuring and monitoring the total risk profile of the Group and maintaining a Risk Register of top risks facing the Group, together with an assessment of the probability and severity of those risks; • Monitoring regulatory developments and upstream/horizon risk in relation to all relevant risk categories and ensuring that all material issues are communicated to the BRCC or the Board as appropriate; • Monitoring and assessing the Group's risk profile against Risk Appetite limits and propose remediation plans to restore Risk Appetite/Limits where required; • Monitoring the reporting and remediation plan with regard to any breaches of approved Limits in accordance with agreed protocol; • Recommending proposed changes to the Group's Risk Appetite Limits for Board approval; • Maintaining, monitoring and enforcing adherence to the Group's Risk Management Frameworks and Policies, for all key risk categories excluding those which fall directly under the remit of GCC, ALCO, Customer Committee, Capital Adequacy Committee, and Growth Committee; • Recommending the ICAAP, ILAAP and RP to BRCC for review and recommendation to the Group Board; and • Overseeing validation of key Risk Models for all risk categories.
Operational Risk Management Committee (ORMC) A forum which supports the activities of the GRC in its role of monitoring and enforcing adherence the Group's Risk Frameworks, Policies and Limits.	The ORMC supports the GRC in monitoring the operational risks to which the Group is exposed and for overseeing risk mitigation performance and prioritisation related to the management and control of these risks.
Group Credit Model Validation Committee	The Group Credit Model Validation Committee: • Ensures the Capital Requirements Directive (CRD) corporate governance and oversight requirements for internal rating systems are met; • Reviews all major risk parameters, methodologies and systems related to Consumer & Counterparty Credit within the institution; • Approves all changes to IRB parameters within the scope of its delegated authority from Group Risk Committee. For changes that are outside its delegated authority, it will make a recommendation for approval to the GRC; • Ensures an appropriate validation cycle is in place for all Credit Risk Models; • Reviews and approves, as appropriate, the findings generated by the validation process; • Monitors progress against the agreed timelines for resolution of issues identified by the validation process; and • Approves the validation of non-IRB models that impact on the Credit Risk and IRB Framework within the institution, as mandated by GRC.

Governance Forum/Role

Key Responsibilities

Group Credit Committee (GCC)

The body accountable for the execution and delivery of the Group's system of Portfolio Credit Risk Management, encompassing the identification, measurement, monitoring and reporting of Portfolio Credit Risks. It ensures that the appropriate operating frameworks governing the portfolio credit risk management activities of the Group are approved and are enforced.

The GCC is responsible for developing and implementing portfolio credit policy within the Group. The policy addresses all material aspects of the full credit lifecycle, including credit risk assessment and mitigation, collateral requirements, collections and forbearance and the risk grading of individual credit exposures.

Key activities of the GCC include:

- Recommending the relevant Portfolio Credit Risk elements of the Group's RAS for approval by the Board;
- Setting and monitoring adherence to the Group's Credit Policy, including discretion limits and structure for underwriting, scoring, collections, recoveries and provisioning within the boundaries of the Group's RAS (as approved by the Board);
- Monitoring the portfolio credit risks to which the Group is exposed;
- Maintaining and assessing the portfolio credit risk profile against set limits and propose remediation plans to restore Risk Appetite/limits where required; and
- Reporting any breaches of approved limits in accordance with agreed protocol.

Assets and Liabilities Committee (ALCO)

ALCO reviews, and is responsible for overseeing, all activities relating to the management of Asset Liability Management (ALM), Treasury and Market Risks, including Interest Rate Risk, Treasury Counterparty Risk and Foreign Exchange Risk. It is the body accountable for the evaluation of other potential drivers of earnings volatility, including, but not limited to, competitive and external market pressures, and for agreeing on optimisation and hedging strategies against those risks.

Key activities of ALCO include:

- Recommending the relevant ALM, Treasury and Market Risk elements of the Group's RAS for approval by the Board;
- Maintaining, monitoring and enforcing adherence to the Group's Risk Management Frameworks and Policies for all ALM, Treasury and Market Risks;
- Monitoring the ALM, Treasury and Market risks to which the Group is exposed;
- Maintaining and assessing the ALM, Treasury and Market Risk profiles against set limits and propose remediation plans to restore Risk Appetite/limits where required;
- Reporting any breaches of approved limits in accordance with agreed protocol;
- Determining the capital requirements for the Group's ALM, Treasury and Market Risks;
- Acting as the decision making body on discretionary balance risk taking and hedging programmes;
- Ensuring there is adequate and effective segregation of duties within Treasury and its supporting operations and to approve any significant amendment to the existing division of responsibilities within Treasury and its supporting operations; and
- Acting as an approval body for new products, with responsibility for assessing the risk/return attractiveness and optimising the use of the Group's capital, funding and liquidity resources.

Capital Adequacy Committee (CAC)

The CAC is responsible for:

- Overviewing and challenging of specific ICAAP related activities in the relevant business lines and risk functions, in collaboration with the SREP Team in the Financial Risk function, which is responsible for designing and co-ordinating the ICAAP;
- Reviewing and challenging methodologies and documentation of the ICAAP, and recommending of same to the GRC;
- Reviewing and challenging the Capital Stress Testing Framework (including scenarios, assumptions, results and Management actions) and recommending the same to the GRC; and
- Reviewing the adequacy of capital in the context of current and planned activities.

Risk Management

(continued)

Governance Forum/Role

Group Customer Committee

The Group Customer Committee ensures that Conduct and Customer Outcome Risk in the Group is monitored, controlled and mitigated by embedding a culture where achieving positive customer outcomes in order to generate sustainable long-term shareholder value permeates the Group's approach and thinking.

Key Responsibilities

The Group Customer Committee:

- Seeks and attains Executive-level guidance and approval for business and commercial decisions which may have a material impact on customers;
- Assesses the effect that existing strategies, business arrangements and controls are having on the ability of the Group to deliver good customer outcomes;
- Oversees the Conduct Risk profile of the Group;
- Reviews high impact customer events and issues arising, to both make decisions on significant individual issues/events and to analyse trends to inform future strategy and decision-making;
- Reviews the Conduct Risk that exists within the Group against the Board approved Conduct Risk Appetite and Principles; and
- Serves as the central 'Voice of the Customer', including oversight of the 'Customer Experience'.

Group Growth Committee (GrowthCo)

The Group's Growth Committee provides context and promotes understanding of the commercial agenda.

The commercial agenda is defined as the plans by the organisation to meet both income and cost targets as set through the Medium Term Plan, in the context of the Group's Risk Appetite. The Group Growth Committee monitors performance against key commercial targets and is responsible for identifying, initiating and executing on activities/projects to achieve those targets based on customer insight. GrowthCo acts as a gateway through which all developments to product, price, service or channels are initiated and reviewed prior to delivery or submission to the Group Customer Committee.

Role of the Group Chief Risk Officer

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

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

The CRO is accountable for the development and oversight of the Group's Risk Appetite Framework and RAS, which the CRO recommends to the Board for

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

The CRO is tasked with:

- Providing Second Line 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 Risk Frameworks and Policies, 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 Group's ICAAP, ILAAP and RP for Board approval; and
- Developing and maintaining the Group's risk management structure.

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

Three Lines of Defence

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

Three Lines of Defence

First Line of Defence

Functions and teams in the First Line undertake frontline commercial and operational activities. In their day-to-day activities, these teams take risks which are managed through the design and operation of mitigating controls. Each Head of First Line Function/Team is responsible for ensuring that activities undertaken are within the Board-approved Risk Appetite.

Key Responsibilities

First Line – Business Units

- Embedding Risk Management Frameworks and sound Risk Management practices into standard operating procedures. This includes creating explicit links between maintaining and delivering robust governance, risk and control processes to performance management, with clear consequences for non-adherence;
- Adhering to appropriate risk frameworks, policies and procedures;
- Complying with regulatory and legal obligations;
- Identifying, assessing, measuring, monitoring and reporting on Risk Management performance in activities;
- Accounting for the effectiveness of Risk Management in operation, including ensuring that procedures and controls are operated on a consistent and ongoing basis in order to manage risks; and
- Developing and embedding the Internal Control Framework (ICF).

Second Line of Defence

The Group Risk Function is an independent Risk Management function, under the direction of the CRO, and is a key component of the Group's Second Line of Defence. Group Risk is responsible for the ongoing assessment and monitoring of risk-taking activities across the Group.

Second Line – Group Risk Function

- Developing and monitoring the implementation of Risk Management frameworks, policies, systems, processes and tools;
- Ensuring that Risk Management frameworks, policies, systems, processes and tools are updated and reviewed periodically and that these are communicated effectively to the First Line;
- Ensuring that the above frameworks and tools cover risk identification, assessment, mitigation, monitoring and reporting;
- Influencing or challenging decisions that give rise to material risk exposure;
- Reporting on all these items, including risk mitigating actions, where appropriate; and
- Monitoring the effectiveness of the ICF.

Third Line of Defence

Group Internal Audit comprises the Third Line of Defence. It plays a critical role by providing independent assurance to the Board over the adequacy, effectiveness and sustainability of the Group's internal control, risk management and governance systems and processes, thereby supporting both the Board and Senior Management in promoting effective and sound risk management and governance across the Group. All activities undertaken within, and on behalf of, the Group are within the scope of Group Internal Audit. This includes the activities of risk and control functions established by the Group. The Head of Group Internal Audit reports directly to the Chair of the Board Audit Committee, thus establishing and maintaining independence of the Function.

Third Line – Group Internal Audit

- Conducting work across the full spectrum of business processes (1st & 2nd line) based on a comprehensive, Group-wide risk assessment and underpinned by a professional, risk-based methodology and quality assurance programme;
- Utilising a flexible resourcing model to ensure resources are continuously focused on the areas of greatest risk;
- Following a risk based approach to audit planning and execution to ensure our work addresses the Group's key risks;
- Performing appropriate testing to support robust assurance;
- Utilising up to date tools and techniques to enhance the quality and reliability of the assurance provided;
- Working effectively with other internal and external assurance providers to support the overall governance framework;
- Reporting all significant issues identified to the Board and Group Executive Committee in a concise, professional and timely manner; and,
- Providing an opinion to the Board Audit Committee on the adequacy and effectiveness of the Group's control environment.

Risk Management

(continued)

Principal Risks and Uncertainties

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

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

The Group's 2016 Pillar 3 disclosures report should be read in conjunction with this section of the report.

Government Control and Intervention

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

The Group continues to be materially reliant on Government and European Union policy in relation to the Irish economy and the financial services sector. Public policy on the banking market in general and mortgage product pricing in particular has been receiving increased attention including, for example, the central bank policy restricting lending on the basis of certain loan to value and loan to income thresholds. More recently, legislation passed in December 2016, which fully came into effect in January 2017, restricts rent increases to 4% per annum or 12% over three years in designated rent pressure zones in Dublin, Cork, and Galway. The previous legislation allowed landlords to review rents every two years which gave them the opportunity to apply two years of increases in one fell swoop, leaving

tenants struggling to meet higher rents. This legislation will remain in effect outside of the designated rent pressure zones. The new legislation is expected to offer tenants a degree of predictability over the next three years. It is also expected to make rental yields more stable and predictable in those pressure zones as landlords are restricted in relation to year-on-year rent increases.

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. The introduction of new policies, the amendments of existing policies by the government or the introduction of revised capital, liquidity or non-performing loan targets by the CBI or the ECB may materially adversely affect the Group's business or financial conditions. In addition, as highlighted in the Financial Review, the costs associated with regulation have increased substantially.

EU Restructuring Plan

The recapitalisation of the Group in 2011, together with other aspects of the Irish Government's response to the banking crisis, was considered by the European Commission (EC) to involve the provision of State Aid by Ireland, within the meaning of Article 107 of the Treaty on the Functioning of the European Union to the Group.

This resulted in the requirement for the submission of a restructuring plan to the EC for approval under EU State Aid rules. The Group's Restructuring Plan was submitted to the EC in October 2014 and was subsequently approved in April 2015. The Restructuring Plan is consistent with the Group's business plan. The approval marks a significant step in the recovery of the Group. The Restructuring Plan sets out the terms for the restructuring of the Group, which Ireland and the Group have committed to implement and which includes certain portfolio disposals (CHL and Non-Performing Irish Commercial Real Estate (CRE)), reducing the value of defaulted Irish tracker mortgages, achieving an agreed Cost Income ratio together with other behavioural and viability commitments.

These commitments are significant; they restrict the activities of the Group to

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

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

Economic Conditions

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

Ireland

Domestically, the macroeconomic environment has continued to improve throughout the year ended 2016 with Real GDP growth estimated to be between 3.4% and 4.9% for the year (CBI, the IMF, ESRI, Moody's and Davy's have published figures in this range), unemployment has continued

to decline and house prices have continued to increase during the period (a Q4 2016 report from daft.ie states average list prices rose 8.1% in 2016 (8.5% in 2015)). Domestic demand has continued to be the principal driver of Ireland's economy in 2016 and this robust trend is expected to continue in 2017 albeit at a moderated pace. A broad range of improvements in labour market, increased incomes, and more favourable financial conditions have also aided economic performance throughout 2016 along with domestic demand.

Moving forward, the potential risks to the Irish Economy are a combination of internal factors including an inadequate supply of private residential housing and a dysfunctional rental property market combined with increasing wage demands from the public and private sector unions; and external factors, chiefly of which is Brexit, proposed changes by the new US Administration to US economic and taxation policies and events in EU countries. The UK was the third largest export market for Ireland in 2016, behind the US and Belgium and ahead of Germany according to February 2017 figures released from the CSO. The UK is particularly significant for domestically owned firms with the UK accounting for 43% of their exports compared to 12% for non-domestic firms. The outlook for net exports remains uncertain given the somewhat volatile trade levels in the latter half of 2016 and potential Brexit effects. Estimates from the NTMA state that each 1% reduction in the UK's real GDP growth rate reduces Ireland's growth rate by between 0.3% to 0.8%.

The on-going recovery in the Irish economy has continued to aid financing conditions throughout 2016. Debt to disposable income levels have fallen to their lowest in ten years thanks in part to improved household net wealth and disposable incomes along with a reduced repayment burden and continued deleveraging. Despite the improved financial conditions, the private sector remains highly indebted compared to their European peers and Irish borrowing costs are noticeably higher.

The banking sector improved further in 2016 through a number of measures. Deposit inflows have remained healthy despite prolonged low interest rates with the stock of household deposits held by credit institutions outweighing the stock of household loans. The Irish banking system's reliance on Eurosystem funding

noticeably declined throughout 2016 with funding raised through debt securities financing also showing a net decrease. However, the sectors large stock of Non-performing loans (NPLs) remains among the most significant risks for Irish Banks. It is estimated that NPLs account for up to 16% of Irish system wide loans for the full year 2016. However, it is important to note that this is reduced from peak levels of around 35% in 2013. The positive performance of Irish banks can materially be seen by way of Standard & Poor's (S&P) upgrading of the long term ratings of Irish banks (Permanent TSB, Allied Irish Bank and Bank of Ireland) along with affirmation of the ratings of the non-domestic owned Ulster Bank and KBC Bank Ireland. These upgrades occurred in January 2017. S&P attribute the upgrades to Ireland's continuing robust economic performance feeding into the creditworthiness of Irish banks along with the significant deleveraging efforts that each bank has undertaken in order to right-size their operations.

United Kingdom

Real GDP growth in 2015 was 2.2% and is expected to come in just under 2% in 2016 with domestic demand being the primary driver of growth in both years. The impact of Brexit is estimated to reduce GDP growth to somewhere in the region of 1% - 1.5% in 2017 as lower confidence and increased uncertainty begin to materially affect economic performance in the UK. Business investments and private consumption are both projected to decline throughout 2017 with the latter being a result of households responding to declining disposable income growth in 2017. Contrary to the above effects, the considerable depreciation of sterling since Brexit is estimated to have a significant positive influence on net exports in 2017. In conjunction with the moderate growth in the UK's trading partners, import growth is expected to slow as domestic demand declines and import prices rise following the weakening sterling. The growth in net exports is expected to partially alleviate the negative Brexit impacts on GDP.

Europe

In addition to the specific risks associated with Ireland and the UK discussed above, economic, monetary, and political conditions remain uncertain in the Eurozone and the EU. Preliminary figures from the Economic Commission (EC) show that Euro Area and the EU grew by 1.7% and 1.8% respectively in 2016, down

from 2.0% and 2.2% in 2015. This modest growth pace continues to be hindered by a number of legacies from the crisis such as elevated stocks of NPLs, high private and public indebtedness, ongoing deleveraging commitments and balance sheet repair in banking sectors across Europe. Along with these legacy constraints, European growth must also contend with headwinds in the form of geopolitical and political uncertainty, particularly given the upcoming presidential, parliamentary and general elections taking place throughout the member states of the EU, sluggish growth outside the EU and weak global trade. Sources of growth in the past such as low commodity prices, euro depreciation and a very accommodative monetary policy have also begun to slightly lose their positive influence. The immediate impact of Brexit seems to have been far less turbulent than initially expected. Disruptions to financial markets proved to be temporary and self-corrected quite early on. The long run consequences of Brexit remain uncertain and will only be made clear once the details of the exit negotiations become known. The UK's decision to leave the EU may spark a trend of protectionism and nationalism across Europe and further that may threaten the stability of the EU and Euro area. Risks to European growth are also arising from external sources such as the normalisation of monetary policy in the US and economic rebalancing in China.

Preliminary results from 2016 show that private consumption remains to be the driver of growth across Europe as improvements in the labour market and the low inflationary environment boosted real disposable incomes. Investment has been the fastest growing component of domestic demand over the past year and low energy prices continue to keep inflation driven down. Looking forward, GDP growth is expected to be fairly consistent compared to 2016 with private consumption leading growth. Continuing employment growth is set to offset rebounding inflation, the latter a result of oil prices beginning to lose their dampening effect on inflation. Investment growth is forecasted for a moderate surge as the consistent periods of decline in construction investment are expected to come to an end.

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

Risk Management

(continued)

Capital Adequacy Risk

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

1. Materially worse than expected financial performance;
2. Reductions in earnings as a result of impairment charges;
3. Increases in risk weighted assets;
4. Changes in the prescribed minimum regulatory requirements; or
5. Changes in the manner in which existing regulatory capital is calculated (including the Target Review of Internal Models) and the instruments that qualify as regulatory capital could be subject to change in the future.

The core objective of the Group's capital management policy is to ensure it complies with regulatory capital requirements (Capital Requirements Regulation (CRR), Capital Requirements Directive IV (CRD IV) and the Banking Recovery and Resolution Directive (BRRD)) and to ensure that it maintains sufficient capital to cover its business risks and support its market strategy. As outlined in the Group's RAS, the Group goes through an Internal Capital Adequacy Assessment Process (ICAAP) to ensure that it is adequately capitalised against the inherent risks to which its business operations are exposed and to maintain an appropriate level of capital to meet the minimum regulatory capital requirements. The ICAAP is subject to review and evaluation by the SSM as part of its Supervisory Review and Evaluation Process (SREP). A new concept of Capital Guidance has been introduced by the Regulator for SREP for 2017. In effect, the Pillar 2 add-on has been split into a required component (P2R) and a guidance component (P2G). Whilst a breach of the latter does not constitute a breach of the Group's own funds requirement, any such breach must be reported to the Regulator and a remediation plan put in place to ensure a return to compliance.

The management of capital within the Group is monitored by the Board Risk and Compliance Committee (BRCC), Executive Committee (EXCO), the Capital Adequacy Committee (CAC), and the Assets and Liabilities Committee (ALCO) in accordance with Board approved policy. The potential impact of new regulatory requirements is regularly evaluated by the Group's management to ensure that the Group is able to meet new regulatory requirements.

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

The Group's expectation is that the ECB's Targeted Review of Internal Models ("TRIM") is likely to result in an increase to the Group's RWAs.

Credit Risk

Credit risk is the risk of loss arising from a borrower or counterparty failing to meet its contractual obligations to the Group in respect of loans or other financial transactions and includes concentration risk and country risk. Risks arising from changes in credit quality and the recoverability of both secured and unsecured loans and amounts due from the Group's borrowers and counterparties are inherent in a wide range of the Group's businesses.

Following the disposal of the Group's residual UK residential mortgage portfolio and legacy residential mortgage portfolio held through its Isle of Man subsidiary, the Group's customer exposures are those which were originated and are managed in Ireland. The Group's principal exposure is to residential mortgages secured by a first legal charge on the property. Economic uncertainty, as well as the socio-political environment may adversely impact or cause further deterioration in the credit quality of the Group's loan portfolios. This may give rise to increased difficulties in relation to the recoverability of loans or other amounts due from borrowers, resulting in further increases in the Group's impaired loans and impairment provisions. Deterioration in reported macroeconomic metrics such as house prices and unemployment could put further strain on borrowers' or counterparties' capacity to repay loans. These and other economic factors may cause prices of property or other assets to stall or fall further, thereby reducing the value of collateral on many of the Group's loans and increasing write-downs and impairment losses. Other factors such as regulatory action may also impact on property prices or lead to further uncertainty in relation to the full recoverability of certain outstanding debts. The Group mitigates these risks by carrying appropriate loan loss provisions across its

various loan and other asset portfolios, by applying strict underwriting criteria to new business lending and by actively managing its non-performing loans.

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

Funding and Liquidity Risk

Funding Risk is the risk that the Group is not able to access funding markets or to only do so at a disproportionate uneconomic cost.

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

i. Regulation and Ratios

The Group assesses the liquidity and funding positions with respect to the prescribed metrics from the CRD IV, the CRR and the Liquidity Coverage Ratio (LCR) Delegated Act. The ratios calculated and reported are the Liquidity Coverage Ratio and the Net Stable Funding Requirement (NSFR). In addition, the Group continues to comply with CBI liquidity mismatch ratio criteria and the Central Bank of Ireland's "Licensing and Supervision Requirements and Standards for Credit Institutions".

Under the Bank Recovery and Resolution Directive (BRRD) the Group, along with each Bank within the EU, is required to adhere to the Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

ratio. The ratio is due to become binding in 2019 and represents a quantification of the eligible liabilities required to act as a buffer in the event of a bail-in scenario. The Group has proactively engaged the Single Resolution Board and the Central Bank of Ireland (the 'Resolution Authorities') to determine the Group's MREL requirement. Targets remain indicative and are expected to be finalised in H2 2017. The Group has formulated a senior unsecured issuance strategy to meet the indicative MREL target. There is a risk of increased funding costs arising out of issuing MREL funding.

ii. Risk Measurement and Monitoring

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

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

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

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

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

The Group's Contingency Funding Plan (CFP) outlines the strategy and action plan to address liquidity crisis events. The CFP identifies processes incremental to the

existing daily liquidity risk management & reporting framework to assist in making timely, well-informed decisions.

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

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

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

iii. Liquidity Risk Management Framework

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

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

- Liquidity: maintain a prudent liquid asset buffer above an internally determined or regulatory mandated (whichever is greater) liquidity requirement such that the Group can withstand a severe but plausible stress event.

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

The Group Treasurer is responsible for liquidity and funding risk management while the Chief Risk Officer is responsible for the second line oversight of Liquidity and Funding Risk. Internal Audit constitutes the third line of defence.

iv. Minimum Liquidity Levels

The Group maintains a sufficient liquidity buffer comprised of both unencumbered HQLA and Non-HQLA liquidity buffer capacity to meet the LCR and CBI liquidity mismatch ratio requirements.

During the period, the Group became aware that it had fallen below its minimum prudential LCR owing to an incorrect interpretation of certain rules pertaining to the calculation. The mis-interpretation related to the Non-HQLA secured borrowing unwind mechanism. The matter did not involve an outflow of liquidity and the Group remediated the situation promptly and returned the ratio above the minimum requirement.

Although it is not yet enforceable and is not scheduled for full implementation until 1 January 2018 the Group measures and monitors the NSFR which is designed to limit over-reliance on short-term funding and promotes longer term stable funding sources. The Group is expected to be above the minimum 100% regulatory ratio throughout 2017.

Asset encumbrance is an important metric where elevated levels may challenge the Group's ability to fund in unsecured capital markets. The Group's asset encumbrance level is monitored and tracked on an on-going basis. The strategic aim is to maintain a level of sub 40%.

v. Liquidity Risk Factors

Over reliance and concentration on any one particular funding source can lead to heightened liquidity impacts during a period of stress. The Group relies on customer deposits to fund a considerable portion of its loan portfolio. The on-going availability of these deposits is 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

Risk Management

(continued)

general and the financial services industry specifically, the availability and extent of deposit guarantees and competition for deposits from other financial institutions.

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

It is also worth noting that the national Deposit Guarantee Scheme (DGS) is in place in Ireland (and across the EU) which protects deposits of up to €100k. The national DGS together with the establishment of the European Deposit Insurance Fund is an additional mitigant against potential high levels of withdrawals, particularly retail withdrawals. This is in contrast with other jurisdictions which have experienced high levels of withdrawals where such schemes are not in place.

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

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

Significant progress has been made in reducing the encumbrance level over the last few years, a period in which the Group was affecting its recovery. Following

the successful deleveraging of the UK mortgage portfolio and the execution of the Treasury funding plan, encumbrance is now in compliance with its target level. A clear and defined strategy has been developed, comprising of two component routes being securitisation collateral efficiency and full and price efficient capital markets access, to ensure the Group maintains an encumbrance level consistent with its economic plans. Disruption to any of these avenues could pose a threat to the Group meeting its target.

vi. Credit Ratings

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

Market Risk

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

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

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

i. Interest Rate Risk

Interest rate risk arises due to the structural mismatch between assets and liabilities in the balance sheet and is the risk that an investment's value will change due to

a change in the absolute level of interest rates, the spread between two rates, shape of the yield curve or any other interest rate relationship. The Group is primarily exposed to re-price, yield curve and basis risk on Euro and GBP balance sheet positions. In line with the regulatory standards the approved Interest Rate Risk in the Banking Book (IRRBB) framework determined that the Group's interest rate risk exposure must be derived from both an earnings (accrual) and economic value perspective. Gap analysis is used to capture re-price risk, the Economic Valuation (EV) approach measures yield curve risk while Earnings at Risk (EAR) is utilised to calculate the basis risk exposure. Interest rate risk modelling is produced and quantified by Group Risk and reported against the prescribed limits to Senior Management daily.

In defining the level of interest rate risk the Group applies the standard 200bps shock scenario subject to the appropriate interest rate flooring assumptions. The shock is applied to both the EV and EAR models where the larger of the EV or EAR risk levels represents the Group's IRRBB risk level which is measured and reported against the Board approved risk limits.

ii. Foreign Exchange Risk

Foreign currency exchange risk is the volatility in earnings resulting from the retranslation of foreign currency denominated assets and liabilities from mismatched positions. There has been a significant reduction in the Groups foreign denominated assets following the successful deleveraging of the UK mortgage portfolio in November 2016. The main foreign exchange exposure for the Group primarily arises from the Isle of Man deposit book business conducted by Permanent Bank International. The Group may also be exposed to smaller intermittent positions arising from the normal business activities of a Retail bank.

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

iii. Credit Spread Risk

Credit Spread Risk (CSR) is the risk of a decline in the value of an asset due to

changes in the market perception of its creditworthiness. In essence CSR reflects the asset risk not explained by general interest rate risk and captures the risk of changes in market value with respect to the volatility of credit spreads.

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

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

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

Conduct Risk

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

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

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

Conduct Risk is specifically recognised as a distinct risk category that is separate but linked to operational risk and compliance. To this end, the Group has a standalone

Conduct Risk appetite and key principles for the management of Conduct Risk and has embarked upon an extensive training and communications programme to ensure that achieving the right outcomes for our customers continues to be embedded throughout all of the Group's activities.

Board and Senior Management have ensured that there is regular reporting on Key Risk indicators against the Conduct Risk appetite as well as events that could affect or have already impacted on customers. To this end, the Group has created a senior management Customer Committee (a sub-committee of the ExCo). This committee receives regular reporting from the Head of Conduct Risk, who also reports regularly to both the Group Board and Board Risk and Compliance Committee.

Business and Strategic Risks

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

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

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

Reputation Risk

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

Mortgage Redress

Pursuant to its powers under the Administrative Sanctions Regime, the CBI is conducting an enforcement investigation into the Group's compliance with the Consumer Protection Code and, in particular, is investigating alleged breaches of the Consumer Protection Code 2006. These alleged breaches arose from the failure of the Group to inform customers that, as a consequence of exiting early from a fixed rate mortgage contract, they would no longer be able to avail of the option of a tracker rate in the future and/or no longer default to an appropriate tracker rate at the end of that fixed rate period. In addition, the Group's non-conformance with contractual terms was also identified in some instances. The Group is continuing to address these issues and to redress and compensate affected customers. At end December 2016, c.92% of impacted customers have been fully redressed.

The Group is also continuing to progress a review of specific operational issues within the Mortgage book through the Mortgage Product Review Group (MPRG), which was established in September 2015, to identify if there are any further instances of non-conformance with either legal or regulatory requirements.

The Central Bank also has the power to broaden the scope of any issues under investigation or to investigate new issues on the basis of information provided to it by the Group or otherwise. The Central Bank has chosen to conduct a further review across the industry which was announced

Risk Management

(continued)

in December 2015. As part of this industry review, the Central Bank requested that the Group undertake a detailed review of the wider Mortgage portfolio to ensure compliance with legal and regulatory requirements. This review is being conducted in line with the framework set down by the Central Bank.

As a result of these reviews, in addition to administrative sanctions, the Group is also exposed to the risk that customers who were impacted or who may consider themselves to have been impacted by the loss of a tracker rate mortgage entitlement may seek alternative sources of redress and compensation, including by way of litigation, or seek to criticise the Group's actions.

Operational and IT Risk

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

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

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

This includes risk controls and loss mitigation actions designed to minimise

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

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

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

Third Party Service Providers

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

The Group's Third Party Risk Management Framework, which is aligned to the EBA Guidelines on Outsourcing (2006), outlines the processes and controls in place for identifying, assessing, mitigating and managing third party risks.

Regulatory Risks

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

Recent years have seen significant changes in banking regulation domestically and internationally, and the Group expects that this trend in banking regulation will continue. The ECB has deemed the Group to be a significant institution. The Group came under the direct supervision of the

ECB since the introduction of the Single Supervisory mechanism on 4 November 2014.

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

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

Directors' Report

The Directors present their Annual Report and audited Group and Company financial statements to the shareholders for the year ended 31 December 2016.

Results

The Group loss after tax for the year was €266m (2015: €425m) and was arrived at as presented in the consolidated income statement.

Dividends

No dividends were paid or proposed for 2016 or 2015.

Review of the Business and likely Future Developments

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

Accounting Policies

The principal accounting policies, together with the basis of preparation of the financial statements are set out in Note 1 to the Consolidated Financial Statements.

Corporate Governance

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

Principal Risks and Uncertainties

Information concerning the principal risks and uncertainties of the Group are set out in the Risk Management section of the Strategic Report on page 56 of the Annual Report.

Financial Instruments

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

Going Concern

The Company's financial statements have been prepared by the Directors on a going concern basis having considered that it is appropriate by the Directors to do so. The going concern of the Group has been considered in note 1 of the financial statements and further information on the assessment of the going concern position is also set out in the Governance Statement on page 85 under the Audit Committee's 2016 significant financial reporting judgements and disclosures.

Longer Term Viability

Taking account of the Company's current position and principal risks, the Directors have assessed the prospects of the Company over the period 2017-2019. The Directors confirm that it is their reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over this period. Further detail on the assessment of the Group's longer term viability is set out in the Governance Statement on page 85 under the Audit Committee's 2016 significant financial reporting judgements and disclosures.

Directors' Compliance Statement

The Companies Act, 2014 was enacted on 23 December 2014 and commenced on 1 June 2015. As required by section 225(2) of the Companies Act 2014, the Directors acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (as defined in that legislation). The Directors have drawn up a compliance policy statement, and have put in place arrangements and structures that are, in the Directors' opinion, designed to secure material compliance with the relevant obligations. A review of these arrangements was conducted during the year.

Statement of Relevant Audit Information

In preparing and approving the 2016 Annual Report and in accordance with Section 330 (1) of the Companies Act, 2014 each of the current Directors of the Company confirm that:

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

Audit Committee

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

Directors

The names of the Directors, together with a detailed description of the skills, expertise and experience of each Director are set out in the Board of Directors section on pages 70 to 71 of the Annual Report. Dominic Dodd and David Stewart retired as Directors on 20 April 2016 at the conclusion of the Group's 2016 AGM. Stephen Groarke, the Group's Chief Risk Officer was appointed as an Executive Director on 17 May 2016. Ronan O'Neill was appointed as a Non-Executive Director on the 26 July 2016 and Andrew Power was appointed as a Non-Executive Director on 26 September 2016.

The Chairman, Alan Cook will retire from the Board on 31 March 2017 at the end of his six-year term of office. As set out in the Chairman's Statement on page 4, Robert Elliot has been announced as Alan Cook's replacement, and this appointment will take effect on 31 March 2017.

With the exception of the retiring Directors, all of the Directors in situ at the time of the Group's 2016 AGM were re-appointed by election at the 2016 AGM and all of the Directors will stand for reappointment by election at the Group's 2017 AGM to be held on 10 May 2017. Mr Eamonn Crowley the Group's newly appointed Chief Financial Officer, will also stand for appointment by election at the Group's 2017 AGM. A detailed description of the skills, expertise and experience that Eamonn brings to the Board is set out on page 75 of the Annual Report.

Details of Directors' remuneration is detailed in the Remuneration Report on pages 93 to 94 of the Annual Report and Directors and Secretary interests in shares is outlined in note 40 to the financial statements.

Share Capital and Shareholders Credit Institutions (Stabilisation) Act 2010

Under the terms of the Credit Institutions (Stabilisation) Act 2010 (the "Act") the Minister for Finance could, in certain circumstances, direct the Company to undertake actions that could impact on the pre-existing legal and contractual rights of shareholders. The Act had an original

Directors' Report

(continued)

expiry date of 31 December 2012. However, the Act was subsequently extended to 31 December 2014, but has not since been extended. The expiry of the Act does not affect any order already made, or the variance, termination, enforcement, variation or revocation of any existing order nor does it affect the ability of the Minister to impose certain conditions on any financial support provided under or in connection with the Act.

Relationship Agreement with the Minister for Finance

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

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

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

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

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

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

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

Authorised Share Capital

The authorised share capital of the Company is €25,150,599,999.94 divided into 1,550,000,000 ordinary shares of €0.50 each and 84,344,636,678 deferred shares of €0.289 each.

Issued Ordinary Shares

At 31 December 2016, the Company had 454,695,492 ordinary shares of €0.50 each in issue (2015: 454,695,492). Ordinary

shares represent 11% of the Company's issued share capital value. No ordinary shares were issued in 2016.

At 31 December 2016, the Company holds, through an employee benefit trust, 4,580 (2015: 4,580) ordinary shares of €0.50 each. Each ordinary share carries one vote and the total number of voting rights at 31 December 2016 is 454,695,492 (2015: 454,695,492).

Additional Tier 1 Equity Securities

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

Deferred Shares

At 31 December 2016, the Company had 3,562,883,512 (2015: 3,562,883,512) deferred shares in issue in that class. Deferred shares represent 89% of the Company's issued share capital value. On a winding up of, or other return of paid up share capital (other than a redemption of shares of any class in the capital of the Company), by the Company, the holders of the deferred shares shall, prior and in preference to any repayment of capital or distribution of any of the assets of the Company to the holders of ordinary shares, with equal priority and pro rata solely amongst the holders of the deferred shares in proportion to the number of deferred shares held by them at that time, be entitled to receive by way of return of capital an aggregate amount of €1,500,000 and the holders of the deferred shares shall have no further right to participate in any such winding up (whether by way of distribution of assets or participation in any surplus or otherwise) or to a return of capital beyond such amount. Deferred shares carry no right to ask questions or vote at a general meeting or have any dividend rights and shall not be transferable at any time, other than with the prior written consent of the Directors.

Variation of Rights

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

Allotment of Ordinary Shares

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

Holders of Ordinary Shares Resident in the USA

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

Refusal to Transfer

The Directors in their absolute discretion and without assigning any reason therefore may decline to register:

- any transfer of a share which is not fully paid save however, that in the case of such a share which is admitted to listing on London or Irish Stock Exchanges, such restriction shall not operate so as to prevent dealings in such share of the Company from taking place on an open and proper basis;
- any transfer to or by a minor or person who is adjudged by any competent court or tribunal, or determined in accordance with the Company's Articles, not to possess an adequate decision-making capacity;
- any instrument of transfer that is not accompanied by the certificate of the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer, if the instrument of transfer is in respect of more than one class of share; and
- any transfer of shares in uncertificated form only in such circumstances as are permitted or required by Section 1086 of the Companies Act 2014.

General Meetings

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

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

than Annual General Meetings, are called Extraordinary General Meetings.

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

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

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

Substantial Shareholdings

As at 31 December 2016, the Directors have been notified of the following substantial interests in the voting rights of Ordinary shares held:

Name	Interest	Date Notified
Minister for Finance of Ireland	74.92% 340,661,653 shares	5 May 2015
Toscafund Asset Management LL	4.004% 16,083,765 shares	20 May 2015
Janus Capital Management LLC	3.87% 17,616,316 shares	09 Feb 2017

Directors' Report

(continued)

There were no other changes to substantial interests in the voting rights of ordinary shares reported to the Directors as at 6 March 2017.

Voting Rights of Ordinary Shares

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

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

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

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

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

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

Director Appointments

Save as set out below, the Company has no rules governing the appointment and replacement of Directors outside of the provisions thereto that are contained in the Articles of Association. Under the Relationship Framework entered into between the Group and the Minister for Finance, the Board must consult with the Minister for Finance for the appointment or re-appointment of the Group Chief Executive Officer or Group Chairman. Upon receipt of written notice from the Minister

for Finance, the Board shall appoint up to two nominees of the Minister for Finance as Directors of the Company and the appointment(s) shall be deemed to take effect on the date of the next Board meeting following receipt of the aforementioned notice. Further details on this process are set out in the relationship framework which is available on the Company's website www.permanenttsbgroup.ie.

Powers Granted to Directors at the AGM

An authorisation provided by members at the Group's 2015 AGM to allot shares and dis-apply statutory pre-emption rights up to a nominal value of €20,833,333 remains in force connected to the issue of Ordinary shares should there be a conversion of the AT1 Debt instrument (see page 162)

At its annual general meeting on 20 April 2016, the following is a description of the resolutions passed by members in connection with powers granted to the Directors:

Ordinary Remuneration of Directors

That the aggregate ordinary remuneration of the Directors (for serving as Directors of the Company) shall be an amount not exceeding €500,000 as the Directors may from time to time determine in accordance with the Articles of Association of the Company for the time being.

Allotment of Shares

The Directors are generally and conditionally authorised, pursuant to section 1021 of the Companies Act 2014, to exercise all of the powers of the Company to allot and issue all relevant securities of the Company (within the meaning of section 1021 of the Companies Act 2014) up to an aggregate nominal amount of €75,024,756 representing 33% of the aggregate nominal value of the issued share capital of the Company as at 8 March 2016 (excluding treasury shares). The authority conferred commenced on the 20 April 2016 and will expire at the conclusion of the 2017 AGM or 20 July 2017 (whichever is earlier) unless and to the extent that such power is renewed, revoked,

or extended prior to such date; provided that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry, and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the power conferred by this Resolution had not expired.

Disapplication of Pre-emption Rights

The Directors are empowered to allot equity securities (within the meaning of section 1023(1) of the Companies Act 2014) for cash as if Section 1022(1) of the Companies Act 2014 did not apply to any such allotment, such power to be effective from 20 April 2016 and shall expire at the conclusion of the 2017 AGM or 20 July 2017 (whichever is earlier) unless and to the extent that such power is renewed, revoked, or extended prior to such date; and such power being limited to:

- (a) the allotment of equity securities in connection with any offer of securities, open for a period fixed by the Directors, by way of rights issue, open offer or other invitation to or in favour of the holders of ordinary shares and/or any persons having a right to subscribe for securities in the capital of the Company (including, without limitation, any person entitled to options under any of the Company's share option scheme or share incentive plans then in force) and subject thereto by way of placing or otherwise of any securities not taken up in such issue or offer and subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to legal or practical problems (including dealing with any fractional entitlements and/or arising in respect of any overseas shareholders) under the laws of, or the requirements of any regulatory body or stock exchange in, any territory; and/or
- (b) the allotment of equity securities up to a maximum aggregate nominal value of €11,367,387, which represents 5% of the issued share capital of the Company as at the close of business on 8 March 2016.

Change of control of the Company

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

Post Balance Sheet Events

Events after the reporting period are described in note 44 to the financial statements.

Accounting Records

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

Disclosure Notice

The Company did not receive a disclosure notice under section 33AK of the Central Bank Act 1942 during 2016.

Political Donations

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

Subsidiary Undertakings

The principal subsidiary undertakings and the Company's interests therein are shown in note 42 to the financial statements.

Independent Auditor

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

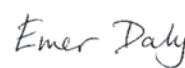
On behalf of the Board



Alan Cook
Group Chairman



Jeremy Masding
Group Chief
Executive Officer



Emer Daly
Chairman Audit
Committee



Ciarán Long
Company Secretary

Corporate Governance Statement

Chairman's introduction to governance



focused on maintaining good governance

"What corporate governance means for me is that we run our business in a way that safeguards, protects and values the interests of our shareholders, customers, employees and other key stakeholders"



Alan Cook
Chairman

Dear Shareholders,

Good corporate governance practice is an essential ingredient in creating and sustaining value for our shareholders. It also ensures that our Bank is run in an ethical, legal and transparent manner. A critical component of any corporate governance regime is an effective board, whose primary role is to promote the overall success of the organisation. Your Board is committed to promoting effective corporate governance and understands that a multi-skilled and challenging board is essential to providing leadership to senior management and staff alike. By setting goals and targets, developing strategy and establishing policies and processes, the Board best enables the Group to achieve its stated objectives.

CBI Corporate Governance Code

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

UK Corporate Governance Code

The Company's shares are admitted to trading on the Main Securities Market of the Irish and London Stock Exchanges. A condition of the Company's listing on the Main Exchange of the Irish and London Stock Exchange is that the Company must comply or explain against the provisions of the 2014 UK Corporate Governance Code (UK Code) and the Irish Corporate Governance Annex (Irish Annex).

Compliance Statement (UK Code and Irish Annex)

The Board confirms that the Company has complied with the detailed provisions of the UK Code and Irish Annex during 2016, save as set out below.

The Board considers the effectiveness of the Group's system of risk management and internal control on an on-going basis. In this context, the Board has a particular focus on ensuring that appropriate governance structures are in place to address issues raised through internal review and through feedback from stakeholders, including regulators. While there was no significant failure of the Group's system of risk management and internal control during 2016 leading to a material financial loss, the Board continues with a number of key improvements that need to be implemented in order to enhance the environment supporting risk management

and internal control. The Board concluded that continued investment was required to underpin the effectiveness of its key control functions, particularly Group Risk which would further build on the significant work undertaken during 2016. The Group is also developing internal control enhancements for other relevant functions, including improved processes for risk identification, mitigation and control. This work commenced during the second half of 2015 and has continued throughout 2016. Whilst the improvements are apparent in ensuring appropriate and robust levels of governance, risk management and internal control, the priority focus during 2017 will be embedding these improvements. Structures have been put in place to measure the effectiveness of these changes on an on-going basis.

Therefore, the Board acknowledges that in considering the requirement to maintain sound risk management and internal control systems that are robust and defensible under both Main Principle C.2 and the supporting principle A.4 of the UK Code, that the aforementioned further investment and development of the Group's risk architecture is required in order to be fully compliant with these UK Code provisions.

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

Details of how the Group applied the main and supporting principles of the UK Code are set out in this Corporate Governance Statement, the Business Model and Strategy section, the Risk Management section and in the Directors' Report on Remuneration. These also cover the disclosure requirements set out in the Irish Annex, which supplement the requirements of the UK Code with additional corporate governance provisions

A copy of the UK Code is available on UK Financial Reporting Council's website <https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx>.

Board Effectiveness

In 2016, the performance evaluation of the Board, its Committees and individual Directors was internally facilitated by me as Chairman of the Nomination Committee. This followed on from the externally facilitated process in 2015.

I am pleased to report that the results of the review were positive, but did point to the need to increase the size of the Board arising from the significant time demands on Directors as evidenced through the number of Board and committee meetings during 2015 and 2016. A number of actions were agreed which will be implemented during the current year. More information on this process can be found on page 78 of the Corporate Governance Statement.

Board Development

I personally review training needs with each Director on an individual basis to ensure that those needs are matched with appropriate internal presentations and external events. All of our Non-Executive Directors have or will shortly undertake the Certified Bank Director course with the Institute of Banking. Detailed on page 80 of the Corporate Governance Statement are some of the training events and workshops provided to Non-Executive Directors during 2016.

Board Diversity

Having Directors with the right balance of skills and experience is an essential ingredient to create an effective board. I also believe that promoting gender balance on our Board will lead to increased diversity of debate and opinion and this can only support better quality decision making. The Board is committed to achieving its target of 30% female representation on the Board by the end of 2017.

Engagement with Shareholders

The Group has established a dedicated Investor Relations team, headed by the Group's Strategy, Planning and Investor Relations Director. The Group has an active market engagement programme in place where we report our financial results live through a webcast twice a year in March and July and update the market on trading twice a year in April and November. The

Group publishes all results (including the webcasts) on our website. The Group also reports other relevant information to the market on a timely basis. During last year, I took the opportunity to meet with a high proportion of the Group's major shareholders.

The Company's largest shareholder is the Minister for Finance of Ireland. In conjunction with an equity raise, the Relationship Framework with the Minister was amended and restated on the 23 April 2015 and which is publicly available on the Group's website www.permanenttsbgroup.ie. Members of the Group senior management meet with the Department of Finance officials on a monthly basis to discuss the achievement of the Group's business plan and any other important matters as specified by the Relationship Framework.

The Investor Relations team and the Group CEO provide regular updates to the Board on the type of activities mentioned above, in order to ensure that the members of the Board and in particular the Non-Executive Directors, develop an understanding of the views of major shareholders.

Corporate Governance Statement

Board of Directors



Name Position	Alan Cook (63) Chairman	Jeremy Masding (51) Chief Executive	Stephen Groarke (42) Chief Risk Officer	Julie O'Neill (61) Non-Executive Director Senior Independent Director
Independent	Yes	No	No	Yes
Appointed	13 April 2011	28 February 2012	17 May 2016	28 January 2014
Board Committees	Nomination (Chair) Remuneration and Compensation	None	None	Remuneration and Compensation (Chair) Risk and Compliance Nomination
Skills, Expertise and Experience	Alan is a Fellow of the Chartered Insurance Institute (UK) and has extensive experience in financial services and public service in the UK and elsewhere. He is an experienced chairman, non-executive director and financial services general manager with experience of leading large scale change in both the private and public sectors. He is a former managing Director of the UK Post Office. He is a former Chief Operating officer of Prudential (UK and Europe) and a former chief Executive of National Savings and Investments. He is also a former Non-Executive Director of the Office of Fair Trading and the Financial Ombudsman Service. Until recently, he was the Chairman of the Highways Agency in England and a Non-Executive Director of the UK Department of Transport. At the end of 2016 Alan stood down as the Deputy Chairman of Sainsbury Bank plc. and Non-Executive Director of MetLife Europe Limited.	Jeremy is an experienced career banker having worked with Barclays Bank in a variety of different roles between 1984 and 2007. These roles included branch banking, international banking and in head office as a Director of strategy development. In later years, he was a board Director of Barclaycard, responsible for UK consumer finance. For a year (1998/1999) he worked on secondment from Barclays with the Cabinet Office in the UK. Jeremy was Chairman of the Richmond Group (2010-2012), an independent loan broker and lender, and Group Chief Executive of Central Trust plc. (2007-2009), a specialist loan broker and lender. Jeremy is an Associate and Fellow of the Chartered Institute of Bankers and holds an MBA from Manchester Business School	Stephen is a qualified accountant who was appointed as Group CRO in April 2016 following a period of six months as Interim Group CRO. Prior to taking up the position of Interim Group CRO, Stephen held the position of Head of Group Finance at Permanent TSB. He previously held senior positions in Bank of Ireland Group and Ulster Bank Group. Since his appointment as Group CRO, Stephen has been instrumental in driving new and enhanced internal control and risk management standards for Permanent TSB.	Julie served as Secretary General of the Irish Department of Transport from 2002 until 2009 and in a public service career spanning 37 years, worked in strategic policy development and implementation with eight Government Departments. She is now an independent strategic management consultant and a Non-Executive Director at Ryanair p.l.c. and at AXA Life Europe. She is Chairperson of the Sustainable Energy Authority of Ireland and is a former board member of the Irish Museum of Modern Art. She also chairs the audit committee of Trinity College Dublin. She is a member of the Institute of Directors and a Licentiate of the Institute of Banking from whom she has received the designation of 'Certified Bank Director'. Julie brings a wide range of economic and social policy experience, as well as extensive administrative and managerial experience to the deliberations of the Board.
Current External Commitments	Non-Executive Director and Chairman designate of the UK based Life and General Insurance Mutual LV*. Alan also volunteers his time as Chairman of the University of Bedfordshire.			Julie is Non-Executive Director at Ryanair Holdings p.l.c. and Ryanair DAC. She is also a Non-Executive Director at AXA Life Europe Limited and is chairperson of the Sustainable Energy Authority of Ireland. She chairs the audit committee of Trinity College Dublin.

*The UK Code requires that any change to the Chairman's other significant commitments and impact thereto is explained in the Annual Report. At the end of December 2016, the Chairman stepped down from two MetLife Europe directorships in Ireland and as Deputy Chairman of Sainsbury Bank plc in the UK. At the beginning of January 2017, he joined the Board of LV as a Non-Executive Director and will only become Chairman of the LV board after he retires from the Company's Board at the end of March 2017. The Board is satisfied that these changes do not impact on the Chairman's capacity or ability to satisfy his obligations to the Board and to the Company given that his external commitments have reduced.



Emer Daly (53) Non-Executive Director	Richard Pike (50) Non-Executive Director	Ronan O'Neill (63) Non-Executive Director	Ken Slattery (68) Non-Executive Director	Andrew Power (60) Non-Executive Director
Yes	Yes	Yes	Yes	Yes
20 September 2011	28 January 2014	26 July 2016	30 August 2013	26 September 2016
Audit (Chair) Risk and Compliance Nomination	Audit Risk and Compliance	Risk and Compliance (Chair) Nomination	Audit Remuneration and Compensation	Audit Remuneration and Compensation
Emer is a Fellow of the Institute of Chartered Accountants and is an experienced Non-Executive Director and chair of the Audit Committee. She previously worked in senior roles with PricewaterhouseCoopers and AXA Insurance. She previously held non-executive roles with FBD Holdings Plc, Eirgrid p.l.c., Payzone p.l.c., the Property Registration Authority and the Dublin Dental Hospital where she was Board Chairman for seven years. Emer has also received the designation of 'Certified Bank Director' from the Institute of Banking. Emer brings her skills and expertise in accounting and risk management to the Board and her past experience is of particular benefit as Chair of the Audit Committee.	Richard has extensive experience of working with financial institutions and technology companies throughout the world, assisting companies in managing enterprise risk more efficiently while addressing local regulatory guidelines and standards. He has previously worked in various senior banking, insurance, credit and market risk roles. He has analysed, designed and managed the development of core treasury and enterprise risk management systems for large financial institutions, including UBS, Citibank, Schroders and Unicredit. Richard has also received the designation of 'Certified Bank Director' by the Institute of Banking. Richard brings a different dimension to the Board, related to his in depth knowledge of enterprise risk management systems together with access to his extensive network of banking and regulatory contacts in both the Irish and international marketplaces.	Ronan qualified as a Chartered Accountant with Price Waterhouse in Dublin. Since then he has spent much of his career with the AIB Group both in Ireland and the UK. Prior to retiring from that organisation in 2013, he was Chief Executive Officer of AIB (UK) plc and a member of the AIB Group Leadership Team. He has an extensive range of experience across all banking disciplines at the highest level with a particular exposure to risk and treasury functions including membership of the AIB Group Risk Committee and Assets and Liabilities Committee between 2011 and 2013. During this period, as Chief Executive of AIB UK, Ronan had responsibility for SME Business in the UK and the retail banking business of First Trust in Northern Ireland. Ronan put in place a strategic plan to revitalise AIB's UK and NI businesses and oversaw its implementation. Ronan brings extensive experience in all aspects of banking to the PTSB boardroom which is of particular benefit to the Board Risk and Compliance Committee which Ronan chairs.	Ken is a Fellow of the Institute of Bankers and a member of the Institute of Directors. He has wide-ranging experience of the Irish financial services landscape having worked in a number of senior management positions with the Bank of Ireland Group ("BOI") in a career spanning 40 years. Following retirement from BOI in 2006, Ken held Non-Executive Director positions including chairpersons of audit and risk committees. He is former Non-Executive Director of Realex Financial Services where he was chair of the Company's audit and risk committees. Ken's general banking experience compliments the existing skillset of the Board and his experience as chair of audit and risk committees in both the public and private sector has been of particular benefit to the deliberations of the Audit Committee.	Andrew is a former partner in the Consulting arm of Deloitte UK where he specialised in working with Retail Financial Services companies and in particular has extensive experience around strategy development and operational model transformation/process improvement. Andrew has advised many of the world's major financial services companies and has significant know-how of major financial markets and regulations around the globe. Andrew's extensive experience as industry subject matter expert across banking, insurance, wealth management and investment management is of great benefit to the Board.
Emer is a Non-Executive Director and Chair of the audit and risk committees of Friends Provident International Limited and Lombard International Assurance S.A., a member of the audit committee of the Department of Foreign Affairs and Trade and lectures in risk management in the UCD Graduate Business School	Richard is an Independent Non-Executive Director at JP Morgan Fund Administration Services (Ireland) Limited and JP Morgan Hedge Fund Services (Ireland) Limited. He is also a Director of Stir Consulting Services limited and Funds – Axis limited.	Ronan is a Director of Woodlands Advisers Limited.	Ken is a Non-Executive Director of Oaklee Housing Trust and Choice Housing Ireland Limited (Northern Ireland) where he Chairs both companies' audit and risk committees. He is also a member of a number of audit committees in Irish and Northern Ireland government departments (Department of Transport, Tourism & Sport, Dublin and the Department of Finance, Belfast).	Andrew is a director of Andrew Power Consultancy Limited.



Ciarán Long

Company Secretary

Ciarán was appointed Company Secretary of the Group in May 2004. He acts as secretary to each of the Board Committees. An actuary and a former employee of Irish Life, he has held Senior Executive positions in both the life and pensions businesses in Irish Life Assurance and is a former General Manager and Director of the Irish Life Corporate Business division. Ciarán is a Fellow of the Society of Actuaries in Ireland and of the Institute and Faculty of Actuaries in the UK. He holds an MSc in Business Administration from Trinity College Dublin and a Diploma in Company Direction from the Institute of Directors and has received the designation 'Certified Bank Director' from the Institute of Banking. He is a member of the Audit Committee of the Department of Social Protection and a former Director of the Retirement Planning Council and is a former board member of the Pensions Board.

Corporate Governance Statement

Board of Directors (continued)

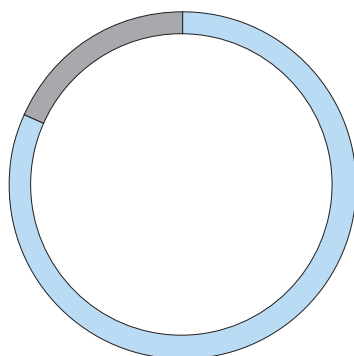
2016 Board Meeting Attendance and Directorships

Member	Appointed	Ceased	Number of Full Years on Board	2016 meeting attendance		Number of Directorships held
				Scheduled	Unscheduled	
Non-Executive Directors						
Alan Cook	13 Apr 2011	-	5	16/16	6/6	1
Emer Daly	20 Sep 2011	-	5	16/16	5/6	3
Julie O'Neill	28 Jan 2014	-	2	16/16	6/6	3
Richard Pike	28 Jan 2014	-	2	14/16	4/6	4
Andrew Power	26 Sep 2016	-	0	5/5	-	2
Ronan O'Neill	26 Jul 2016	-	0	6/6	-	2
Ken Slattery	30 Aug 2013	-	2	16/16	6/6	3
Dominic Dodd	18 Dec 2012	20 Apr 2016	3	5/6	2/4	3
David Stewart	04 Apr 2014	20 Apr 2016	2	6/6	2/4	4
Executive Directors						
Jeremy Masding	28 Feb 2012		4	16/16	6/6	-
Stephen Groarke	17 May 2016		0	8/8	-	

Notes:

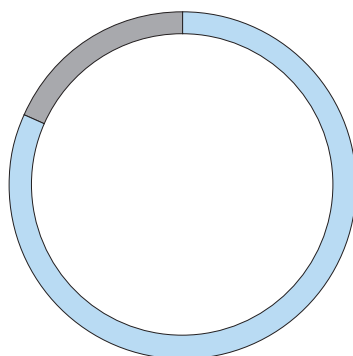
- PTSB is the sole direct subsidiary of PTSBGH. During 2016, the composition of the Boards of PTSBGH and PTSB were identical. Meetings of the Boards of PTSB and PTSBGH run concurrently. Concurrent Board meetings or consecutive Board meetings of PTSB or PTSBGH held on the same day are counted as a single attendance above.
- The number of Directorships held includes PTSBGH and other external Directorships. For the purposes of calculating Directorships, multiple Directorships within a group are counted as a single Directorship. Directorships in organisations which do not predominantly pursue commercial objectives are not included in the disclosed Directorships total. Directorships are those held at 31 December 2016 or at time cessation from the Board.

Executive v Non-Executive



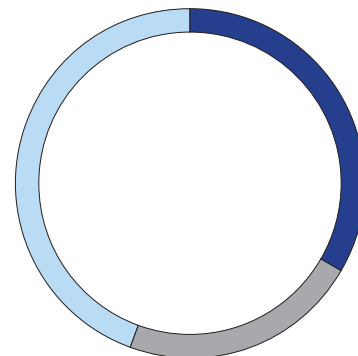
● Executive Directors
● Non-Executive Directors

Gender Diversity



● Male
● Female

Tenure



● <1 year
● 1 to 3 years
● 3 to 6 years
● >6 years

Division of responsibilities

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

The Group Chairman

Alan Cook's responsibility as Group Chairman is to ensure the efficient and effective working of the Board. His role is to lead and manage the business of the Board, promoting the highest standards of corporate governance and ensuring accurate, timely and clear information for the Board. He facilitates active engagement and challenge by the Board to the Group Executive Committee and conducts the annual Board evaluation. The Group Chairman has a strong working relationship with the Group Chief Executive, Jeremy Masding, and acts as a confidential sounding board for the Directors. Alan Cook is also Chairman of the Nomination Committee.

The Senior Independent Director

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

The Group CEO

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

The Company Secretary

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

Corporate Governance Statement

Group Executive Committee



Jeremy Masding
Chief Executive



Stephen Groarke
Chief Risk Officer



Ger Mitchell
Group Product Review Director

The Mortgage Product Review Group was established, following the Mortgage Redress Programme, to conduct a wide ranging review across our entire mortgage book to identify any other instances where redress might be required. This review was subsequently overtaken by and incorporated into the industry-wide review of Tracker Mortgages initiated by the Central Bank.

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



Mark Coan
Commercial Director

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

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



Brendan Lynott
Distribution Director

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

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



Andrew Walsh
Chief Legal Officer

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

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

During 2016, the Nomination Committee approved a proposal from the Group CEO to re-structure the Group Executive Committee. The purpose of this re-structure was to support delivery of the Group's commercial growth agenda. Changes to the Committee included the creation of the Commercial Director, Director of Operations and Chief Technology Officer positions. The appointment process to fill the latter two positions is well advanced and is expected to be completed over the coming months.



Eamonn Crowley
Chief Financial Officer

Eamonn (47) joined the Bank in 2017 from Bank Zachodni WBK S.A. ("BZ WBK"), Banco Santander's publicly listed Polish retail and commercial bank, where until recently he was Chief Financial Officer and a member of the Executive Committee. BZ WBK was formerly 70% owned by AIB. Banco Santander acquired the AIB stake in 2010. During his period as CFO, Eamonn executed the merger of BZ WBK with Kredyt Bank to form Poland's number three bank, placed over 20% of the bank on the Warsaw Stock Exchange through a Euro 1.2bn secondary IPO and led the acquisition of a controlling stake in Poland's number one Consumer Bank.

Eamonn is a fellow of the Chartered Association of Certified Accountants, a member of the Association of Corporate Treasurers and holds an MBA from University College Dublin. Eamonn has over 25 years' experience in international business across financial services, banking and M&A.

Eamonn is being proposed by the Board to be appointed a Director of the Company at the Group's AGM on 10 May 2017. Eamonn is an experienced banker and will bring extensive corporate finance, treasury and financial reporting experience to the Board.



Tony Hession
HR Director

Group HR is responsible for ensuring that the business has the required workforce in place to deliver on its business plans. This involves recruiting and developing talent while supporting the business in the day to day management of the workforce.

Tony joined the Bank in 2007 as Human Resources Director. He previously held positions in AIB and the Irish Business and Employers Confederation. He has an MSc in Management from Trinity College Dublin and is a Fellow of the Chartered Institute of Personnel Development.



Emil Ivanov
Strategy and Planning Director

The Strategy and Planning function assists in the development of, and delivery against, the Group's Strategy. The division also has responsibility for the Group's Investor Relations function.

Emil joined the Bank in 2012. He previously held senior strategy and planning positions in Barclays p.l.c. and Central Trust p.l.c. He qualified as a Chartered Accountant with PwC in 1998 and is a Fellow of the Association of Chartered Certified Accountants. He also holds an MBA from INSEAD.



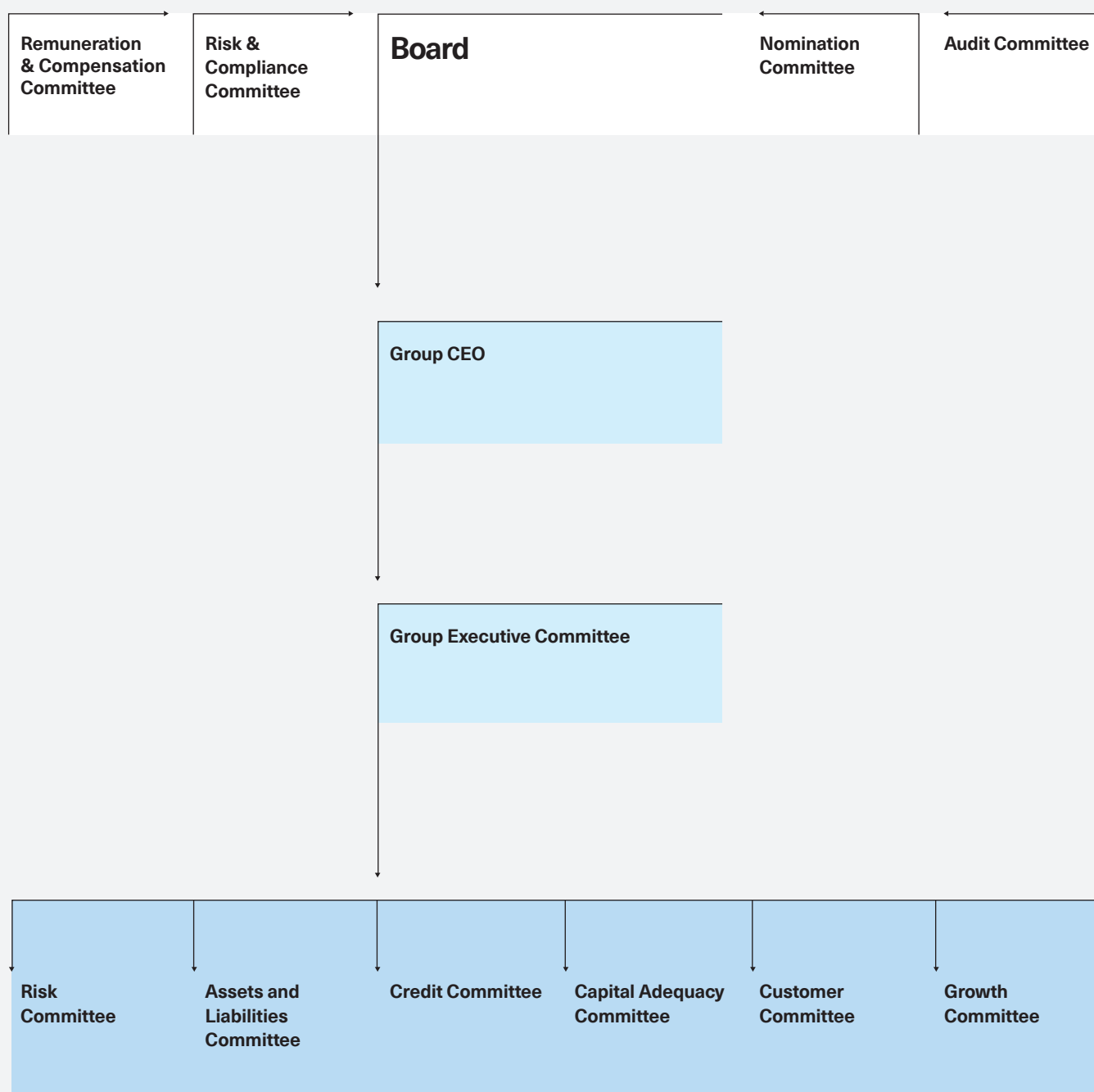
Paul Redmond
Group Internal Auditor

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

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

Corporate Governance Statement

Governance Structure



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

Board

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

Remuneration & Compensation Committee

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

Risk & Compliance Committee

- Oversees financial and operational risks including capital allocation.
- Approves and monitors risk framework and risk appetite.
- Oversees credit, funding and liquidity policies.

Nomination Committee

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

Audit Committee

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

Group Executive Committee

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

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

The Board has established Audit, Risk, Remuneration and Nomination committees as described above. During 2016, the Board of PTSB, the Company's sole direct subsidiary relied on the Board committees of the Company having considered it appropriate to do so. During December 2016, in line with its legal and regulatory obligations, the Board of PTSB established separate Audit, Risk, Remuneration and Nomination committees. Being composed of the same members and in managing a common agenda, Board Committee meetings of the Company and PTSB run concurrently.

Corporate Governance Statement

Board Leadership and Effectiveness

Board Governance Framework

The Board retains primary responsibility for corporate governance within the Group at all times. The Board has reserved for itself a documented schedule of matters for its own approval. The Board delegates executive responsibility to the Group CEO for the Group's operations, compliance and performance. The Group CEO is the principal executive accountable to the Board for the day-to-day management of the Group and also serves as the main link between the Board and the Group's Executive Management committee.

Board Role and Responsibilities

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

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

Directors must also act in a way they consider, in good faith, would promote the success of the Group for the benefit of the shareholders as a whole and, in doing so, have regard (amongst other matters) to the:

- likely consequences of any decision in the long-term;
- need to foster the Group's business relationships with customers, suppliers and others;
- interests of the Group's employees;
- impact of the Group's operations on the community, environment and tax payer; and
- desirability of the Group maintaining a reputation for high standards of business conduct.

Board Decisions

There is an effective Board to lead and control the Group. The Board has reserved to itself for decision a formal schedule of matters pertaining to the Group and its future direction, such as the Group's commercial strategy, major acquisitions and disposals, Board membership, the appointment and removal of senior executives, executive remuneration, trading and capital budgets, risk management and compliance policies. This schedule is updated on a regular basis and at least yearly. On an annual basis, the Board approves a Risk Appetite Statement together with its strategic, operating and financial plans. The Board approved the Group's most recent Risk Appetite Statement in May 2016. The Group Risk Appetite Statement is a description of the level and types of risk the Group is willing to accept, or to avoid, in order to achieve its business objectives.

In September 2016, the Group CEO presented proposals to the Board for the Group's strategic, operating and financial plans. Taking feedback from the Board, the Group CEO then presented updated plans to the November 2016 Group Executive Committee for finalisation. These documents were then presented at the December 2016 meeting of the Board where they were approved.

The Board delegates day-to-day management of the Group to the Group CEO. The Board relies on its Risk Appetite and the delivery of strategic, operating and financial plans to be implemented by the Group CEO, the Group Executive Management Committee and their management sub-committees.

All strategic decisions are referred to the Board. Documented rules on management authority levels and on matters to be notified to the Board are in place, supported by an organisational structure with clearly defined authority levels and reporting responsibilities.

Board Size and Composition

Biographies of each of the Directors are set out in the Board of Directors section. The wide range of qualifications, skills and experience that is encapsulated in the biographies is harnessed to the maximum possible effect in the deliberations of the Board. Having Directors with diverse

backgrounds in areas such as risk management, banking, customer service/conduct, digital/IT, strategy and planning, finance, government/public service and auditing provides both subject matter expertise and facilitates a broad spectrum of review and challenge at Board meetings, particularly when addressing major issues affecting the Group.

Decisions on Board membership are taken by the Board. The Nomination Committee brings recommendations on Board membership to the Board. During 2016, Stephen Groarke, Ronan O'Neill and Andrew Power were appointed as Directors and further details on the process followed in identifying the pool of candidates for these positions and subsequently how each of the candidates was selected and recommended to the Board for approval is set out in the report of the Nomination Committee on page 89.

The balance and mix of appropriate skills and experience of Non-Executive Directors are taken into account when considering a proposed appointment. The behaviours likely to be demonstrated by potential Non-Executive Directors are also considered when interviewing for new appointments to ensure that an environment in which challenge is expected and achieved is maintained in the Boardroom. In reviewing Board composition, the Nomination Committee considers the benefits of diversity, including gender, and looks to ensure that there is appropriate representation from other industry sectors. The Board has set a target of maintaining a minimum of 20% (at year-end this figure was 22%) female representation on the Board and reaching a level of 30% by the end of 2017. Board gender balance is one of a number of factors considered by the Nomination Committee as part of the recruitment process for new Directors. The Company is committed to having a diverse board, to achieving the targets in this regard and to ensuring an open and fair recruitment process.

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

understanding of the Group's activities and associated risks. The Nomination Committee seeks to ensure that a proportion of the Board have a deeper understanding of financial products and has written guidelines to ensure that Board candidates are selected on merit based on their skills, competencies, qualifications and ability to commit sufficient time to the role.

The Board has a target size of between 9 and 11 Directors with three of these positions being filled by Executive Directors, namely, the Group CEO, Group CFO and Group CRO. In addition to having Directors with a broad range of skills and experience, a principal consideration used to determine the size of the Board is the ability to resource all of the Board's Committees with at least four independent Non-Executive Directors and without need for over reliance any on one Director or small group of Directors. The recruitment of a new Group CFO has recently concluded following the appointment of Eamonn Crowley. Eamonn will stand for election as a Director at the 2017 AGM of the Company to be held on the 10 May 2017. Note: The Board was unable to co-opt Eamonn as a Director in advance of the 2017 AGM, as under the Irish Listing rules, not more than one third of the Board may consist of co-opted Directors and the co-option of Eamonn would have breached this limit.

The Board requires that all Non-Executive Directors are Independent Non-Executive Directors. The Board believes that this is an appropriate combination of Executive and Non-Executive Directors so that there is sufficient independent challenge and oversight of the Executive Directors and such that no individual or small group of individuals can dominate Board decision making.

Term of Office

The term of appointment of Non-Executive Directors is three years and is subject to satisfactory performance that is reviewed annually. In accordance with the UK Code, all Directors are required to seek reappointment by election at the Company's AGM. Non-Executive Directors will automatically retire from the Board after six years. It is always at the discretion of the Board to invite a Non-Executive Director to continue for a further period but this discretion will only be exercised

in exceptional circumstances. None of the current Non-Executive Directors have served more than 6 years.

Executive Directors' service contracts are reviewed by the Remuneration and Compensation Committee and approved by the Board. All Executive Directors' contracts provide for a rolling 11.5 month notice period to be provided. Holders of Executive office in the Company will vacate the office of Director on ceasing to hold Executive office. Directors who hold any directorship in a subsidiary of the Company will vacate said directorship on ceasing to be a Director of the Company and no Director will receive compensation for loss of office as a Director of a subsidiary of the Company.

The Chairman is proposed for reappointment by the Directors on an annual basis. The term of office of the Chairman is normally six years regardless of any previous terms as a Director. As previously announced, the Chairman, Alan Cook, will retire from the Board at the conclusion of his six year term of office on the 31 March 2017.

Board Effectiveness and Review

The Board has a formal performance review process to assess how the Board and its committees are performing. This process, which is facilitated every three years by external consultants, comprises a detailed and rigorous examination by Directors of all aspects of the Board and Committee performance. The last externally facilitated review of performance took place in 2015, nonetheless, the Chairman, Senior Independent Director and the Nomination Committee undertook a robust and objective approach to reviewing the effectiveness of the Board and its committees during 2016.

The formal evaluation of Board performance commences with the individual assessment of Non-Executive Director performance. This process is undertaken by the Board Chairman who meets formally with each Director on an annual basis. These one-to-one meetings are used as an opportunity for the Chairman to discuss any performance issues with the Director. It also provides an opportunity for the Chairman to obtain feedback from the Director with regard to their own training and development

Corporate Governance Statement

Board Leadership and Effectiveness (continued)

needs and the Director's views with regard to the effectiveness of the Board and that of its committees. In addition to this formalised process, the Chairman will address performance issues that may arise from time to time with individual Directors and provide guidance with regard to any corrective action that may be required related to the Director's performance or behaviour.

The Non-Executive Directors, led by the Senior Independent Director, evaluate the performance of the Board Chairman, taking into account the views of Executive Directors. During 2016, the Board Chairman met with the Non-Executive Directors on three occasions without the Executives present. The output of the aforementioned meetings and discussions form a material part of the Board Nomination committee's review of Board performance. The Nomination Committee's review of Board performance took place in December 2016. At this meeting, the members of the Committee considered the following three governance related questions:

- Was the Board of the Company (and that of its Committees) the right size, composed of the right people and effective in its collective governance of the Group?
- Was the committee structure appropriate to the circumstances of the Company, composed of the right people and effective in executing its responsibilities?
- Do the Board and committee members have the appropriate skills, experience, knowledge, independence (if required) and capacity to carry out their respective roles and do they do this effectively?

To support the review process, committee members are provided with a governance questionnaire, board attendance records, a listing of external directorships, a board skills matrix and any declared interests of the Directors. The Chairman also provided feedback to the members from his one-to-one meetings held with the Directors during the year and the Senior Independent Director provided feedback with regard to the performance of the Chairman. These inputs were then utilised by the Nomination Committee to consider the performance of the Directors, the Board and its Committees. The Chairman was not

present at the meeting when dealing with the evaluation of his performance.

The Nomination Committee was satisfied that the Non-Executive Directors, the Chairman and the Executive Directors contributed effectively to Board debate and discussion and demonstrated a knowledge and understanding of the business, its risks and material activities. The Committee also considered, based on the significant number of Board and committee meetings held during 2015 and 2016, that it was appropriate to recommend to the Board, that the targeted board size should increase from between 8 and 10 members to between 9 and 11 members, to support the increased workload of Directors and to ensure that the Board's committees were adequately resourced.

Procedures are in place for Directors, in furtherance of their duties, to take independent professional advice and training, if necessary, at the Group's expense. The Group has arranged Directors' and Officers' liability insurance cover in respect of legal action against its Directors.

Director Induction and Ongoing Business Awareness

On appointment to the Board or to any Board Committee, all Directors receive a comprehensive induction tailored to their individual requirements. The induction, which is designed and arranged by the Company Secretary in consultation with the Chairman, will include meetings with Directors, Senior Management and key external advisors, to assist Directors in building a detailed understanding of how the Group works and the key issues it faces. Directors will also be encouraged to make site visits to see the Group's operations first hand. Where appropriate, additional business awareness briefing sessions and updates on particular issues identified in consultation with the Chairman and Non-Executive Directors will be arranged by the Group Secretary. These will be held regularly to ensure that Non-Executive Directors have the knowledge and understanding of the business to enable them to contribute effectively at Board meetings. The business awareness and development needs of each Non-Executive Director will be reviewed annually as part of the performance evaluation process. Some of the topics for which internal workshops/ training session were provided to Non-Executive Directors during 2016 included Brexit, Whistleblowing, Anti Money

Laundering, ECB Supervisory Review and Evaluation Process (SREP), Risk Appetite Statements, liquidity/capital planning and the Macro Economic environment.

Independence

The Board has carried out its annual evaluation of the independence of each of its Non-Executive Directors, taking account of the relevant provisions of the UK Code, namely whether the Directors are independent in character and judgment and free from relationships or circumstances which are likely to affect, or could appear to affect the Directors' judgment. The Board is satisfied that each of the current Non-Executive Directors including the Chairman fulfils the independence requirements of the UK Code.

Board Meetings

The Board held 16 scheduled meetings and 6 un-scheduled Board meetings during 2016. Board papers are issued electronically to Directors via a secure online board portal in sufficient time to facilitate review by the Directors. The Board papers include a note on issues considered by all relevant committee meetings which have been held since the previous Board meeting and the Chairman of each committee reports on the committee's proceedings at Board meetings, if appropriate. The Board receives formal reports on Group risk and compliance matters together with its commercial and financial performance at each of its meetings. The minutes of Board committees are made available to all Directors through a designated reading room in the Board portal. The Board portal also contains an extensive document repository and is the primary method of communication with Directors.

Board Committees

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

Corporate Governance Statement

Risk Management and Internal Control

Board Responsibilities

The Board has overall responsibility for the Group's system of risk management and internal control. The Group's business involves the acceptance and management of a range of risks. The Group's system of risk management and internal control is designed to provide reasonable, but not absolute, assurance against the risk of material errors, fraud or losses occurring. It is possible that internal controls can be circumvented or overridden. Further, because of changes in conditions, the effectiveness of an internal control system may vary over time.

The Board has responsibility for maintaining a system of risk management and internal control which provides reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

UK Code provision C.2.3 requires the Board to review annually the effectiveness of the Group's system of risk management and internal control. This requires a review to cover all material controls including financial, operational and compliance controls.

The Board confirms that a detailed review on the effectiveness of the Group's risk management and internal control systems was undertaken by the Board Risk and Compliance Committee in December 2016.

The Board considers the effectiveness of the Group's system of risk management and internal control on an on-going basis. In this context, the Board has a particular focus on ensuring that appropriate governance structures are in place to address issues raised through internal review and through feedback from stakeholders, including regulators. While there was no significant failure of the Group's system of risk management and internal control during 2016 leading to a material financial loss, the Board continues to progress a number of key improvements that need to be implemented in order to enhance the environment supporting risk management and internal control. The Board concluded that continued investment was required to underpin the

effectiveness of its key control functions, particularly Group Risk, which would further build on the significant work undertaken during 2016. The Group is also developing internal control enhancements for other relevant functions, including improved processes for risk identification, mitigation and control. This work commenced during the second half of 2015 and has continued throughout 2016. Whilst the improvements are apparent in ensuring appropriate and robust levels of governance, risk management and internal control, the priority focus during 2017 will be embedding these improvements. Structures have been put in place to measure the effectiveness of these changes on an on-going basis.

Therefore, the Board acknowledges that in considering the requirement to maintain sound risk management and internal control systems that are robust and defensible under both Main Principle C.2 and the supporting principle A.4 of the UK Code, that the aforementioned further investment and development of the Group's risk architecture is required in order to be fully compliant with this UK Code Principle

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

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

Internal Control Procedures

The Group's internal control procedures are designed to safeguard the Group's net assets, support effective management of the Group's resources, and provide reliable and timely financial and operational reporting both internally to management and those charged with governance and externally to other stakeholders. They include the following:

- An organisational structure with formally defined lines of responsibility and delegation of authority;
- Established systems and procedures to identify, control and report on key risks. Exposure to these risks will be monitored mainly by the Risk and Compliance Committee. The Group CRO is a member of the Board, the Group Executive Committee and that of its sub-committees. The Group CRO reports directly to the Board Risk and Compliance Committee on the activities of these committees, details of which are further described in the Risk Management section;
- The preparation and issue of financial reports, including the consolidated Annual Report is managed by the Group Finance department with oversight from the Board Audit Committee. The Group's financial reporting process is controlled using documented accounting policies and reporting formats issued by the Group Finance department to all reporting entities (including subsidiaries) within the Group in advance of each reporting period end. The Group Finance department supports all reporting entities in the preparation of financial information. Its quality is underpinned by arrangements for segregation of duties to facilitate independent checks on the integrity of financial data. The financial information for each entity is subject to a review at reporting entity and Group level by Senior Management. In addition to reviewing and approving the full year Annual Report, the Interim and Annual Report are also reviewed by the Audit Committee in advance of being presented to the Board for their review and approval;
- Comprehensive budgeting systems are in place with annual financial budgets and a four year Medium Term Plan prepared and approved by the Board. Actual results are monitored and there is monthly consideration by the Board of progress compared with budgets and forecasts;

Corporate Governance Statement

Risk Management and Internal Control (continued)

- There are clearly defined capital investment control guidelines and procedures set by the Board;
- Responsibilities for the management of credit, investment and treasury activities are delegated within limits to line management. In addition, Group and divisional management have been given responsibility to set operational procedures and standards in the areas of finance, tax, legal and regulatory compliance, human resources and information technology systems and operations;
- Group Internal Audit (GIA) is responsible for the independent assessment of the Group's corporate governance, risk management and internal control processes. The Head of Group Internal Audit reports directly to the Board of Directors through the Audit Committee;
- The Audit Committee reviews the scope and nature of the work of Group Internal Audit on an on-going basis to confirm its independence;
- Compliance in the Group is controlled centrally under the Group CRO. The Group CRO reports to the Group CEO and independently to the Chairman of the Board Risk and Compliance Committee and has direct access to that committee; and
- There is a risk management framework in place within each business throughout the Group whereby Executive management reviews and monitors, on an on-going basis, the controls in place, both financial and non-financial, to manage the risks facing that business.

The Audit Committee reviews the Group Internal Audit programme. The Head of Group Internal Audit reports regularly to the Audit Committee. The Audit Committee also reviews the Interim and Annual Report and the nature and extent of the external audit. There are formal procedures in place for the external auditors to report findings and recommendations to the Audit Committee. Any significant findings or identified risks are examined so that appropriate action can be taken.

The Board Risk and Compliance Committee reviews the compliance and risk management programmes and monitors the risk profile of the Group. The Board Risk and Compliance Committee supports the Board in carrying out its responsibilities for ensuring that risks are properly identified, reported, assessed and controlled, and that the Group's strategy is consistent with the Group's risk appetite. The Group CRO reports regularly to the Risk and Compliance Committee.

The Group has in place a Whistleblowing policy, which allows all staff and other people, who work with or for the Group, to raise any concerns they may have about suspected wrongdoing within the Group, and ensures that anyone raising a concern in good faith can feel safe and confident that the Group will treat the concern seriously, provide adequate protection and ensure fair treatment for the person raising the concern. In addition, the Group has in place a code of ethics, which lays down the standards of responsibility and ethical behaviour to be observed by all employees of the Group.

Internal Control over Financial Reporting

The Group operates an internal control framework over financial reporting to support the preparation of the consolidated financial statements. The main features are as follows:

- A comprehensive set of accounting policies are in place relating to the preparation of the Interim and Annual financial statements in line with International Financial Reporting Standards as adopted by the European Union and as issued by the IASB;
- A control process is followed as part of the Interim and Annual Financial Statements preparation, involving the appropriate level of management review of the significant account line items, and where judgements and estimates are made they are independently reviewed to ensure that they are reasonable and appropriate. This ensures that the consolidated financial information required for the Interim and Annual financial statements is presented fairly and disclosed appropriately;

- The Interim and Annual Report are subject to detailed review and approval through a process involving senior and executive finance personnel;
- Summary and detailed papers are prepared for review and approval by the Board Audit Committee covering all significant judgmental and technical accounting issues together with any significant presentation and disclosure matters;
- User access to the financial reporting system is restricted to those individuals that require it for their assigned roles and responsibilities; and
- A Group Internal Audit function with responsibility for providing independent, reasonable assurance to key internal committees and senior management, and to external stakeholders (regulators and external auditors), on the effectiveness of the Group's risk management and internal control framework.

Corporate Governance Statement

Audit Committee



As Chairman of the Board Audit Committee, I am pleased to present the report of the Committee for the year ended 31 December 2016 which has been prepared by the Committee and approved by the Board. The role and responsibilities of the Committee together with a description of the work undertaken by the Committee during 2016 are set out in this report. In addition to matters set out in the report which were considered by the Committee during 2016, the Committee also played a significant role in overseeing the implementation of control improvement recommendations made by both Group Internal Audit and the External Auditors. This will continue to be a priority for the Committee during 2017. Other areas of focus for 2017 will be the impact of IFRS 9 on impairment provisions and monitoring the continued implementation and embedding of the Group's Internal Control and Risk Management Framework.

On behalf of the Audit Committee



Emer Daly

Chairman, Audit Committee

Composition and Operation

The Audit Committee is composed of Independent Non-Executive Directors. Neither the Board Chairman nor the Group CEO is a member of the Audit Committee. The Board requires that the Chairman of the Audit Committee has recent and relevant financial experience. The Chairman of the Audit Committee is responsible for leadership of the Committee and for ensuring its effectiveness. The members of the Audit Committee meet together at the start of each scheduled meeting. The head of Group Internal Audit is then invited to join the meeting so that the Committee can review and discuss internal audit activity without Senior Management present. Subsequent attendance by the Group CEO, Group CFO, Board Chairman, external auditors or others is by invitation only and managed to ensure the on-going independence of the Committee. The Board requires that a minimum of one member is common to the Audit Committee and the Risk and Compliance Committee. On an annual basis the Committee reviews its own terms of reference and its own effectiveness and recommends changes considered necessary to the Board.

2016 Audit Committee Meeting Attendance

Member	Appointed	Ceased	Number of Full Years on the Committee	2016 meeting attendance
Emer Daly*	26 Oct 2011	-	5	6/6
Andrew Power	26 Sep 2016	-	0	1/1
Ken Slattery	31 Aug 2013	-	3	6/6
Richard Pike	1 Jun 2014	-	2	6/6
Dominic Dodd	28 Jan 2014	26 Apr 2016	2	3/3

*Chairman

Role and Responsibilities

The Audit Committee monitors the effectiveness and adequacy of internal control, internal audit and IT systems and reviews the effectiveness of risk management procedures, in addition to reviewing the integrity of the Company's internal financial controls. The Audit Committee reviews the arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Audit Committee monitors and reviews the effectiveness of the Group's internal audit function and also considers the external auditor's independence and objectivity and the effectiveness of the audit process.

The Audit Committee monitors the integrity of the financial statements of the Company, reviewing significant financial reporting judgements contained therein, to ensure that they give a "true and fair view" of the financial status of the Group and to recommend to the Board whether to approve the Annual and Interim Reports and to recommend to the Board that it believes that the Annual Report taken as a whole is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's performance, business model and strategy,

In considering whether the Annual Report is fair, balanced and understandable, the Committee reviewed the Annual Report and considered whether the financial statements were consistent with the financial review elsewhere herein. The Committee also reviewed governance and approval processes in place in the Group as they were relevant to the financial statements. These included the completion by Management of disclosure checklists to ensure all required disclosures required by applicable company law, listing requirements and accounting standards are included and included the review of the draft Annual Report by various Executives and Management of the Group. The Committee also had regard to the significant issues relating to the financial statements that are set out overleaf. Each of these significant issues were addressed in papers received by the Committee from Management and in the report received by the Committee from the external auditors and was discussed in the Committee's meeting with the external auditors.

Corporate Governance Statement

Audit Committee (continued)

The Audit Committee also had regard to the assessment of internal control over financial reporting, details of which are outlined in the Risk Management and Internal Control section of the Corporate Governance Statement.

Matters considered by the Committee in 2016

During 2016 the Committee expended a significant amount of time considering those issues set out in the Significant Financial reporting Judgements and Disclosures and recommending for approval to the Board, the Annual Report and Interim report:

During 2016, the Committee also:

- Reviewed Group Internal Audit activity throughout the year including a review of performance against the 2016 internal audit plan (this included a review of an External Quality Assessment of the Internal Audit function carried out by the Chartered Institute of Internal Auditors).
- Approved a Group Internal Audit Plan covering the years 2017-2020;
- Reviewed impairment provisions;
- Reviewed the effectiveness of internal control over financial reporting;
- Reviewed the governance and approval arrangements underlying the fair, balanced and understandable assessment of the Annual Report;
- Reviewed the Group's Pillar 3 policy and disclosures;
- Reviewed the accounting treatment for the sale of UK Loan assets with a total book value of circa £2.29bn;
- Reviewed the continued recognition of a Deferred Tax Asset (DTA) on tax losses carried forward;
- Considered the impact of new EU Rules on Statutory Audits (Regulation 537/2014);
- Invited members of senior management to report on progress to remediate open internal audit actions;
- Reviewed provisions including those for legacy, legal and compliance liabilities related to the Bank's Mortgage Redress Programme and industry-wide CBI Tracker review; and
- Reviewed the basis, background and level of Non-Audit fees paid to PwC.

In a normal cycle, the Committee would also review the Group's Whistleblowing arrangement whereby employees can raise concerns, in confidence, about possible wrong doings in financial reporting and other matters. During 2016, this assessment was carried out by the Board following a full review of the Group's Whistleblowing arrangements. It has been agreed that the Committee will continue to have responsibility for the review of the Group's Whistleblowing arrangements and their effectiveness with the Board retaining ownership of policy approval.

Significant Financial Reporting Judgements and Disclosures

During the year, the Audit Committee reviewed the external auditors' findings and the following significant financial reporting judgements and disclosures for the 2016 Financial Statements.

Loan Impairment Provisions

The Committee considered the Group's methodology including assumptions and parameters for loan impairment

provisioning. The Committee discussed with Management in detail the changes and revisions made to the Group's provisioning models, the resulting level of impairment provisions recognised in the financial year, and the total impairment allowance at the year end. The Committee focused more particularly on the Irish residential mortgage portfolio (particularly given the sale of the UK loan portfolio during the year) where the economic environment continued to improve. Improvement in macroeconomic factors including unemployment and house prices combined with lower new defaults, higher loan cures and updated valuations were a feature of 2016 performance. Management also provided the Committee with an analysis of various parameters and assumptions used in the impairment provision methodology.

The Committee also reviewed Management's considerations of arrears levels, forbearance measures and their impact on provision levels and key assumptions, and was satisfied that

the level of loans classified as impaired at year end was consistent with the Group's methodology, and that the calculation and resulting provision recognised were appropriate based on the requirements of IAS 39.

Recognition and Recoverability of Deferred Tax Assets

The Committee considered the extent of deferred tax assets recognised by the Group in respect of unutilised tax losses, and in particular the future profits of PTSB against which losses may be utilised in future years. The Committee noted that the position of PTSB has continued to become more certain as the Group's performance and strategic outlook has continued to improve along with continued improvement in the macroeconomic environment during 2016, as outlined in more detail under "Going Concern" and "Longer Term Viability" on the following page.

Accordingly, in line with the requirements of IAS 12 "Income Tax", Management have formed the view that the carried forward tax losses within PTSB could be utilised against future profits, which will be generated by PTSB. This requires significant judgements to be made about the projection of long-term profitability because of the period over which recovery extends.

Having considered the above, the Committee agreed with Management's assessment that it was probable that the level of deferred tax assets recognised in the financial statements at 31 December 2016 would be recovered. The Committee noted that IFRS does not allow for the deferred tax asset recognised to be discounted notwithstanding that it will likely take a significant number of years to be fully recovered.

Provisions for Liabilities

The Committee considered the provisions made in the financial statements in order to make an assessment of the appropriateness of the underlying liabilities. The Group has recognised a provision which relates to costs of on-going disputes in relation to legacy business issues with certain customers and other factors in connection with an on-going investigation by the Central Bank of Ireland ("CBI") and the industry-wide CBI tracker review. Management has exercised judgement in arriving at the potential provision in respect of these issues. There is significant estimation uncertainty involved in determining this provision and in particular including the population of impacted customers and the nature and amount of any associated liabilities. Management presented a paper outlining the requirements of IAS 37 and the

basis of the provisions proposed including legal advice as appropriate, together with a sensitivity analysis for the key assumptions underpinning any such provisions. The Committee is satisfied that the provisions represent the best estimate of the potential liabilities at 31 December 2016, based on the level of information currently available. This matter is being kept under review as more information becomes available.

IT Access

Certain matters in relation to IT access controls have been communicated to the Audit Committee through the external audit process. We are however satisfied there are sufficient mitigating controls in place from a financial reporting perspective.

Going Concern

Note 1 to the Financial Statements includes detail of the going concern of the Group which outlines the Directors' view that the Group will continue as a going concern for a period of 12 months following the signing of this report.

Longer Term Viability

In accordance with the requirements of the UK Corporate Governance Code, the Directors have assessed the viability of the Group, taking account of the Group's current position and principal risks facing the Group.

The period over which we confirm longer-term viability

The Directors have assessed the viability of the Group over a 3 year term which falls within the time horizons considered within the various strategic planning and scenario testing frameworks employed by the Group. This period presents the Board and therefore readers of the Annual Report with a reasonable degree of confidence whilst still providing an appropriate longer-term outlook.

Assessing the prospects of the company

In making this assessment, the Directors have considered the Group's Medium Term Plan, profitability forecasts, the economic environment, funding and capital resource projections.

Our corporate planning process is underpinned by various scenarios that encompass a wide spectrum of potential outcomes. These scenarios are designed to explore the resilience of the Group to the potential impact of significant risks set out on pages 56 to 62, including in particular funding and liquidity, capital adequacy, the economic and political environment, regulatory risks and the commitments

outlined in the EU Restructuring Plan, or a combination of these risks.

The Group has incurred losses for the 2016 year. This however, is as a result of exceptional losses arising from the sale of the Group's UK and IOM mortgage portfolio. Notwithstanding this, there has been a continued improvement in underlying profitability of the Group, which is driven principally by improved funding, operating and impairment costs. The Directors have reviewed the Medium Term Plan and based on this, the macro economic conditions of the country and the planned resolution of legacy issues, they are satisfied that the Group is on track to return to profitability under a sustainable business model into the future.

There are certain key assumptions that are critical to the viability of the Group and these are outlined below:

Funding & Liquidity

The Group's liquidity position remains strong at 31 December 2016 with the Group holding a significant liquidity buffer at 31 December 2016. During the year, the Group reduced its reliance on ECB funding to €1.38bn at 31 December 2016 compared to €4.65bn at 31 December 2015.

A key assumption in determining the longer term viability is that the Group will continue to be able to access the required liquidity and funding during the period of assessment.

The Group continues to undertake a number of initiatives to further improve its liquidity position in the areas of deposits, collateral optimisation, wholesale markets activity and deleveraging.

Notwithstanding the above, the Group continues to utilise the normal operations of the ECB for liquidity and funding during the period of assessment and the Directors and Management are aware that the Group's ability to continue to access system liquidity and funding will be dependent on the Group having sufficient eligible collateral.

Our funding plans assume, based on our interaction with wholesale markets and deposit trends, that the required liquidity and funding will be available to the Group over the medium term.

Capital Adequacy

The Group's Total Capital position remained robust for 2016. As planned, the Group utilised capital in 2016 to complete the sale of the residual UK loan portfolio.

Directors and Management have considered the forecast sufficiency of this capital base, and its ability to withstand additional stress scenarios such as the economic environment in Ireland deteriorating. At present we do not have full certainty as to how our minimum regulatory capital requirements will evolve over the period to 2019 however we expect to be in a position to meet those requirements in the medium term.

Economic & Political Environment

The Group continues to be materially reliant on Government and European Union policy in relation to the Irish economy and the financial services sector.

The Group has successfully concluded a number of transactions including the issuance of a public RMBS as well as completing the deleveraging of its residual UK and IOM loan portfolios.

At a macroeconomic level, property prices and unemployment continued to recover during 2016. The potential impact of economic, political and market risks and uncertainties are inherent in the Group's businesses and continue to impact the Group. The risks have a direct impact on the Group's loan arrears levels, impairment provisions and cost of regulation and as a consequence, profitability and regulatory capital levels are impacted. Directors and Management have considered these factors, and in particular a deterioration of the macroeconomic environment leading to further house price falls, a potential increase in the level of arrears under a stress case and the impact that these may have on the Group's performance and are satisfied that the Group is adequately capitalised for certain reasonably possible events. However, in this regard we have assumed that there is no material change to government or political policies which materially impact our business.

EU Restructuring Plan

The Restructuring Plan was approved in April 2015. The Restructuring Plan Term Sheet sets out the terms for restructuring the Group and includes a commitment to reducing the value of defaulted Irish Tracker Mortgages, meeting a specific cost income ratio and other behavioural commitments. The Group continues to monitor the progress against the Restructuring Plan Term Sheet, and assumes that no issues are currently expected to arise which would cast doubt on the longer term viability of the Group.

Robust assessment of the principal risks

We have performed a robust assessment of the principal risks to our business, its viability and the key assumptions outlined above. The

Corporate Governance Statement

Audit Committee (continued)

scenarios we have considered in relation to our viability can be summarised as follows:

- Base case: planned profitability and growth over the medium term. This is the basis for our Medium Term Plan in which we have assumed that we continue to meet all material regulatory capital and liquidity targets over the assessed period to 2019;
- Prolonged cost of funds and house price deterioration: we estimate that our capital and liquidity ratios can withstand this for some years, depending on its severity, however over a very prolonged period or in the event of a very significant deterioration we would be required to take mitigating actions including but not limited to raising additional capital;
- Global credit shock and higher global unemployment: this would lead to a reduction in our capital and liquidity ratios which would continue to meet minimum regulatory capital requirements in the near term, however, continued stress over a prolonged period or in the event of a very significant deterioration would require the Group to take mitigating actions including but not limited to raising additional capital;
- Significant reputational event: we have a strong liquidity buffer at present however a major reputational event which impacted significantly on deposit outflows could cause us to breach our regulatory liquidity ratios. In such circumstances there are alternative mitigating actions available to the Group including raising secured debt and accessing additional collateralised system funding, if necessary and permissible in such circumstances; and
- Significant European downturn and material deposit outflows: over the medium term this would likely require us to take a variety of mitigating actions including raising both capital and additional secured debt, if possible.

The scenarios considered were designed to be severe but plausible; and take full account of the availability and likely effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks and that realistically would be open to the Group in the circumstances.

Confirmation of longer-term viability

Based upon our assessment of the above, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they

fall due over the three year period of their assessment to December 2019.

Relationship with External Auditors

The Audit Committee provides a link between the Board and the external auditors, independent of the Company's Management. The external auditors regularly attend Audit Committee meetings and the Committee meet with the external auditors at least once a year without Management present to discuss their remit and any issues arising from the audit.

The Audit Committee reviewed the external audit plan prior to the commencement of the 2016 audit. The Audit Committee meet with the external auditor to review the findings from the audit of the Group financial statements. The Audit Committee has an approved policy on the provision on non-audit services by the external auditor. The policy seeks to ensure that processes are in place to ensure that the independence and objectivity of the external audit process is not compromised, which includes monitoring the nature and extent of the services provided by the external auditor through its quarterly review of fees paid to the external auditor for audit and non-audit work, seeking confirmation from the external auditor that they are in compliance with relevant ethical and professional guidance and that, in their professional judgement, they are independent of the Group.

The Audit Committee review all fee arrangements with the external auditor. Fees paid in respect of audit, other assurance services, tax advisory services and non-audit services are outlined in note 8 to the financial statements.

Other assurance services are services carried out by the auditors by virtue of their role as auditors and include assurance related work, reporting to the regulator and accounting advice. In line with best practice, the auditors do not provide services such as financial information system design and valuation work which could be considered to be inconsistent with the audit role.

The amount of fees payable to external auditors for their audit services for the year 2016 was €1.0 million (excluding VAT) payable to PwC Ireland. €0.3 million (excluding VAT) was paid in respect of non-audit services to PwC Ireland, which relate to the accounting advice PwC provided on various projects including IFRS 9. €0.2

million (excluding VAT) was paid in respect of non-audit services to PwC UK in relation to the launch of two new structured securitisations entities. An additional €0.4m (excluding VAT) was paid to PwC Ireland in respect of the ELG scheme and other Central Bank Reporting.

The external auditor is required to rotate audit partner every five years. The Group also reviews the effectiveness, independence and objectivity of the external auditor.

The last competitive tendering process for the appointment of the auditors took place in 2012. This development followed a Board decision that the position of auditors should be subject to regular, competitive tendering.

The Audit Committee reviews the effectiveness of the External Auditor through discussion and assessment of its performance..

Review of Group Internal Audit

The Audit Committee approves the annual work programme for the Group Internal Audit function, ensures that it is adequately resourced and has appropriate standing within the Group. The Head of Internal Audit has a direct reporting line to the Chairman of the Audit Committee and the Audit Committee meets with the Head of Internal Audit on a regular basis without the presence of Management. The Audit Committee receives regular reports from Group Internal Audit, which include summaries of the key findings of each audit in the period. The Audit Committee ensures co-ordination between Group Internal Audit and the external auditor.

As set out in the Risk Management Section a 'Three Lines of Defence' model has been adopted by the Group for the effective oversight and management of risks across the Group, with Group Internal Audit being the Third Line of Defence. The Group has committed additional resources to Group Internal Audit during 2016 in order for it to provide a robust third line challenge in accordance with the Risk Management Framework.

The Audit Committee reviews the effectiveness of Group Internal Audit through periodic evaluations, supplemented by external facilitators at appropriate intervals.

Best practice requires that an independent review be undertaken every 3 to 5 years of internal audit effectiveness in order to assess conformance to the Institute of Internal Audit's (IIA) International Standards. The Group's Internal Audit function was reviewed by the IIA in 2016.

Corporate Governance Statement

Risk and Compliance Committee



As Chairman of the Board Risk and Compliance Committee, I am pleased to present the report of the Committee for the year ended 31 December 2016 which has been prepared by the Committee and approved by the Board. The role and responsibilities of the Committee together with a description of the work undertaken by the Committee during 2016 are set out in this report. 2016 was a year in which the Committee focussed on the continuing build out and development of the Group's systems of risk management and internal control. The development of a mature risk culture within the Group continues to be a priority focus for the Committee and is an integral part of the Group's strategy. While the Committee is not yet in a position to confirm compliance with the UK Code as set out in the Board Chairman's introduction on page 68, a key priority for the Committee is to oversee the continued implementation of processes, controls and behaviours for the Group with the aim of achieving full compliance with the UK Code.

On behalf of the Risk and Compliance Committee

Ronan O'Neill

Chairman, Risk and Compliance Committee

Composition and Operation

The Risk and Compliance Committee is composed of Independent Non-Executive Directors. Neither the Board Chairman nor the Group CEO is a member of the Risk and Compliance Committee. Ronan O'Neill was appointed as Chairman upon joining the Committee in July 2016, following the retirement of David Stewart at the Company's 2016 AGM in April. The Board ensures that the Chairman of the Committee has relevant risk management and / or compliance experience. The Board requires that at least one member of the Committee is common to both the Audit Committee and the Remuneration and Compensation Committee. On an annual basis the Committee reviews its own terms of reference and its own effectiveness and recommends changes considered necessary to the Board.

2016 Risk and Compliance Committee Meeting Attendance

Member	Appointed	Ceased	Number of Full Years on the Committee	2016 meeting attendance
Ronan O'Neill*	26 Jul 2016	-	0	3/3
Emer Daly	24 Oct 2011	-	5	12/12
Richard Pike	28 Jan 2014	-	2	12/12
Julie O'Neill	28 Jan 2014	-	2	12/12
David Stewart	1 Apr 2014	26 Apr 2016	2	6/7

*Chairman

Role and Responsibilities

The Committee is responsible for monitoring adherence to the Group Risk Appetite Statement. Where exposures exceed levels established in the appetite statement, the Committee is responsible for ensuring that appropriate responses are developed. This is facilitated by the periodic review of a key risk indicators report calibrated to the risk appetite statement.

The Committee is also responsible for oversight and advice to the Board on risk governance, the current risk exposures of the Group and future risk strategy, including strategy for capital and liquidity management, the setting of compliance policies and principles and the embedding and maintenance throughout the Group of a supportive culture in relation to the management of risk and compliance. The Board Risk and Compliance Committee supports the Board in carrying out its responsibilities for ensuring that risks are properly identified, reported, assessed and controlled, and that the Group's strategy is consistent with the Group's Risk Appetite.

Corporate Governance Statement

Risk and Compliance Committee (continued)

Matters considered by the Committee in 2016

During 2016, the Committee continued to progress the Group Risk Change Programme which was originated to ensure that the Group Risk Function was in a strong position to discharge its duties in respect of overseeing the risk taking activities of the Group, and, fundamentally, supporting the need to assure a robust risk, governance and control culture across the Group.

Each meeting of the Committee considered the management information provided by the Group CRO incorporating the following aspects:

- Risk Appetite metrics
- Recovery Plan metrics
- Credit risks
- Financial risks
- Non-Financial risks
- Compliance and Regulatory matters
- Conduct risk
- Other risks including reputational risk

Specific reviews were also performed and recommendations made to the Board with regard to the Group's Risk Management Architecture documentation that included the Group's Risk Appetite Framework and Risk Appetite Statement. The Committee also discussed and reviewed such matters as Anti-Money Laundering/Counter Terrorism Financing, Mortgage Forbearance, Related Party Lending, Corporate Insurance and Health & Safety

During the year, the Committee also considered and approved Group Risk Frameworks,

Policies and supporting documentation that included the following:

- Group Risk Management Framework
- Group Risk Governance Manual
- Group Risk Function Mandate
- Operational & IT Risk Management Policy
- Credit policies
- Treasury policies, including the Liquidity & Funding Risk Policies and Contingency Funding Plan, Model Risk Policy
- Regulatory Compliance Framework and Policy
- Data protection Policy
- Market Risk Oversight Policy

In addition the Group completed, under oversight from the Board Risk and Compliance Committee, a substantial overhaul of its processes and reporting relating to its ICAAP, ILAAP and Recovery Plan.

Corporate Governance Statement

Nomination Committee



As Chairman of the Board Nomination Committee, I am pleased to present the report of the Committee for the year ended 31 December 2016 which has been prepared by the Committee and approved by the Board. The role and responsibilities of the Committee together with a description of the work undertaken by the Committee during 2016 are set out in this report. 2016 was a busy year for the Committee which met on 16 occasions. The Committee dealt with the appointment of 3 new Directors to the Board, the identification of a candidate (without my presence in accordance with the UK Code) to replace me as Board Chairman, the appointment of a number of senior management positions and the review and approval of the Group CEO's proposals to re-structure the composition of the Group Executive Committee. The focus of the Committee during 2017 will be to provide support to the new Board Chairman in evaluating the performance of the Directors and Board and the Committee is also committed to addressing the commitments set out in the Board's diversity policy.

On behalf of the Nomination Committee

Alan Cook

Chairman, Nomination Committee

Composition and Operation

The Nomination Committee is composed of independent Non-Executive Directors. The Board requires that the Board Chairman and the Senior Independent Director are members of the Nomination Committee.

2016 Nomination Committee Meeting Attendance

Member	Appointed	Ceased	Number of Full Years on the Committee	2016 meeting attendance
Alan Cook*	2 June 2011	-	5	10/10
Ronan O'Neill	26 Jul 2016	-	0	8/8
Julie O'Neill	28 Jan 2014	-	2	16/16
Emer Daly	1 June 2014	-	2	16/16
Dominic Dodd	16 July 2013	20 Apr 2016	2	1/2

*Chairman

Note: Alan Cook did not attend six meetings of the committee that dealt with succession planning for the Chairman.

Role and Responsibilities

The Nomination Committee is charged with responsibility for bringing recommendations to the Board regarding the appointment of new Directors and of a new Board Chairman. The Board Chairman does not attend the Committee when it is dealing with the appointment of a successor to the Board Chairman. Decisions on Board appointments are taken by the full Board. All Directors are subject to re-appointment by election by the shareholders at the first opportunity after their appointment.

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

Director Appointments

There were three appointments to the Board during 2016. Stephen Groarke, the Group Chief Risk Officer was appointed as an Executive Director in May 2016. This appointment arose following a recommendation by the Nomination Committee to the Board in November 2015 that, given the strategic priority of the Board to develop and strengthen the Group's risk management and internal control infrastructure and culture, the Group Chief Risk Officer should be appointed to the Board.

During 2016, Ronan O'Neill and Andrew Power were appointed as Non-Executive Directors to the Board. The appointments arose following the retirement of Dominic Dodd and David Stewart at the Company's 2016 AGM. The Nomination Committee designed and approved a detailed role profile for each of the two Board vacancies and was assisted in this process by the development and approval of a Board skills matrix. The Board skills matrix enabled the Nomination Committee to understand the current skill set of the Board and where potential gaps existed following the retirement of Directors Dominic Dodd and David Stewart.

The Board utilised the services of the external search agency 'Leaders Mores' to generate a long list of potential candidates for the two vacant positions. Open advertising was not utilised by the Nomination Committee as the Committee were satisfied that the pool of candidates put forward by the search agency was diverse and thorough.

The profile of each candidate on the long list was considered in the first instance by the Chairman. The Chairman then held preliminary meetings with a high proportion of these candidates before selecting an interim shortlist of candidates for members of the Nomination Committee to meet. As part of the

Corporate Governance Statement

Nomination Committee (continued)

assessment process, a final short list was created and these candidates were invited to meet with the Executive Directors and members of senior management. The purpose of these meetings was to provide feedback to the Nomination Committee with regard to the candidates designated core competencies and experience.

In addition to considering each of the candidates backgrounds, skills and experience, extensive due diligence was carried out on the final preferred candidate for each of the respective vacancies which included a detailed review of their other commitments including any matters that would likely impact the candidate's independence or create any actual or perceived conflict of interest. The Nomination Committee also considered each candidate's personal characteristics, as the ability to provide robust challenge to Executive Management is considered a critical competency for the role of a Non-Executive Director. In addition to Committee members meeting separately with each of the short-listed candidates, the Committee met on five occasions as part of the process to bring both recommendations to the Board.

Succession planning for the role of Board Chairman

A key function of the Nomination Committee is succession planning for the Board. The Committee noted that the current Chairman's term of office would expire on the 31 March 2017 and met on six occasions during 2016 to consider the planning and execution of a succession plan for the role of Chairman. This process was led by the Senior Independent Director, Julie O'Neill who, in the absence of the Board Chairman, chaired the Nomination Committee for these meetings.

The Nomination Committee designed and approved a role profile for the position of Board Chairman and also approved a project plan to map out the key milestones and objectives of the process, mindful of the fact that it could take some time to identify a suitable candidate for the position.

The Nomination Committee considered the profiles of sixteen candidates from a long list drawn up by the external search agency 'Zygos'. Open advertising was not utilised by the Nomination Committee as the Committee were satisfied with the pool of candidates generated by the search agency.

A key focus for the Committee was identifying a candidate with strong

leadership skills, financial services experience and high emotional intelligence. With support and attendance by the external search agency over a number of Committee meetings and following engagement by Committee members with a number of the candidates, a short-list of candidates was selected for formal interview with the Committee, the Executive Directors and members of Senior Management. Utilising feedback from each interviewee, the Nomination Committee utilised a documented scoring system across a range of skills, competencies and experience to select the preferred candidate. Following further due diligence on the candidate's time capacity for the role, independence and examination of potential conflicts, a recommendation was made to the Board in late December 2016. As set out in the Chairman's Statement on page 4, Robert Elliot has been announced as Alan's Cook's replacement, and this appointment will take effect on the 31 March 2017.

Neither of the external search agencies described in this report have any other connection with the company save for recruitment services provided to the Group.

Other Matters considered by the Committee in 2016

During 2016, the Committee undertook a number of actions in execution of its mandate that included:

- a review of the succession plan for Board and Senior Management positions across the Group;
- a review of its own terms of reference;
- the approval of the recruitment process and appointment for a number of Senior Management positions;
- the review and approval for a proposal to re-structure the Group Executive Committee through the creation of new positions and reporting lines;
- the review and approval of the Board Diversity Policy;
- the review of the performance of the Group CEO and his performance assessment of his direct reports;
- the review, consideration and recommendation to the Board for the appointment of the chair positions for the Risk and Compliance Committee and the Remuneration and Compensation Committee;
- the monitoring of the ongoing process with regard to the appointment of the Chief Financial Officer;
- a review of the effectiveness of the Board and that of its Committees;
- a review of the size and composition of the Board and that of its Committees and making a number of recommendations to the Board including that the target Board size should be increased;
- an assessment of the performance of both the Chairman and Chief Executive against the provisions of the Central Bank of Ireland Corporate Governance Code; and
- the review and approval of a Board Skills Matrix.

Corporate Governance Statement

Remuneration and Compensation Committee



As Chairman of the Board Remuneration and Compensation Committee, I am pleased to present the report of the Committee for the year ended 31 December 2016 which has been prepared by the Committee and approved by the Board. The role and responsibilities of the Committee together with a description of the work undertaken by the Committee during 2016 are set out in this report. A significant portion of the Committee's time during 2016 was taken with updating and aligning the Group's Remuneration Policy and Terms of Reference with applicable regulation and legislation. During 2016, the Committee also reviewed and made recommendations to the Board for the Group's first general pay increase to Bank staff since 2010 and ensured that those increases complied with the Bank's risk policies, regulatory obligations and were aligned with market peers. During 2017, the Committee will aim to ensure that Remuneration Policy complies with the Group's legal and regulatory obligations.

On behalf of the Remuneration and Compensation Committee

Julie O'Neill

Chairman, Remuneration and Compensation Committee

Composition and Operation

The members of the Remuneration and Compensation Committee are Julie O'Neill, Alan Cook, Andrew Power and Ken Slattery, all of whom are experienced in the management and oversight of large consumer-focussed organisations where the remuneration and motivation of staff and executives is of crucial importance. Julie O'Neill was appointed Chairman of the Committee on 15 June 2016, taking over from Dominic Dodd who retired from the Board at the 2016 AGM. Julie O'Neill received a comprehensive induction programme upon appointment. The Committee had 11 meetings during 2016 and in addition, the Chairman of the Committee met with Senior Management and external reward advisers to discuss emerging issues and regulatory requirements relating to remuneration issues.

2016 Remuneration and Compensation Committee Meeting Attendance

Member	Appointed	Ceased	Number of Full Years on the Committee	2016 Meeting Attendance
Alan Cook	5 May 2011	-	5	11/11
Ken Slattery	28 Jan 2014	-	3	11/11
Julie O'Neill*	26 Apr 2016	-	-	7/7
Andrew Power	26 Sept 2016	-	-	3/3
Dominic Dodd	29 Jan 2013	20 Apr 2016	3	4/4
David Stewart	1 Apr 2014	20 Apr 2016	2	2/4

*Chairman

Role and Responsibilities

The purpose, duties and membership of the Committee are set out in the Committee's Terms of Reference which can be found on the Group's website www.permanenttsbgroup.ie. The Terms of Reference are reviewed by the Committee on an annual basis.

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

- Recommending the Group's remuneration policies to the Board for approval;
- Supporting the Board in overseeing remuneration policies, practices and processes and compliance with the Remuneration Policy;
- Ensuring the remuneration policies and procedures do not promote excessive risk taking and are aligned with the Company's overall corporate governance framework, corporate culture, risk appetite and related governance processes, and takes into account liquidity and capital levels;
- Recommending the design, eligibility and performance measures for any incentive schemes to the Board for approval;
- Setting and assessing performance targets for any incentive schemes;
- Recommending remuneration proposals (including joining and termination arrangements) in respect of the Chairman, Group CEO, Executive Directors, Executive Committee and Heads of Control Functions for approval by the Board;
- Approving remuneration proposals in respect of any other identified staff ("Material Risk Takers") as defined under the Capital Requirement Directive (CRD) IV; and
- Overseeing the annual review of the implementation of the Remuneration Policy.

Corporate Governance Statement

Remuneration and Compensation Committee (continued)

Matters considered by the Committee in 2016

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

The Committee, with the supporting perspective of the external consultant and the internal Group Risk function, applied significant oversight to compliance with the CRD IV related Regulations and Guidelines, including a focus on reviewing the remuneration components of Material Risk Takers. The Committee approved the process and approach for the identification of Material Risk Takers in line with these requirements. Considerable time was also devoted to reviewing the Group's Remuneration and Termination policies and compliance with the EBA Guidelines on sound remuneration policies in advance of their implementation on 1 January 2017. The Committee also reviewed the Group's established variable commission schemes, as well as principles and practices to ensure they are fully aligned with regulatory requirements, particularly CRD IV and relevant market practice.

During 2016, the Committee used an external consultant, Deloitte LLP, for advice on Executive Director and Senior Management remuneration, remuneration trends in the external market and for perspective on regulatory compliance matters. Separately, Deloitte have also been engaged by the Group to provide advice and support relating to the Group

Risk Change Programme, the IFRS 9 implementation programme and other miscellaneous consulting projects including IT system projects.

The Group utilises a policy of median base pay versus market peer groups. The Committee is cognisant of the need to attract and retain the required talent and skills to deliver the return of value to the Company's shareholders. In doing so, it takes account of appropriate input from the Group's risk, compliance and internal audit functions to ensure that its decision making process is aligned with the Group's financial performance, risk appetite, regulatory guidelines and stakeholder interests.

If the Group is unable to attract, retain and motivate key skilled and qualified people, its business may be negatively impacted. The Committee keeps the impact of the Group's Remuneration Policy and movements in the external market under review.

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

Directors Report on Remuneration

Remuneration Report

This report sets out the Remuneration Policy with a focus on the Group's Senior Executives and Directors. It has been prepared by the Remuneration and Compensation Committee and approved by the Board.

Remuneration Policy

The Group undertakes an annual review of Remuneration Policy to ensure that it meets with the changing requirements being introduced in Ireland and the EU. Building on the changes previously made to the Remuneration Policy, the Committee has again this year reviewed its Remuneration Policy, principles and practice to ensure they are aligned with regulatory requirements; in particular CRD IV, the EBA Guidelines on sound remuneration policies and relevant market practice. The Group has continued to operate its Remuneration Policy in line with the remuneration requirements of the framework agreement between the Minister for Finance and the Company. Additional disclosures in relation to Remuneration Policy and strategy are set out in the Group's Pillar 3 Report.

As a result of all these changes the Company has ceased most of its former reward practices. The reward arrangements within the Group can be summarised as follows:

- The Group utilises a policy of median pay versus market peer groups. The policy also addresses levels of pension contribution and other allowances;
- The Remuneration Policy is compliant with regulatory requirements as they relate to the Group;
- There were no bonuses paid to Executive Directors or Material Risk Takers in 2016;
- There has been no granting of share options since 2008; all outstanding share options have now lapsed and no further grants can be made under the remaining scheme which is now closed;
- No deferred remuneration was awarded in 2016;
- There are no outstanding Long Term Incentive Plan ("LTIP") share awards;
- Aggregate Executive Director compensation has decreased slightly from €781,000 to €732,000 (2015-2016); and
- There was no change in the level of the basic fee paid to Non-Executive Directors during 2016. Aggregate fees paid to Non-Executive Directors decreased slightly from €653,000 to €615,000 (2015-2016) as a result of changes to Board and Committee membership during the year.

At an overall level, the Committee ensures that the Remuneration Policy is consistent with the Group's Risk Appetite Statement. The Group CRO meets with the Committee to discuss remuneration related risk and regulatory compliance to ensure the alignment of Remuneration Policy with risk management.

In framing the Group's Remuneration Policy, the Board confirms, other than as set out in the Board Chairman's Introduction on page 68, that it has complied with the provisions of the UK Code. The Group's policy on Senior Executive remuneration (including Executive Directors) is to reward Executives competitively in order to ensure the Group continues to attract and retain high calibre Executives and that they are properly motivated to perform in line with business strategy, objectives, values and long-term interests of the shareholders. This policy is exercised in the context of the State Agreements and the restrictions on both base and variable pay, recent regulatory changes, capital requirements and ability to pay.

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

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

At the AGM in 2016, 99% of votes cast were in favour of the "Say on Pay" resolution.

Non-Executive Directors

Non-Executive Directors are remunerated solely by way of fees in respect of their Board membership, full details of which are on page 94..

Executive Directors

The remuneration of the Executive Directors in 2016 comprises a basic salary, certain benefits and defined contribution pension entitlements.

Basic Salary

The basic salary is reviewed annually having regard to competitive market practice and Government guidelines. During 2016, the Remuneration and Compensation Committee reviewed general salary levels within the bank and arising therefrom, the Board approved the first general pay increase to staff

since 2010. These pay increases were effective from 1 January 2016. As part of this review, and in considering current market data and existing State Agreements (in particular the salary cap of €500,000), the Remuneration and Compensation Committee recommended to the Board that the Group CEO's salary should be increased to €424,000 (2015: €400,000) effective from 1 January 2016. This increase was considered appropriate in light of the aforementioned review and given that this was the Group CEO's first salary increase since his appointment in 2012.

Benefits

Executive Directors may avail of subsidised house purchase loans. Loans to Executive Directors are on the same terms and conditions as loans to other eligible PTSB management. At the end of 2016 no house purchase loans had been issued to serving Executive Directors.

The Committee reviewed the benefits offered to the Executive Directors and determined that the Group CEO should receive an allowance of €20,000 in lieu of a company car with effect from 1 January 2016. This is in line with the provision to other members of the Executive Committee and market practice.

Bonus and long-term incentive plans

No bonus payments were made to Executive Directors during 2015 or 2016. Neither were there any long term incentive arrangements in place for Executive Directors in 2015 or 2016.

Pensions

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

Directors' Fees from another Company

Where an Executive Director of the Group is remunerated for service as a Non-Executive Director of a non-Group company and retains such remuneration, the amount of this remuneration is disclosed. There is no such remuneration to disclose for 2015 or 2016.

Share Option Schemes

No share options were granted in 2015 or 2016. There were no share options in existence at the end of the period and the Group's sole remaining share option scheme is now closed.

Directors Report on Remuneration

(continued)

Executive Directors' Remuneration and Pension Benefits - Audited

The remuneration payable to Executive Directors who held office for any part of the financial year is as follows:

	Salary		Other remuneration		Total	
	2016	2015	2016	2015	2016	2015
	€000	€000	€000	€000	€000	€000
Jeremy Masding	424	400	78	52	502	452
Stephen Groarke (appointed 17 May 2016)	181	-	49	-	230	-
Glen Lucken*	-	281	-	48	-	329
	605	681	127	100	732	781

J Masding - Other remuneration consists of employer pension contributions (€51k), Benefit in Kind (€23k), taxable expenses (€4k).

S Groarke - Other remuneration consists of employer pension contributions (€22k), Benefit in Kind (€22k), taxable expenses (€5k).

*In September 2015 Mr. Lucken resigned from the Board of PTSBGH. At the end of his employment as a Director of the Group, Mr Lucken was contractually entitled to a payment in lieu of notice of €402,500.

Executive Directors' Share Options-Audited

Neither Executive Director (Jeremy Masding and Stephen Groarke) holds any Share Options in the Company. The Executive and Non-Executive Directors' shareholdings in the Company are detailed in note 40 of the financial statements.

Non-Executive Directors' Remuneration –Audited

Non-Executive Directors, including the Group Chairman were remunerated solely by way of fees in respect of their Board membership. The Group Chairman was paid an annual fee of €180,000 and Non-Executive Directors received €50,625. Non-Executive Directors who performed additional services outside of their Board duties received additional fees as follows:

- €25,313 to the chairs of the Audit Committee and Risk and Compliance Committee;
- €6,750 to the members of the Audit Committee and to members of the Risk and Compliance Committee; and
- €16,875 to the Senior Independent Director.

Committee Membership is set out on pages 70-71.

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

Director	Note	2016 Basic Fee Level €'000	2016 Fees Paid €'000	2016 Additional Fees paid €'000	2016 Annual Taxable Benefit €'000	2016 Total Paid €'000	2015 Total Paid €'000
Alan Cook	1	180	180	-	46	226	*180
Emer Daly	2	51	51	25	-	76	76
Ken Slattery	3	51	51	7	-	57	57
Julie O'Neill	4	51	51	18	-	69	52
Richard Pike	5	51	51	19	-	70	59
Andrew Power	6	51	13	2	11	26	-
Ronan O'Neill	7	51	22	11	-	33	-
Dominic Dodd	8	51	15	8	6	29	*74
David Stewart	9	51	15	8	6	29	*76

*In addition to the payments as noted above additional expense allowances were received by Alan Cook (€43k), Dominic Dodd (€14k) and David Stewart (€22k) in 2015. These allowances were previously included in note 40 of the Annual Report 2015.

Note 1: The annual taxable benefit for Alan Cook represents non-pensionable cash in lieu of expenses.

Note 2: Additional fees paid as Chair of the Audit Committee.

Note 3: Additional fees paid as a member of the Audit Committee.

Note 4: Additional fees paid as a member of the Risk and Compliance Committee and as Senior Independent Director (appointed as Senior Independent Director on 26 April 2016).

Note 5: Additional fees paid as a member of the Audit Committee and the Risk and Compliance Committee. Also received additional remuneration of €6k for chairing meetings of the BRCC on a case by case basis during the period 20 April 2016 to 26 July 2016 (while a replacement for David Stewart was being sought).

Note 6: Appointed as a member of the Board on 26 September 2016. Additional fees paid as a member of the Audit Committee since joining date. The annual taxable benefit for Andrew Power represents non-pensionable cash in lieu of expenses.

Note 7: Appointed as a member of the Board on 26 July 2016. Additional fees paid as Chair of the Risk and Compliance Committee since joining date.

Note 8: Ceased as a member of the Board, member of the Audit Committee and Senior Independent Director on 20 April 2016. The annual taxable benefit for Dominic Dodd represents non-pensionable cash in lieu of expenses.

Note 9: Ceased as a member of the Board and Chair of the Risk and Compliance Committee on 20 April 2016. The annual taxable benefit for David Stewart represents non-pensionable cash in lieu of expenses.

Directors' Service Contracts-Unaudited

In accordance with the UK Code there are no Directors' service contracts with notice periods exceeding twelve months or with provisions for pre-determined compensation on termination which exceeds one year's salary and benefits.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS and European Union (Credit Institutions: Financial Statements) Regulations 2015 and in respect of the Consolidated financial statements, Article 4 of the IAS Regulation.

Under Irish law the Directors shall not approve the Group's and Company's financial statements unless they are satisfied that they give a true and fair view of the Groups' and the Companies' assets, liabilities and financial position as at the end of the financial year and of the profit or loss of the Group for the financial year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRS adopted by the EU and ensure that they contain the additional information required by the Companies Act 2014; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to:

- correctly record and explain the transactions of the Company;
- enable, at any time, the assets, liabilities, financial position of the Company to be determined with reasonable accuracy; and
- enable the Directors to ensure that the financial statements comply with the Companies Act 2014, and as regards the Group financial statements, article 4 of the IAS Regulation and enable those financial statements to be audited.

The Directors are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and the requirements of the Listing Rules issued by the Irish and London Stock Exchanges, the Directors are also responsible for preparing a Directors' Report and reports relating to Directors' Remuneration and Corporate Governance. The Directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules to include a management report containing a fair review of the business and a description of the Principal Risks and Uncertainties facing the Group.

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

The Directors confirm that, to the best of each Director's knowledge and belief:

- they have complied with the above requirements in preparing the financial statements;
- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position of the Group and the Company and of the loss of the Group;
- the Group's Chairman Statement, the Group's Chief Executives Review and the Financial Review set out in the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the Principal Risks and Uncertainties that they face as set out in the Risk Management Section of the Strategic Report; and

- the Annual Report and the financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

On behalf of the Board



Alan Cook
Group Chairman



Jeremy Masding
Group Chief
Executive Officer



Emer Daly
Chairman Audit
Committee



Ciarán Long
Company Secretary

Independent Auditor's Report to the Members of Permanent TSB Group Holdings plc

Report on the financial statements

Our opinion

In our opinion:

- Permanent TSB Group Holdings plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the group's and the company's assets, liabilities and financial position as at 31 December 2016 and of the group's loss and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Consolidated and Company Statement of Financial Position as at 31 December 2016;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated and Company Statement of Cash Flows for the year then ended;
- the Consolidated and Company Statements of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is Irish law and IFRSs as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2014.

Our audit approach

Overview

Materiality

- Overall group materiality: €10.5 million which represents 0.5% of net assets.

Audit Scope

- We have conducted an audit of the complete financial information of Permanent TSB plc which is the main trading entity of the group and accounts for 98% of the net assets of the group and 87% of absolute loss before tax (ie the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units).
- In addition, specified audit procedures were performed on selected account balances of Lansdowne 199 Limited (a group subsidiary).

Areas of Focus

- Impairment provisions on loans and advances to customers
- Provisions for legacy, legal and compliance issues
- Recoverability of deferred tax assets
- IT Controls

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
<i>Impairment provisions on loans and advances to customers</i> Refer to page 84 (Corporate Governance Statement), page 116 (Group accounting policies), page 129 (critical accounting estimates and judgements), page 149 (Impairment provisions) and page 169 (financial risk management note dealing with credit risk). The determination of impairment provisions for the secured lending portfolios involves a number of different provisioning methods depending on loan performance and the size of the loan. Certain provisions are determined using modelling techniques, for example the Residential credit models, while others are determined on an individual loan basis using discounted cash flow calculations. The use of models involves the extraction of large amounts of data from the group's source systems. A mix of historical experience, market information and management judgement is incorporated into the various assumptions which underpin the provisioning process for provisions determined using models and provisions determined on an individual loan basis. Due to this inherent complexity and the significant management judgement involved, we focused on impairment provisions and in particular the assumptions underlying the calculation of modelled provisions relating to residential mortgages such as collateral valuation, forced sale discount and foreclosure costs, and the assumptions used in discounted cash flow assessments relating to Commercial Real Estate (CRE), such as collateral valuation.	We assessed and tested the design and operating effectiveness of management's controls over the source data and calculations. We also tested the completeness and accuracy of underlying data from the group's source systems. Given the complexity of the residential mortgage model, we engaged our IT audit specialists to assess the data feeds to the models and to re-perform certain model provision calculations. We performed testing over the classification of loans and advances as impaired or non-impaired. For modelled provisions, we challenged key assumptions by comparison to externally available information and assessed certain assumptions for consistency with group specific actual historic experience. Where changes were made to the model parameters and assumptions used in the prior year, we understood the rationale and considered the appropriateness of such changes. For loans where impairment is assessed on an individual loan basis, our testing incorporated the selection of a sample of individual loans where: • We assessed, by reference to the underlying documentation and through discussion with management, whether or not a trigger for impairment had occurred and challenged the reasonableness of management's judgement in this regard. • If an impairment trigger had occurred, we formed a view on the level of provision booked based on the detailed loan and counterparty information, including collateral valuation in the credit file, and considered the estimated future cash flows prepared by management to support the calculation of the impairment provision. We challenged the assumptions used in the future cash flows by comparing estimates to external support, where available. Where appropriate our work involved considering third party valuations of collateral and internal valuations derived from benchmark data. We considered and challenged the group's rationalisation of the overall provision to assess whether relevant risks are reflected in the provision and to assess the reasonableness of the total provision having regard to available external data.

Independent Auditor's Report to the Members of Permanent TSB Group Holdings plc

(continued)

Area of focus	How our audit addressed the area of focus
Provisions for legacy, legal and compliance issues Refer to page 84 (Corporate Governance Statement), page 123 (Group accounting policies), page 134 (critical accounting estimates and judgements) and page 159 (note 29 to the consolidated financial statements). The group has recognised a provision of €74 million in respect of legacy, legal and compliance liabilities of which €61m relates to a Mortgage Redress Programme relating to an enforcement action by the Central Bank of Ireland (CBI) and also to a review of tracker mortgages that the CBI has mandated across the industry in Ireland (the CBI review). The Group has put in place a dedicated project team to carry out this CBI review. As noted in Note 29, the CBI review is ongoing to assess the potential number of cases impacted, which involves the consideration of a number of factors relating to individual customer cases. The quantification of the total provision requires management judgement and is subject to significant estimation uncertainty in respect of identifying the level of customers requiring redress, under the CBI review and estimating both the related compensation and costs associated with the Mortgage Redress Programme and the CBI review.	We read and considered correspondence with the Central Bank of Ireland regarding conduct issues. We met with the Head of Legal, the Head of Compliance and the Group Product Review Director to update our understanding of legacy, legal and compliance issues. In respect of the Mortgage Redress Programme, we have tested significant movements during the year in relation to programme costs incurred and the fine imposed by the CBI. In respect of the CBI mandated review, we have obtained an understanding of the process to date being undertaken by management. We obtained an understanding of the approach undertaken by management in arriving at the total provision estimate. We assessed and evaluated the methodology and challenged key assumptions used to determine the provision estimate and assessed whether the provision recognised is reasonable based on the available information to date. We have considered the extent and appropriateness of the disclosures included within the financial statements.
Recoverability of deferred tax assets Refer to page 84 (Corporate Governance Statement), page 114 (Group accounting policies), page 131 (critical accounting estimates and judgements) and page 156 (note 22 to the consolidated financial statements). The group has deferred tax assets of € 373 million that primarily arise due to historical operating losses. A key judgement is whether there is convincing evidence of sufficient future taxable profits against which those losses can be utilised. This judgement relies on the assessment of the probability, the timing and the sufficiency of future taxable profits, which in turn is based on assumptions concerning future economic conditions and business performance. The Group's considerations in respect of the recognition of the deferred tax asset are outlined in Note 2, which provides an overview of the key assumptions underpinning the financial projections. We have focused on this area due to the level of judgement involved.	We assessed the forecast of taxable profits which inform management's decision to recognise a deferred tax asset in respect of tax losses arising from historic operating losses. We understood and tested key controls over the production and approval of the medium term plan and considered the appropriateness of the growth rate used to extrapolate those profits over the period beyond the detailed plan. We considered whether the projections provide convincing evidence that sufficient taxable profits will be available to utilise unused tax losses. We assessed the relevant macroeconomic assumptions and growth assumptions underlying the projections in the context of economic consensus forecasts. We also evaluated the other key assumptions for reasonableness by reference to historic performance, future plans and external data as appropriate. We have also considered the appropriateness of the disclosures included in the financial statements.
IT Controls Refer to page 85 (Corporate Governance Statement). The IT framework of the group incorporates a number of IT systems which have been in place for many years. We have focused on IT controls and in particular deficiencies in the IT control environment, as deficiencies in access controls over a number of applications on certain systems could have a significant impact on financial reporting controls and systems.	We involved our IT audit specialists to update our understanding of the group's IT environment and of changes made to it during 2016. To the extent required for our audit, we assessed and tested the design and operating effectiveness of IT controls over financial reporting systems relating to access security, IT operations and change control management, including mitigating controls where relevant. Where deficiencies affected specific applications within the scope of our audit we extended our programme of work to test compensating controls and to perform other procedures as considered relevant.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the operational structure of the group, the accounting processes and controls, and the industry in which the group operates.

Permanent TSB plc is the main trading entity of the Group. Following the sale of the Lansdowne 199 loan portfolio in the current financial year along with the loan portfolios of a number of other subsidiaries in the Isle of Man, the Group no longer has significant other subsidiaries.

In establishing the overall approach to scoping the group audit engagement we determined the type of work that needed to be performed by legal entity. All audit work was performed by the group audit team.

We performed an audit of the full financial information of Permanent TSB plc as this accounts for 98% of the net assets of the group and 87% of absolute loss before tax (ie the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units). In order to increase the overall level of audit evidence on each account balance in the consolidated financial statements, audit procedures on selected account balances, classes of transactions or disclosures were performed at Lansdowne 199 Limited. The nature and extent of audit procedures was determined by our risk assessment for each account balance.

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

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	€10.5 million (2015: €11 million).
How we determined it	0.5% of net assets.
Rationale for benchmark applied	Given the volatility in loss before tax arising over recent years from elevated impairments and subsequent reductions and the scale of losses arising from exceptional activities, we believe that net assets provides us with a more appropriate and consistent year on year basis for determining materiality rather than profitability.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €0.53 million (2015: €0.55 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on pages 63 and 110, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the group and company has adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's and company's ability to continue as a going concern.

Independent Auditor's Report to the Members of Permanent TSB Group Holdings plc

(continued)

Other required reporting

Consistency of other information

Companies Act 2014 opinion

In our opinion the information given in the Directors' Report is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- information in the Annual Report is: - materially inconsistent with the information in the audited financial statements; or - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group and company acquired in the course of performing our audit; or - otherwise misleading.	We have no exceptions to report.
the statement given by the directors on page 83 and 95, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company acquired in the course of performing our audit.	We have no exceptions to report.
the section of the Annual Report on page 84, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

the directors' confirmation on page 81 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
the directors' explanation on page 85 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the group and the directors' statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Directors' remuneration and transactions

Under the Companies Act 2014, we are required to report to you if, in our opinion, the disclosure of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made, and under the Listing Rules we are required to review the six specified elements of disclosures in the report to shareholders by the Board on directors' remuneration. We have no exceptions to report arising from these responsibilities.

Corporate governance statement

- In our opinion, based on the work undertaken in the course of our audit of the financial statements:
 - the description of the main features of the internal control and risk management systems in relation to the financial reporting process included in the Corporate Governance Statement; and
 - the information required by Section 1373(2)(d) of the Companies Act 2014 included in the Directors' Report;
- is consistent with the financial statements and has been prepared in accordance with section 1373(2) of the Companies Act 2014.

- Based on our knowledge and understanding of the company and its environment obtained in the course of our audit of the financial statements, we have not identified material misstatements in the description of the main features of the internal control and risk management systems in relation to the financial reporting process and the information required by section 1373(2)(d) of the Companies Act 2014 included in the Corporate Governance Statement and the Directors' Report.
- In our opinion, based on the work undertaken during the course of our audit of the financial statements, the information required by section 1373(2)(a),(b),(e) and (f) is contained in the Corporate Governance Statement and the Directors' Report.
- Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code and the two provisions of the Irish Corporate Governance Annex specified for our review. We have nothing to report having performed our review.

Other matters on which we are required to report by the Companies Act 2014

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the company financial statements to be readily and properly audited.
- The Company Statement of Financial Position is in agreement with the accounting records.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 95, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Ivan McLoughlin

for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
07 March 2017

Consolidated Income Statement

For the year ended 31 December 2016

	Notes	Year ended 31 December 2016 €m	Year ended 31 December 2015 €m
Interest income	4	568	694
Interest expense	4	(178)	(350)
Net interest income		390	344
Fees and commission income	5	57	56
Fees and commission expense	5	(18)	(17)
Net trading income/(expense)	6	3	(4)
Net other operating income/(expense)	7	29	(1)
Total operating income		461	378
Administrative, staff and other expenses (excluding exceptional items)	8	(262)	(272)
Bank Levy and other regulatory charges	9	(61)	(27)
Depreciation of property and equipment	20	(12)	(13)
Reversal of impairment of property and equipment	20	2	2
Amortisation of intangible assets	21	(8)	(7)
Exceptional items		(414)	(460)
Loss on disposal of assets	10	(399)	(401)
Restructuring and other charges	10	(15)	(7)
Loss on repurchase of Contingent Capital Notes	10	-	(52)
Total operating expenses		(755)	(777)
Operating loss before write-back/(charge) for impairment		(294)	(399)
Impairment write-back/(charge)			
Loans and advances to customers	19(a)	65	(35)
Reposessed assets	19(b)	3	(1)
Debt securities		-	1
Total Impairment write-back/(charge)		68	(35)
Loss before taxation		(226)	(434)
Taxation	11	(40)	9
Loss for the year		(266)	(425)
Attributable to:			
Owners of the holding company		(266)	(425)
Loss per share		€ Cent	€ Cent
Basic loss per share of €0.5 ordinary shares	12	(60.7)	(100.2)
Diluted loss per share of €0.5 ordinary shares	12	(60.7)	(100.2)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Notes	Year ended 31 December 2016 €m	Year ended 31 December 2015 €m
Loss for the year		(266)	(425)
Other comprehensive income, net of tax:			
Continuing operations			
Items that will not be reclassified to the income statement in subsequent years			
Revaluation of property	20	9	16
Tax relating to items that will not be reclassified to the income statement	11	(3)	(3)
Items that may be reclassified to the income statement in subsequent years			
Currency translation adjustment reserve			
Transferred to income statement on discontinuance of the hedge	16	1	-
Available-for-sale ("AFS") reserve			
Change in fair value of AFS financial assets	14	(26)	(13)
Transfer to income statement on disposals of AFS financial asset	15	(22)	-
Tax relating to items that may be reclassified to the income statement	11	6	2
Cash flow hedge reserve			
Change in fair value recognised in equity	16	24	44
Amortisation of dedesignated CFH to income statement	16	(9)	5
Tax relating to items that may be reclassified to the income statement	11	(2)	(6)
Other comprehensive (expense)/income, net of tax		(22)	45
Total comprehensive expense for the year, net of tax		(288)	(380)
Attributable to:			
Owners of the holding company		(288)	(380)
		(288)	(380)

Consolidated and Company Statement of Financial Position

As at 31 December 2016

	Notes	Consolidated		Company	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
		€m	€m	€m	€m
Assets					
Cash and balances with central banks	13	66	64	-	-
Items in the course of collection	13	30	31	-	-
Assets classified as held for sale	41	1	91	-	-
Debt securities	14	2,682	3,839	-	-
Equity securities	15	9	23	-	-
Derivative assets	16	44	58	-	-
Loans and advances to banks	17	1,185	1,516	-	-
Loans and advances to customers	18	18,886	23,030	-	-
Prepayments and accrued income	24	103	50	-	-
Property and equipment	20	125	115	-	-
Intangible assets	21	34	37	-	-
Other assets	23	81	74	-	-
Current tax asset		2	-	-	-
Deferred taxation	22	353	393	-	-
Investments in subsidiary undertakings	42	-	-	1,161	1,459
Total assets		23,601	29,321	1,161	1,459
Liabilities					
Deposits by banks (including central banks)*	25	2,903	6,749	-	-
Customer accounts	26	16,984	18,550	-	-
Debt securities in issue	27	1,324	1,003	-	-
Derivative liabilities	16	124	397	-	-
Accruals		10	9	-	-
Current tax liability		-	4	-	-
Other liabilities	28	50	74	3	3
Provisions	29	84	117	-	-
Subordinated liabilities	30	22	22	-	-
Total liabilities		21,501	26,925	3	3
Equity					
Share capital	31	1,257	1,257	1,257	1,257
Share premium	31	333	331	333	331
Other reserves	31	(764)	(624)	-	-
Retained earnings	31	1,152	1,310	(432)	(132)
<i>Shareholders' equity</i>		1,978	2,274	1,158	1,456
Other equity instruments	31	122	122	-	-
Total equity		2,100	2,396	1,158	1,456
Total liabilities and equity		23,601	29,321	1,161	1,459

*Deposits by banks (including central banks) includes €1.4bn (31 December 2015: €4.7bn) of ECB funding.

On behalf of the Board:



Alan Cook
Group Chairman



Jeremy Masding
Group Chief Executive



Emer Daly
Chairman Audit Committee



Ciarán Long
Company Secretary

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

Group	Attributable to owners of the holding company										Total
	Share capital	Share premium	Capital contribution reserve*	Revaluation reserve*	AFS reserve*	Cash flow hedge reserve*	Currency translation adjustment reserve*	Other capital reserve*	Retained earnings	Other equity instrument	
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Balance as at 31 December 2014	1,212	1,492	118	11	114	(56)	-	(856)	245	-	2,280
Loss for the year ended 31 December 2015	-	-	-	-	-	-	-	-	(425)	-	(425)
Other comprehensive income, net of tax (note 11,32)	-	-	-	13	(11)	43	-	-	-	-	45
Total comprehensive income/(expense) for the year	-	-	-	13	(11)	43	-	-	(425)	-	(380)
Transactions with owners, recorded directly in equity:											
Reorganisation of reserves	-	(1,490)	-	-	-	-	-	-	1,490	-	-
<i>Contributions by and distributions to owners</i>											
Issue of share capital	45	357	-	-	-	-	-	-	-	-	402
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	125	125
Issuance cost of share capital and other equity instruments	-	(28)	-	-	-	-	-	-	-	(3)	(31)
Total contributions by and distributions to owners	45	(1,161)	-	-	-	-	-	-	1,490	122	496
Balance as at 31 December 2015	1,257	331	118	24	103	(13)	-	(856)	1,310	122	2,396
Loss for the year ended 31 December 2016	-	-	-	-	-	-	-	-	(266)	-	(266)
Other comprehensive income, net of tax (note 11,32)	-	-	-	6	(42)	13	1	-	-	-	(22)
Total comprehensive income/(expense) for the year	-	-	-	6	(42)	13	1	-	(266)	-	(288)
Transactions with owners, recorded directly in equity:											
<i>Contributions by and distributions to owners</i>											
Release of provision in relation to issuance cost of share capital and other equity instruments	-	2	-	-	-	-	-	-	-	-	2
Transfer of capital contribution reserve to retained earnings	-	-	(118)	-	-	-	-	-	118	-	-
AT1 coupon paid (note 31)	-	-	-	-	-	-	-	-	(10)	-	(10)
Total contributions by and distributions to owners	-	2	(118)	-	-	-	-	-	108	-	(8)
Balance as at 31 December 2016	1,257	333	-	30	61	-	1	(856)	1,152	122	2,100

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

Statement of Changes in Equity

For the year ended 31 December 2016

Company

	Attributable to owners of the holding company			
	Share capital	Share premium	Retained earnings	Total
	€m	€m	€m	€m
Balance as at 1 January 2015	1,212	1,492	(1,622)	1,082
Loss for the year ended 31 December 2015	-	-	-	-
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Transactions with owners, recorded directly in equity:				
Reorganisation of reserves	-	(1,490)	1,490	-
<i>Contributions by and distributions to owners</i>				
Issue of share capital	45	357	-	402
Issuance cost of share capital	-	(28)	-	(28)
Total contributions by and distributions to owners	45	(1,161)	1,490	374
Balance as at 31 December 2015	1,257	331	(132)	1,456
Loss for the year ended 31 December 2016	-	-	(300)	(300)
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(300)	(300)
Transactions with owners, recorded directly in equity:				
<i>Contributions by and distributions to owners</i>				
Release of provision in relation to issuance costs of share capital and other equity instruments	-	2	-	2
Total contributions by and distributions to owners	-	2	-	2
Balance as at 31 December 2016	1,257	333	(432)	1,158

Consolidated and Company Statement of Cash Flows

For the year ended 31 December 2016

	Group		Company	
	31 December	31 December	31 December	31 December
	2016	2015	2016	2015
	€m	€m	€m	€m
Cash flows from operating activities				
Loss before taxation for the year	(226)	(434)	(300)	-
Adjusted for:				
Depreciation, amortisation and impairment of property, equipment and intangibles	30	51	-	-
Reversal on revaluation of property	(2)	(2)	-	-
Gain on disposal of property	-	(1)	-	-
Impairment losses/writeback on:				
- Loans and receivables to customers	(65)	35	-	-
- Repossessed assets	(3)	1	-	-
- Debt Securities	-	(1)	-	-
Impairment on subsidiary investment	-	-	300	-
Unrealised losses/(gains) on financial assets	(3)	4	-	-
Loss on debt securities/buy back	-	-	-	-
Interest on subordinated liabilities	-	25	-	-
Loss on repurchase of subordinated liabilities	-	51	-	-
Loss on loans and receivables	399	392	-	-
Amortisation of bond discounts	(7)	(12)	-	-
Other mortgage related adjustments	24	22	-	-
Other provisions	16	40	-	-
Other non-cash items	6	30	-	-
Visa equity share	(8)	-	-	-
	161	201	-	-
(Increase)/decrease in operating assets				
Loans and advances to banks	(473)	2	-	-
Loans and advances to customers	3,230	5,247	-	-
Debt securities	1,127	1,927	-	-
Derivative assets	(24)	(5)	-	-
Other assets	164	198	-	-
Prepayments and accrued income	(18)	(28)	-	-
Equity securities	(13)	-	-	-
Increase/(decrease) in operating liabilities				
Deposits by banks (including central banks)	(3,461)	(2,643)	-	-
Customer accounts	(1,475)	(1,998)	-	-
Debt securities in issue	400	(1,724)	-	-
Derivative liabilities	(4)	(53)	-	-
Other liabilities and accruals	(25)	(18)	-	-
Provisions	(20)	(41)	-	-
	(592)	864	-	-
Net cash inflow / (outflow) from operating activities before tax	(431)	1,065	-	-
Tax paid	5	(1)	-	-
Net cash inflow / (outflow) from operating activities	(426)	1,064	-	-

Consolidated and Company Statement of Cash Flows

For the year ended 31 December 2016

	Group		Company	
	31 December	31 December	31 December	31 December
	2016	2015	2016	2015
	€m	€m	€m	€m
Cash flows from investing activities				
Purchase of property and equipment	(12)	(13)	-	-
Proceeds from sale of property and equipment	-	3	-	-
Purchase of intangible assets	(16)	(8)	-	-
Movement in restricted cash holdings	171	355	-	-
Net cash flows from investing activities	143	337	-	-
Cash flows from financing activities				
AT1 Dividend payment	(10)	-	-	-
Issuance of AT1 security	-	122	-	-
Redemption of debt securities in issue	-	(1,567)	-	-
Issuance/maturities of debt securities	419	300	-	-
Principal repaid on subordinated liabilities	-	(410)	-	-
Interest paid on subordinated liabilities	-	(31)	-	-
Proceeds from issue of ordinary shares	-	373	-	-
Net cash flows from financing activities	409	(1,213)	-	-
Increase/(decrease) in cash and cash equivalents	126	188	-	-
Analysis of changes in cash and cash equivalents				
Cash and cash equivalents as at 1 January	736	660	-	-
Increase/(decrease) in cash and cash equivalents	126	188	-	-
Effect of exchange translation adjustments	(262)	(112)	-	-
Cash and cash equivalents as at 31 December*	600	736	-	-

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

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Notes to the Consolidated Financial Statements

(continued)

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

1.1 Corporate information

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

The consolidated financial statements include the financial statements of the Company and the Group and are prepared up to the end of the financial year, 31 December 2016.

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

These consolidated financial statements were approved by the Board and authorised for issue by the Directors on 7 March 2017.

The accounting policies applied in the preparation of the financial statements for the year ended 31 December 2016 are set out below.

1.2 Basis of preparation

Statement of compliance

These consolidated financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income ("OCI"), the consolidated and the Company statement of financial position, the consolidated and the Company statement of changes in equity, the consolidated and the Company statement of cash flows and the notes to the consolidated and the Company financial statements, and have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee ("IFRS IC") as adopted by the European Union and those parts of the Companies Act 2014 applicable to companies reporting under IFRS and European Union (Credit Institutions: Financial Statements) Regulations 2015. The accounting policies have been consistently applied by the Group entities and are consistent with the previous year, except as indicated in section 1.4 below. There have been no changes in accounting policies during the year.

The financial statements include information which is described as audited that is contained in the Remuneration Report on pages 93 and 94.

The individual financial statements of the holding company have also been prepared in accordance with IFRS and IFRS IC as adopted by the European Union and those parts of the Companies Act 2014 applicable to companies reporting under IFRS. In accordance with section 304(2) of the Companies Act 2014, the Company is availing of the exemption from presenting its individual income statement to the Annual General Meeting and from filing it with the Registrar of Companies. During 2016, the Company impaired its investment in PTSB. See note 42 for further information. The Company did not trade during the current or prior year.

Basis of measurement

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

Functional and presentation currency

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

Use of estimates and judgements

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

Actual results may differ from the estimates made. The estimates and assumptions are reviewed on an on-going basis and where necessary are revised to reflect current conditions. The principal estimates and assumptions made by Management relate to impairment of loans and advances to customers, deferred tax assets, financial instruments and provisions. Judgements made by Management that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

1.3 Going Concern

In considering Management's assessment of the Group's ability to continue as a going concern, Management considered the principal risks and uncertainties as they might pertain to the Going Concern assumption, particularly the status of the Group's adherence to the terms of the Restructuring Plan, the Liquidity position, Profitability and the Capital position. Management considered these items over the course of the year to date and into 2017, their current status and future projections. In doing so Management considered each risk in turn, and the likelihood of the risk precipitating in the Going Concern assumption becoming invalid over the period of assessment, being 12 months from the date of the approval of the Annual Report for the year ended 31 December 2016. Management considered realistic alternatives, including downside scenarios applied by the Group so as to appropriately test assumptions and potential outcomes. Management concluded, based on progress over recent years, in addition to the Group's outlook, that the Group has no material uncertainties which would cast significant doubt on the going concern assumption.

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

Assessment basis

The time period that the Directors and Management have considered in evaluating the appropriateness of the going concern basis in preparing the consolidated financial statements for the twelve months ended 31 December 2016 is a period of 12 months from the date of approval of these financial statements ("the period of assessment").

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

Economic & political environment

The Group continues to be materially reliant on Government and European Union policy in relation to the Irish economy and the financial services sector. At a macroeconomic level, property prices and unemployment levels continue to recover in 2016. The mortgage market continues to be constrained however, impacted by housing completions and various other factors.

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

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

Restructuring Plan

The Restructuring Plan was approved in April 2015. A commitment within the Restructuring Plan Term Sheet, to deleverage the remainder of the CHL portfolio was not met by the deadline of 30 June 2016 due principally to market factors outside the Group's control. The Group however, completed the sale of the CHL portfolio in November 2016. The Group has concluded that this does not cast doubt on the ability of the Group to continue as a Going Concern over the period of assessment. In addition, there are no other matters currently expected to arise which would give rise to material uncertainties which would cast doubt on the ability of the Group to continue as a going concern over the period of assessment.

Funding & liquidity

The Group continued to have sufficient liquidity throughout 2016 and has reduced its ECB/system funding to €1.38bn (from €4.65bn at 31 December 2015). The Group continues to undertake initiatives to further improve its liquidity position in the areas of deposits, collateral optimisation and wholesale markets activity. The Directors and Management have also considered forecasts of the liquidity position over the going concern period, under a range of stress scenarios.

Notwithstanding the above, the Group continues to hold a significant liquidity buffer at 31 December 2016. The Group also continues to utilise the normal operations of the ECB for liquidity and funding during the period of assessment and the Directors and Management are aware that the Group's ability to continue to access system liquidity and funding will be dependent on the Group having sufficient eligible collateral. However, the Directors and Management are satisfied, based on a review of funding plans, interaction with wholesale markets and deposit trends that the required liquidity and funding will be available to the Group during the period of assessment, and does not give rise to material uncertainties which would cast significant doubt on the ability of the Group to continue as a Going Concern basis over the period of assessment.

Profitability and capital adequacy

The Group made a profit in the half year to 30 June 2016 and a profit before exceptional items for the 12 month period ended 31 December 2016 with a loss for the 2016 year. This was principally due to the sale of certain residual non-core portfolios thereby completing the non-core deleveraging programme. Directors and Management have reviewed the Medium Term Plan and based on this, the macro economic conditions of the country and the planned resolution of legacy issues, Directors and Management are satisfied that the Group is on track to return to profitability in the future.

Directors and Management have also considered the Group's forecast capital base, including its ability to withstand additional Group applied stress scenarios such as the economic environment in Ireland declining. The Group has a minimum Total Capital Requirement of 12.7% inclusive of a CET1 requirement of 9.2% for 2017. The Group is also advised to maintain a Pillar 2 Guidance ("P2G") of 2.25% in addition to the above. On the basis of the above considerations, the Directors and Management have concluded that capital adequacy does not give rise to a material uncertainty which would cast significant doubt on the ability of the Group to continue on a Going Concern basis for the period of assessment.

Notes to the Consolidated Financial Statements

(continued)

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

Conclusion

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

1.4 Comparative information

The comparative information for 2015 has been prepared on a consistent basis, other than in respect of non-performing loans, commitments and contingencies and capital management as described below. A third statement of financial position has not been included as it would not provide any additional information to the reader of the financial statements.

Non-performing loans

During 2016, the Group revised its application of the definition of non-performing loans. This resulted in the reclassification of certain loans, where a forbearance arrangement to maintain part capital and interest was in place and the terms being met, to non-performing loans. The Group has restated the non-performing loan disclosures for the prior year by €0.5bn (resulting in an increase of €448m ROI Home loans and an increase of €46m ROI Buy-to-let loans), as set out within note 34 in order to more appropriately reflect and enhance comparability.

Commitments and contingencies

Commitments and contingencies have been restated in respect of two matters. The 2015 number for commitments to extend credit '1 year and over' has been restated to include all undrawn mortgage stage payments which were previously not reported. This resulted in an additional €132m being included in this category.

Additionally, €120m of undrawn mortgage commitments which were previously reported in '1 year and over' has been reclassified to commitments to extend credit 'less than 1 year', as the maturity date on these facilities are less than 12 months.

This has resulted in a €120m net increase in commitments to extend credit 'less than 1 year', and a €12m net increase in commitments to extend credit '1 year and over'. See note 39 for further details.

Current/Non-current assets and liabilities

The 2015 amount designated as current for Loans and advances to customers previously included those loan balances due to mature in the next 12 months. The 2015 amount designated as current has been restated to include €690m of contractual capital payments which are contractually due to be received within the next 12 months in respect of loans that are not due to mature in the next 12 months. See note 36 for further details.

Capital management

The amount of Additional Tier 1 Capital and Tier 2 instruments included within the consolidated capital of the holding company is restricted within the limits laid down under the CRR. This has resulted in a restatement of the Tier 1 Capital from €122m to €105m and the restatement of Subordinated liabilities from €11m to €8m. See note 35 for further details.

1.5 Summary of significant accounting policies

(i) Basis of consolidation

Subsidiaries

Subsidiaries are those entities (including special purpose entities) controlled by the Group. Control exists when the Group has:

- the power, directly or indirectly, over the relevant activities of the entity, for example through voting or other rights;
- exposure to, or rights to, variable returns through involvement with the entity; and
- the ability to use its power over the entity to affect the Group's return from the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Financial statements of subsidiaries are prepared up to the financial position date. Intercompany transaction balances and unrealised gains/losses on transactions between Group companies are eliminated.

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

Business combinations and goodwill

(a) Business combinations

Business combinations, other than those under common control are accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners and equity interest issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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

The results of subsidiaries acquired are included in the consolidated income statement from the date of acquisition. Profits or losses of subsidiary undertakings acquired or sold during the year are included in the consolidated results from the date of gaining control or up to the date of disposal.

For each business combination, the Group elects on a transaction-by-transaction basis whether to measure a non-controlling interest at its fair value or at its proportionate share of the recognised amount of identifiable net assets. The assets and liabilities arising on a business combination are measured at their fair value at the acquisition date.

Business combinations under common control are accounted for prospectively from the date the Group obtains the ownership interest in the acquired entity. Assets and liabilities are initially recognised upon consolidation based on their carrying amount in the financial statements of the acquired entity (or holding entity if applicable). Any difference between the fair value of the consideration paid and the amounts at which the assets and liabilities are initially recorded is recognised directly in equity in retained earnings.

(b) Goodwill

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

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

Acquisition costs are expensed to the income statement as incurred. Any contingent consideration to be transferred to the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognised in accordance with IAS 39, "Financial Instruments: Recognition and Measurement" in the income statement.

Goodwill arising on associates is shown as part of the investment in the associate.

Goodwill is subject to an impairment review at least annually and if events or changes in circumstances indicate that the carrying amount may not be recoverable, it is written down through the income statement by the amount of any impairment loss identified in the year.

(ii) Foreign currencies

Foreign currency transactions are translated into the functional currency of the entity at the exchange rate prevailing at the date of the transaction or valuation where items are remeasured. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rates prevailing at the reporting date. Exchange movements are recognised in the income statement.

The results and financial position of Group entities which have a functional currency different from Euro are translated into euro as follows:

- Assets and liabilities, including goodwill and fair value adjustments, are translated at the rates of exchange ruling at the reporting date;
- Income and expenses are translated at the average exchange rates for the year; and
- All resulting exchange differences are recognised in OCI and as a separate component of equity (currency translation adjustment reserve).

On consolidation, exchange differences arising from the translation of borrowings and currency instruments designated as hedges of the net investment in overseas subsidiaries are also recognised in OCI to the extent to which the hedge is deemed to be effective. The ineffective portion of any net investment hedge is recognised in the income statement immediately. On disposal or partial disposal of an overseas subsidiary, the appropriate portion of the currency translation adjustment reserve is included in the gain or loss on disposal.

(iii) Recognition of income and expenses

Interest and similar income and expenses

For all interest bearing financial instruments, interest income or expense is recorded using the effective interest rate method.

The effective interest rate is the rate that exactly discounts the estimated future cash receipts and payments through the expected life of the financial asset or liability, or a shorter period where appropriate, to the carrying amount of the financial asset or liability on initial recognition.

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

Notes to the Consolidated Financial Statements

(continued)

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

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate and all premiums and discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Fees and commission income and expense

As outlined above, fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed. Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Recognition of income and expenses (continued)

Net trading income

Net trading income comprises gains less losses relating to trading assets and trading liabilities and includes all realised and unrealised fair value changes and foreign exchange differences.

Exceptional items

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

Bank levy and regulatory charges

Bank levy and regulatory charges consist of Deposit Guarantee Scheme ("DGS") contributions, Central Bank Industry Funding levy, Single Resolution Fund ("SRF") contribution, ECB fees and a bank levy.

A bank levy payable to government, is provided for on the occurrence of the event identified by the legislation that triggers the obligation to pay the levy.

(iv) Employee Benefits

Defined contribution pension plan

The Group operates a number of defined contribution pension schemes, under which the Group pays fixed contributions to a separate entity.

The contribution payable to a defined contribution plan is recorded as an expense under administration, staff and other expenses. Unpaid contributions are recorded as a liability.

Short term employee benefits

Short term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period in which the employee's service is rendered. Bonuses are recognised where the Group has a legal or constructive obligation to employees that can be reliably measured.

Termination payments

Termination benefits may be payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees where the offer is irrevocable. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(v) Current and deferred taxation

Taxation comprises both current and deferred tax. Taxation is recognised in the income statement except to the extent it relates to items recognised in either other comprehensive income or equity. In the former case taxation is recognised in other comprehensive income while in the latter case taxation is recognised directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years (ROI: 12.5%, UK: 20% from 1 April 2015), (UK: 21% from 1 April 2014).

Deferred tax is provided using the liability method on all temporary differences except those arising on goodwill not deductible for tax purposes, or on initial recognition of an asset or liability in a transaction that is not a business combination and which at the time of the transaction affects neither accounting nor taxable profit or loss.

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

Deferred tax is measured at the tax rates enacted or substantively enacted by the reporting date that are expected to be applied to the temporary differences when they reverse.

Deferred tax liabilities and assets are offset only where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are recognised only to the extent that it is probable that the related tax benefit will be realised. Deferred tax assets and liabilities are not discounted. This is in accordance with IAS 12.

(vi) Financial instruments

(a) Financial assets

Financial assets are recorded at fair value and are classified, on initial recognition, as held for trading ("HFT"), designated at fair value through profit and loss ("FVTPL"), available-for-sale ("AFS"), held to maturity ("HTM") or loans and receivables. All derivative assets are classified as HFT unless they have been designated as hedges. Purchases and sales of financial assets are recognised on the trade date, being the date on which the Group commits to purchase or sell the asset.

With the exception of assets classified as HFT or FVTPL, the initial fair value of a financial asset includes direct and incremental transaction costs. The fair value of assets traded on an active market will be the price that would be received if an asset were to be sold in an orderly transaction between market participants at the measurement date. In the absence of an active market, the Group establishes a fair value using various valuation techniques that use observable and unobservable inputs. These include recent transactions in similar items, discounted cash flow projections, option pricing models and other valuation techniques used by market participants.

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

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

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

Debt securities

The Group classifies debt securities as one of HTM, AFS or loans and receivables.

Debt securities classified as HTM, subsequent to initial recognition, are measured at amortised cost less any allowance for impairment. Income on these investments is recorded on an effective interest basis as interest income in the income statement. Impairment losses, where they arise, and foreign exchange movements are reflected in the income statement.

Debt securities classified as AFS, subsequent to initial recognition, are measured at fair value with unrealised gains and losses, other than currency translation differences, recognised within OCI and in a separate reserve. Realised gains and losses, impairment losses and foreign exchange movements are reflected in the income statement. Income on debt securities classified as AFS is recognised on an effective interest basis and included as interest income in the income statement.

In 2008, in compliance with the amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" (October 2008), the Group reclassified debt securities from the AFS category to a loans and receivables category. The securities reclassified meet the qualifying criteria in the amendment to the standard and the Group has the intention and the ability to hold these financial assets for the foreseeable future or until maturity. The impact of this reclassification is detailed in note 14.

Debt securities classified as loans and receivables are measured at amortised cost, based on an effective interest rate which is determined at the date of initial recognition.

Equity securities

The Group classifies equity securities as AFS. Equity securities classified as AFS are initially recognised at fair value, subsequent to initial recognition, are measured at fair value with unrealised gains and losses, other than currency translation differences, recognised within OCI and in a separate reserve. Realised gains and losses and impairment losses are reflected in the income statement.

Notes to the Consolidated Financial Statements

(continued)

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

(vi) Financial instruments (continued) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and that the Group has no intention of trading. Loans and advances, subsequent to initial recognition, are held at amortised cost less an allowance for incurred impairment losses unless they are part of a fair value hedge relationship. Income is recognised on an effective interest basis as interest receivable in the income statement.

Where loans and advances are part of a fair value hedging relationship, the change in the fair value during the period resulting from the hedged risk is recognised together with the movements in the fair value of the related hedging instrument, in the income statement.

Cash and cash equivalents

Cash comprises cash on hand and demand deposits, and cash equivalents include liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of change in value and with a maturity of less than three months.

(b) Impairment of financial assets

A financial asset is considered to be impaired, and therefore its carrying amount is adjusted to reflect the effect of impairment, when there is objective evidence that events have occurred which give rise to an adverse impact on the estimated future cash flows of the asset. Impairment provisions are calculated either individually on loans which are significant or collectively on groups of loans which are individually insignificant. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment provision accounts. Losses expected from future events are not recognised.

Impairment of loans and advances to customers

Specific impairment

Loans are assessed for objective evidence based on current information and events at the date of assessment. The Group assesses its primary portfolio, ROI residential mortgage loans, for evidence of individual impairment monthly while the commercial portfolio is assessed quarterly. Residential mortgage loan portfolios are assessed, in the first instance, due to their homogenous nature, by use of a statistical model primarily driven by the current delinquency status, being the number of days in arrears.

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

Objective evidence of impairment may include the following:

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

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

In general, the Group employs statistical models to assess and calculate the appropriate provision charge for all loans greater than 90 days in arrears or when there is objective evidence of impairment. Those statistical models mainly incorporate historical trends of probability of defaults, rates by which defaulted or delinquent accounts are assumed to return to performing status (known as cure rates), the timing of recoveries of collateral and the amount of loss incurred, adjusted for Management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates (Probability of Default), loss rates (Loss Given Default), cure rates and the expected timing of recoveries of collateral are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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

(vi) Financial instruments (continued)

However, in certain circumstances an individual assessment will be carried out and an impairment charge will be calculated. Loans are individually assessed when certain criteria have been met. The criteria for the individual portfolios are as follows:

ROI residential mortgages:	Exposures in excess of €5m and/or greater than 90 days in arrears. For exposures over €1m and less than €5m, a risk based approach is adopted where collateral values are benchmarked to sample market comparatives;
Commercial mortgages:	Exposures in excess of €0.75m where any facility is greater than 90 days in arrears or currently in forbearance.

The impairment provisions on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require.

When a loan is impaired, interest income continues to be recognised at the original effective interest rate (in the case of a portfolio assessment, the weighted average interest rate of the portfolio) on the carrying amount, representing the unwind of the discount of the expected cash flows.

Incurred But Not yet Reported ("IBNR") impairment

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

IBNR impairment provision is determined after taking into account:

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

To effect this, when appropriate empirical information is available, the Group utilises a transition rate methodology. The methodology employs statistical analysis of historical data and experience of delinquency and losses as a result of the events occurring before the statement of financial position date which the Group is not able to report on an individual loan basis, and that can be reliably estimated. Under the transition rate approach, loans are grouped into ranges according to the number of days past due and a statistical model is used to estimate the likelihood that loans in each range will progress straight to specific impairment. The estimated loss is calculated as the product of the probability of the customer defaulting, Group's exposure to the customer and the historical loss rate adjusted for current market conditions.

Write-off of loans and advances

Loans (and the related impairment provisions) are written off, either partially or in full, when it is viewed that it is unlikely that the loan will be collectible. In the case of secured debt where the collateral has been realised and where there are insufficient funds from the realisation of the collateral, the Group must determine whether there is a reasonable expectation of further recovery. Recoveries of amounts previously written off are offset against the loan impairment provision charge in the income statement.

Write-back of impairment provision

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment provision account accordingly. The write-back is recognised in the income statement.

Notes to the Consolidated Financial Statements

(continued)

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

(vi) Financial instruments (continued)

Forbearance strategies – residential mortgage loans

Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change ('forbearance measure') to a loan for reasons relating to the actual or apparent financial stress or distress of that borrower. Forbearance has not occurred if the concession or agreed change to a loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower.

Forbearance strategies are employed in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid foreclosure or repossession. Such arrangements can include extended payment terms, a temporary reduction in interest or principal repayments, payment moratorium and other modifications.

All loans that are considered for a forbearance solution are assessed for impairment under IAS 39 and where a loan is deemed impaired, an appropriate provision is created to cover the difference between the loan's carrying value and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Where, having assessed the loan for impairment and the loan is not deemed to be impaired, it is included within the IBNR assessment.

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

Non-forbearance renegotiation

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

Impairment of AFS financial assets

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that the asset is impaired.

Impairment losses on AFS financial assets are recognised by reclassifying the losses accumulated in the AFS reserve to the income statement. The amount reclassified as impairment is the difference between the amortised cost and the current fair value, less any impairment loss previously recognised in the income statement. If the fair value of a debt instrument classified as an AFS financial asset increases subsequently and the increase can be objectively related to a credit event occurring after the impairment loss was recognised, then the impairment loss is reversed through the income statement. Impairment losses recognised on AFS equity instruments are not reversed through the income statement.

(c) Financial liabilities

Financial liabilities include deposits by banks including central banks, customer accounts, debt securities, subordinated debt and contingent capital notes issued by the Group (the contingent capital notes were repurchased in the first half of 2015). Derivative liabilities are dealt with under separate accounting policies.

Debt securities and subordinated debt issued which are accounted for under IAS 39 are initially recognised on the date that they originated, while all other financial liabilities are recognised initially on the trade date. Both the date of origination and the trade date is the date the Group becomes a party to the contractual provisions of the instrument.

All financial liabilities are recognised initially at fair value, less any directly attributable transaction costs and are subsequently measured at amortised cost and the related interest expense is recognised in the income statement using the effective interest rate method.

A financial liability is de-recognised when its contractual obligations are discharged, cancelled or expired. This may happen when payment is made to the lender; the borrower legally is released from primary responsibility for the financial liability; or if there is an exchange of debt instruments with substantially different terms or a substantial modification of the terms of an existing debt instrument. De-recognition conditions are also satisfied when an entity repurchases its own debt instruments issued previously. When a financial liability is extinguished, any difference between the carrying amount of the financial liability and the consideration paid is recognised in the income statement.

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

(vi) Financial instruments (continued)

A financial liability that is classified as a compound financial instrument, containing both debt and equity features, is separated into its equity and debt components on initial recognition. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the debt component. The instrument is fair valued at the date of issue using an appropriate valuation technique if there is an absence of quoted market prices. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest rate method, with related interest recognised in the income statement. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised in the income statement.

(d) Determination of fair value of financial instruments and other assets

The Group measures financial instruments, such as, derivative financial instruments, trading financial instruments and other financial instruments at fair value through profit or loss. Certain risks in hedged financial instruments, financial assets classified as available for sale, property and equipment and repossessed assets are measured at fair value on initial recognition.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability which is accessible to the Group.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole, is described as follows:

Level 1:	Quoted market prices in active markets for identical assets or liabilities (unadjusted);
Level 2:	Valuation techniques such as discounted cash flow method, comparison with similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
Level 3:	Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

An analysis of the fair values of financial instruments and further details as to how they are measured are provided in note 33.

Notes to the Consolidated Financial Statements

(continued)

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

(vii) Derivative instruments and hedging

Derivative instruments used by the Group primarily comprise of currency forward rate contracts, currency and interest rate swaps, cross-currency interest rate swaps, futures contracts and forward rate agreements. All derivatives are classified as HFT unless they have been designated as hedges.

All derivatives are held on the statement of financial position at fair value.

Gains and losses arising from derivatives held for trading are recognised in trading income.

IAS 39 permits the Group to designate certain derivatives as either:

- Hedges of the exposure to changes in the fair value of recognised assets or liabilities that is attributable to a particular risk (fair value hedge);
- Hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
- Hedges of a net investment in a foreign operation (net investment hedge).

Formal documentation is drawn up at inception of a new hedge specifying the risk management objectives, the hedging strategy, the component transactions and the methodology that will be used to measure effectiveness. Assessment of hedge effectiveness is carried out at inception and on an on-going basis over the life of the hedge relationship to determine whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within the required effectiveness range of 80%-125%.

Fair value hedge: Movements in the fair value of derivative hedge positions together with the fair value movement in the hedged risk of the underlying instrument are reflected in the income statement under net interest income and trading income.

Cash flow hedge: The effective portion of changes in the fair value of the derivatives that is designated and qualifies as cash flow hedges is recognised in OCI and is included in the cash flow hedge reserve in the statement of changes in equity (net of tax). The gains or losses relating to the ineffective portion are recognised immediately in the income statement in trading income. The amount accumulated in equity is reclassified to the income statement in the same period that the hedged risk is realised. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to the income statement.

Net investment hedge: This type of hedge is accounted for similar to the cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in OCI and separately identified as currency translation reserve within shareholders' equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement and the effective portion that is held within the reserves is reclassified to the income statement on the disposal of the foreign operation.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, is terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- The host contract is not itself carried at fair value through profit or loss;
- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in the income statement unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

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

(vii) Derivative instruments and hedging (continued)

Credit valuation adjustment

The Group is engaged in OTC derivative transactions and considers whether a fair value adjustment for credit risk is required. Credit valuation adjustment ("CVA") is considered to reflect the counterparty's default risk and debit valuation adjustment ("DVA") to reflect own credit risk. There is no specific guidance on the methods used to calculate CVA or DVA which creates challenges in estimation.

As a result, IFRS 13 requires entities to consider the effects of credit risk when determining a fair value measurement, e.g. by calculating a CVA on their derivatives. Estimation can be complex and requires the use of significant judgement which is often influenced by various qualitative factors, such as:

- The materiality of the entity's derivative's carrying value to its financial statements;
- The number and type of contracts for derivatives in the entity's portfolio;
- The extent to which derivative instruments are either deeply in or out of the money;
- The existence and terms of credit mitigation arrangements (e.g. collateral arrangements in place);
- The cost and availability of technology to model complex credit exposures;
- The cost and consistent availability of suitable input data to calculate an accurate credit adjustment; and
- The credit worthiness of the entity and its counterparties.

The Group mitigates virtually all of its derivative positions through the use of netting and collateral arrangements. The netting and collateral arrangements may be called upon in the event of a default. This allows a counterparty to net all assets and liabilities outstanding with the defaulting counterparty party subject to the agreement when the default event occurs. The collateral arrangements in place require the counterparty in a liability position to place collateral to cover that shortfall. The Group considers and discounts the necessity for any amendments to the valuations to reflect the CVA when calculating the fair value of the derivative positions.

The Group monitors this position at every reporting period and assesses if material credit valuation adjustments become appropriate to be recognised.

(viii) Leases

Lessee

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Assets held as finance leases are capitalised and included in property and equipment, initially at the lower of fair value and the present value of minimum lease payments and are subsequently held at depreciated cost.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ix) Securitised assets

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

Notes to the Consolidated Financial Statements

(continued)

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

(x) Property and equipment

Leasehold premises with initial lease terms of less than 50 years and all other equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight line basis to write off the costs of such assets to their residual value over their estimated useful lives, which are assessed annually.

Freehold premises are revalued at least annually by external professional valuers. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Any resulting increase in value is credited to OCI and shown as revaluation reserves in shareholders' equity. Any decrease in value that offsets previous increases of the same asset are charged in OCI and debited against the revaluation reserves directly in equity while all other decreases are charged to the income statement. The revalued premises, excluding the land element, are depreciated to their residual values over their estimated useful lives, which are assessed annually.

Subsequent costs are included in the asset's carrying amount, only when it is probable that increased future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Property and equipment is assessed for impairment where there is an indication of impairment. Where impairment exists, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognised against the revaluation reserve to the extent it is available and any remainder is recognised in the income statement. The depreciation charge for the asset is then adjusted to reflect the asset's revised carrying amount.

The estimated useful lives are as follows:

Freehold Buildings	50 years
Leasehold Buildings	50 years or term of lease if less than 50 years
Office Equipment	5 – 15 years
Computer Hardware	3 – 10 years
Motor Vehicles	5 years

(xi) Intangible assets (other than Goodwill)

(a) Software

Computer software is stated at cost, less amortisation and provision for impairment, if any. The external costs and identifiable internal costs of acquiring and developing software are capitalised where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year.

Capitalised computer software is amortised on a straight line basis over a period of between three to seven years.

Software is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or value in use.

(b) Core deposit intangible assets

Core deposit intangibles arise from the acquisition of deposit portfolios and are stated at cost (being its fair value on initial recognition) less amortisation and provision for impairment, if any, and are amortised on a straight line basis over five years. They are subject to impairment review at least annually and if events or changes in circumstances indicate that the carrying amount may not be recoverable, they are written down through the income statement by the amount of any impairment loss identified in the year.

(xii) Repossessed assets

In certain circumstances, property is repossessed following foreclosure on loans that are in default. On initial recognition the repossessed properties are valued based on valuations obtained from an independent valuer at the date of repossession. Subsequent to initial recognition, where the most recent valuation is greater than six months at a reporting date, the property is revalued based on movements in the Group's index based valuation model. Where the carrying value of the repossessed assets are less than/greater than their fair value, an impairment write-back/charge is recognised in the income statement. Repossessed assets are reported within other assets in note 23.

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

(xiii) Assets and liabilities classified as held for sale

An asset or a disposal group is classified as held for sale if the following criteria are met:

- Its carrying value will be recovered principally through sale rather than continuing use;
- It is available for immediate sale; and
- The sale is highly probable within the next 12 months.

When an asset (or disposal group), other than a financial asset as classified under IAS 39, or rights under an insurance contract, is initially classified as held for sale, it is measured at the lower of the carrying amount or fair value less costs to sell at the date of reclassification. Impairment losses subsequent to classification of such assets (or disposal group) are recognised in the income statement. Increases in fair value less costs to sell of such assets (or disposal group) that have been classified as held for sale are recognised in the income statement to the extent that the increase is not in excess of any cumulative loss previously recognised in respect of the asset (or disposal group).

Where the above conditions cease to be met, the assets (or disposal group) are reclassified out of held for sale and included under the appropriate statement of financial position classifications.

Financial assets within the scope of IAS 39, "Financial Instruments: Recognition and Measurement", Deferred tax assets and Income taxes within the scope of IAS 12 continue to be measured in accordance with these standards.

(xiv) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A restructuring provision is recognised when there is an approved detailed and formal restructuring plan, and the restructuring either has commenced or has been publicly announced. Future operating losses are not permitted to be recognised.

Present obligations arising under onerous contracts are recognised and measured as provisions at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. An onerous contract is a contract in which the unavoidable cost of meeting the obligation under the contract exceeds the economic benefits expected to be received under it.

Contingent liabilities are either possible obligations that arise from past events and whose existence is dependent on whether some uncertain future events occur or are a present obligation that arises from a past event but is not recognised as the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless the probability of their occurrence is remote.

(xv) Dividends

Final dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders. Interim dividends are recognised in equity in the period in which they are paid.

(xvi) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Executive Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Transactions between the operating segments are on normal commercial terms and conditions unless stated otherwise. Internal charges and transfer pricing adjustments have been reflected in the performance of each segment. Revenue from external parties is measured in a manner consistent with the income recognition policy of the Group.

Notes to the Consolidated Financial Statements

(continued)

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

(xvii) Sales and repurchase agreements

Financial assets may be lent for a fee or sold subject to a commitment to repurchase them. Such assets are retained on the statement of financial position when substantially all the risks and rewards of ownership remain with the Group. The liability to the counterparty is included separately on the statement of financial position as appropriate.

Similarly, where financial assets are purchased with a commitment to resell, or where the Group borrows financial assets but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the financial assets are not included in the statement of financial position.

The difference between the sale and repurchase price is recognised in the income statement over the life of the agreements using the effective interest rate. Fees earned on stock lending are recognised in the income statement over the term of the lending agreement. Securities lent to counterparties are also retained on the statement of financial position.

(xviii) Purchases and sales of own shares

Shares purchased and held by the employee benefit trust in anticipation of share awards that may vest under the long-term incentive plan are treated as treasury shares and therefore treated as a deduction in arriving at shareholders' equity rather than an asset.

(xix) Collateral

The Group enters into master agreements with counterparties, to ensure that in the event of a default, all amounts outstanding with those counterparties will be settled on a net basis. The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customers' assets and gives the Group a claim on these assets for both existing and future liabilities. The collateral is not recorded on the Group balance sheet.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts, in order to reduce credit risk. Collateral received in the form of securities is not recorded on the balance sheet. Collateral received in the form of cash is recorded on the balance sheet, with a corresponding liability recognised within deposits from banks or deposits from customers. Any interest payable arising is recorded as interest expense.

In certain circumstances, the Group pledges collateral in respect of liabilities or borrowings. Collateral pledged in the form of securities or loans and advances continues to be recorded on the balance sheet. Collateral placed in the form of cash is recorded in loans and advances to banks or customers. Any interest receivable arising is recorded as interest income.

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

1.6 Application of new and revised IFRSs

New and revised IFRSs affecting amounts reported and/or disclosures in these financial statements

In 2016, the Group assessed the new and revised IFRSs which took effect during 2016 and concluded that none had a material impact on the Group Financial Statements.

New and revised IFRSs in issue but not yet effective

The Group has not yet applied the following new and revised IFRSs that have been issued by the IASB but are not yet effective at 31 December 2016.

Topic	Description of change	Effective date	Impact
IFRS 16 'Leases'	This amendment replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.	Periods beginning on or after 1 January 2019. Early adoption is permitted only if IFRS 15 is adopted at the same time. Yet to be EU endorsed.	The Group is currently assessing the impact of IFRS 16 on the consolidated financial statements of the Group.
Amendment to IAS 12, 'Income taxes', 'Recognition of deferred tax assets for unrealised losses'	Amendments made to IAS 12 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that: - A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period. - An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit. - Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type. Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.	Periods beginning on or after 1 January 2017. Yet to be EU endorsed.	The implementation of these amendments is expected to have no significant impact on the Group accounts.

Notes to the Consolidated Financial Statements

(continued)

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

IAS Amendments to IAS 7, Statement of cash flows on disclosure initiative	These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.	Periods beginning on or after 1 January 2017.	The implementation of these amendments is expected to have no significant impact on the Group accounts.
	This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.	Yet to be EU endorsed.	
	Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.		
	Entities may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities.		
	The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.		
Amendment to IFRS 15, Revenue from contracts with customers'	These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.	Periods beginning on or after 1 January 2018. Yet to be EU endorsed.	The Group is currently assessing the impact of IFRS 15 on the consolidated financial statements of the Group.

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" is a comprehensive new accounting standard for recognising and measuring financial instruments and will replace the existing standard, IAS 39. It is effective from 1 January 2018. It introduces a number of changes in three key areas: impairment, classification and measurement of financial instruments and hedge accounting. Moving to measuring loan loss provisions under a new Expected Credit Loss ("ECL") approach is a significant change for the Group and introduces a greater degree of complexity and management judgement than IAS 39.

IFRS 9 introduces the requirement to calculate ECL, which enables a more progressive approach to recognising credit loss than the current IAS39 incurred loss model. Under IAS 39, a financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment ("a loss event"). Losses as a result of a future event ("expected losses") no matter how likely are not recognised. In contrast, the IFRS 9 impairment model looks to the movement in the credit risk of an asset since its origination and requires recognition of lifetime expected loan loss when there is a significant increase in credit risk, even where a loss event has not yet occurred.

General concepts within IFRS 9 expected credit loss approach

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

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

Stage 2 – includes financial instruments that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL is recognised, being the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Stage 3 – includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL is recognised.

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

The move to the expected loss model in IFRS 9 will result in a number of changes in the Group's current impairment approach. The more important of these changes are set out below:

- All originated loans and other assets within scope of the standard will attract a provision equal to at least 12 months expected loss from origination.
- The standard will require the Group to calculate and maintain lifetime inputs, such as lifetime Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD").
- The Group will be required to conduct its assessment of a change in credit risk relative to the risk at origination for that exposure. Where there has been an increase in credit risk since origination that is significant, a provision for lifetime expected losses will be recognised.
- The scope of the standard includes undrawn loan commitments previously within the scope of IAS 37. This will require the Group to hold a provision on such undrawn facilities.
- The Group will be required to assess expected credit loss for financial assets held primarily for liquidity purposes, such as those currently classified as available for sale or held to maturity.
- Forward looking macroeconomic scenarios are required to be included into the provisioning process and the determination of changes in credit risk. This will require the Group to develop an approach to include its forward looking views into its provision estimates, including for periods beyond its traditional forecast horizon.
- IFRS 9 requires the Group to calculate ECL which consider multiple scenarios and possible outcomes together with their probability of occurrence.

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

The Group's approach to the implementation of IFRS 9

Programme Governance:

IFRS 9 implementation is a high priority project for the Group. This project is led by the CFO who chairs a cross functional Project Steering Group which is responsible for the successful implementation of IFRS 9. The Project Steering Group brings together the key individuals from Finance, Risk, and the Business, including the Heads of Risk, Operations and IT, in an integrated project structure, to support the governance and successful implementation of IFRS 9. The project is led by a dedicated IFRS 9 Project Director.

Recognising the significant impact IFRS 9 will have on the business, the Project Steering Group has established a number of dedicated Project work streams comprising senior representatives from across the business. The Project work streams at present cover Hedge Accounting, Classification & Measurement, Impairment, Operating Model & People, Data & Systems, Disclosures, Communications and Regulatory Interaction and Management Information & Reporting.

An update on the progress in relation to the key changes introduced by IFRS 9 is set out below.

Impairment:

ECL Framework:

For all material portfolios, PTSB expects to adopt an ECL framework that is consistent with industry best practice, as set out in the Global Public Policy Committee ("GPPC") paper, and reflects an approach using PD, EAD and LGD components. To adequately capture life-time expected losses, the Group also expects to model early redemptions as a separate component within the ECL calculation.

The Group expects to leverage the systems and data used to calculate regulatory expected credit losses. In particular, key concepts such as the definition of default and measurement of credit risk (i.e. ranking of exposures for risk) are expected to be consistent across the impairment (accounting) and regulatory frameworks. IFRS 9 models, however, differ from the regulatory models in a number of conceptual ways (e.g. the use of 'through the cycle' versus 'point' in time inputs, 12 month expected loss ("EL") versus lifetime ECL and as a result the Group does not expect to leverage the outputs of its regulatory models, but instead is developing statistical models tailored to the requirements of IFRS 9.

Notes to the Consolidated Financial Statements

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

Key concepts:

Stage 3

The Group proposes to align its definition of IFRS 9 Stage 3 (Credit Impaired) to its definition of default used for regulatory capital purposes. The Group's definition of default considers objective indicators of default including the 90 days past due criterion, evidence of exercise of concessions or modifications to terms and conditions which would be consistent with European Banking Authority ("EBA") guidance on the definition of forbearance as well as other indicators of distress outlined in the capital requirements regulation such as insolvency etc.

Stage 2

In accordance with IFRS 9, financial assets are considered to be in Stage 2 when their credit risk has increased significantly since initial recognition and it is appropriate to recognise lifetime ECL. The analysis of credit risk is multifactor and the determination of whether a specific factor is relevant and its weight compared with other factors will depend on a number of things, including the point in the economic cycle, the speed of change in macroeconomic variables, the type and nature of the product and the characteristics of the borrower. To achieve an appropriate balance between responsiveness and accuracy, the Group, in addition to using more sophisticated measures such as the change in internal risk grade and the change in lifetime PD, also expects to use a number of back-stops in the assessment of significant increase in credit risk including:

- Days past due – the Group does not currently expect to rebut the presumption that greater than 30 days past due is evidence of a significant increase in credit risk; and
- Reporting of an account as forborne in accordance with EBA guidelines.

Accounts are expected to transition backwards from Stage 2 to Stage 1, where there is evidence that the credit risk associated with the account has returned to levels envisaged at origination.

Stage 1

Under IFRS 9, financial assets which are not considered to have significantly increased in credit risk since initial recognition have loss allowances measured at an amount equal to 12 months ECL.

Forward looking information

The Group's approach to modelling ECL components expects to allow the incorporation of macroeconomic impacts, and by extension multiple scenarios at the component level. The methodology to incorporate multiple economic scenarios is still under development, however, economic scenarios are likely to consider, amongst other things, the Group's four year Medium Term Plan, regulatory views on potential economic scenarios together with the views of policy makers on longer term economic prospects and key risks.

Implementation:

The build phase of the programme is underway for the core credit risk models. Model testing and validation will continue through 2017 to ensure that ECL components and results can be rationalised and understood in the context of the Group's existing impairment and capital management processes. Changes to processes, systems and internal control frameworks will also be progressed to optimise automation of the new models, embed the changes and enhance business readiness. The programme is progressing in line with its delivery plans.

Given the extent and complexity of the design and operational activity required to implement IFRS 9, and in particular the significant judgemental areas to be concluded upon, the quantitative impact of the transition to IFRS 9 on the Group's stock of impairment provisions and its capital at initial application cannot be reliably estimated at this time.

Hedging:

The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle-based approach than IAS 39. There is, however, an option to maintain the existing IAS 39 hedge accounting rules on macro fair value hedging until the IASB completes its project on same. The Group has performed an assessment of the impact of IFRS 9 on its existing hedge relationships, and has concluded that the financial and operational impact of transition to the new standard will be low. The Group has concluded the preparatory work necessary to facilitate transition at 1 January 2018 and will make a final decision on the measurement basis at that date.

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

Classification & Measurement:

The Group has undertaken an assessment to determine the potential impact of changes in the classification and measurement of financial assets. The adoption of IFRS 9 is not expected to result in a significant change to current asset measurement bases acknowledging that the final impact will be dependent on the facts and circumstances that exist on 1 January 2018.

The Group currently expects that:

- loans and advances to banks and to customers that are classified as loans and receivables under IAS 39 will be measured at amortised cost under IFRS 9;
- debt securities classified as held to maturity will continue to be measured at amortised cost;
- debt securities classified as available for sale will primarily be measured at amortised cost or fair value through other comprehensive income, with a small minority measured at fair value through profit or loss ("FVTPL") either because of their contractual cash flow characteristics or the business model within which they are held; and
- financial assets that are currently at fair value through OCI (e.g. equity securities) will either be measured as FVTPL, or designation at fair value through OCI.

IFRS 9 retains most of the existing requirements for financial liabilities, with some exceptions. For financial liabilities designated at fair value through profit or loss, gains or losses attributable to changes in own credit risk are presented in other comprehensive income. This Group does not expect to invoke the fair value option. The Group has concluded the work necessary to prepare for transition based on the facts and circumstances as they existed on 31 December 2016, and will update this work as necessary through 2017.

Communications & Regulatory Interaction– Accessing Capital Impact:

The Group continues to assess the potential impact on its capital base. The impact is difficult to estimate at this stage given that the relationship between specific and general credit risk adjustments (in accordance with regulatory definitions) and the IFRS 9 stages is unclear. Under the current capital approach, any deficit between regulatory expected loss and the IAS 39 accounting allowance is deducted from Common Equity Tier 1 (CET1) capital (on a fully-loaded basis), while an excess of provisions over regulatory expected loss is added back to Tier 2 capital subject to certain regulatory limits. The Basel Committee is considering the implications of the new accounting requirements for existing regulatory requirements and has proposed a phasing of the impact over 5 years. The European Commission is also proposing a phase-in of the impact on IFRS 9, as set out in the draft proposals to amend the CRR published in November 2016.

Despite the proposed phasing of the impact of IFRS 9, the new approach may negatively affect regulatory capital as at 1 January 2018 though it is still unclear on how regulators will ultimately treat the interaction between the accounting and regulatory frameworks for expected loss. PTSB will continue to closely monitor developments in relation to regulatory capital.

2. Critical accounting estimates and judgements

The preparation of the Group's consolidated financial statements requires Management to make assumptions, estimates and judgements that affect the reported amounts of income, expenses, assets and liabilities and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that may require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

Critical accounting estimates and judgements made by Management in applying the Group's accounting policies are set out below.

a) Impairment losses on loans and advances to customers

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

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(continued)

2. Critical accounting estimates and judgements (continued)

Specific impairment provisions

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

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

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

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

- **Collateral valuations:** The value of collateral is estimated by applying the changes in the CSO Residential Property Price Index to the assessed value of the property. If the assumed peak-to-trough house price decline in the model was increased by 5% at 31 December 2016, the impairment provision would increase by c. €116m. If a decrease in the house price decline of 5% was applied to all assets, the impairment provision would decrease by c. €106m. The actual house price decline at 31 December 2016 was 31.5% from the peak in 2007 according to the Residential Property Price Index published by the CSO.
- **Cure rate:** The cure rate is, as explained above, the rate by which defaulted or delinquent loans are assumed to return to performing status. A 5% favourable change in the cure rate would reduce the impairment provision by c. €16m at 31 December 2016 and a 5% unfavourable change in the cure rate would increase the impairment provision by c. €16m at 31 December 2016.
- **Foreclosure costs:** Foreclosure costs assumption also influence the impairment provision. A 1% increase in foreclosure costs would increase the impairment provision by c. €27m at 31 December 2016 and a 1% decrease in foreclosure costs would decrease the impairment provision by c. €27m at 31 December 2016.
- **Firesale discount:** A 1% increase change in the firesale discount rate would increase the impairment provision by c. €19m at 31 December 2016 and a 1% decrease in the firesale discount rate would reduce the impairment provision by c. €19m at 31 December 2016.
- **Repo rate:** A 5% increase in the repossession rate would increase the impairment provision by c. €23m at 31 December 2016 and a 5% decrease repossession rate would decrease the impairment provision by c. €23m at 31 December 2016.
- **Default rates:** The following information has not been subject to audit by the Group's Independent Auditor. A 1% favourable change in the default rate would reduce the impairment provision by c. €41m at 31 December 2016 and a 1% unfavourable change in the default rate would increase the impairment provision by c. €41m at 31 December 2016.

IBNR impairment provisions

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

IBNR impairment provisions are made for loans which are believed to be impaired at the statement of financial position date and while not individually assessed, are expected to have incurred losses. This provision is sensitive to changes in the time between the loss event and the date the impairment is specifically identified, known as the loss emergence period. The loss emergence period currently in use is 12 months and management believes this to be appropriate but is sometimes longer for particular risk profile portfolios. In the ROI residential mortgage portfolio, a further increase of one month in the loss emergence period would result in an increase to the impairment charge of c. €4m while a decrease of one month in the loss emergence period would result in a decrease to the impairment charge of c. €4m.

2. Critical accounting estimates and judgements (continued)

b) Deferred taxation

At 31 December 2016, the Group had a net deferred tax asset of €353m. See note 22 for further details.

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

The most important judgement relates to Management's assessment of the recoverability of the deferred tax asset relating to carried forward tax losses, being €373m at 31 December 2016. It should be noted that the full deferred tax asset on tax losses relates to tax losses generated in Permanent TSB plc ("PTSB") legal entity (i.e. no deferred tax asset is being recognised on tax losses carried forward in any other Group company). The assessment of recoverability of this asset entails consideration of the future structure of the PTSB legal entity and the trading structure of the Group, which ultimately will be influenced by the Group's strategy, economic environment and the ability to use past tax losses to offset future trading profits.

In 2013, it became evident that the future for the Group was a Core Bank strategy (i.e. the business of PTSB would be maintained within a single viable entity). This position has become stronger since 2013 as the Group's performance and strategic outlook and the macroeconomic environment have continued to improve. The Core Bank strategy was also the basis of the Group's Restructuring Plan which was formally approved by the European Commission in April 2015.

In line with the requirements of IAS 12 "Income Tax", Management and Directors formed the view that it is probable that there would be sufficient future taxable profits within PTSB against which carried forward tax losses in PTSB could be utilised. This view requires significant judgements to be made about the projection of long-term profitability because of the period over which recovery extends. In addition, given PTSB's 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 formal approval of the Group's Restructuring Plan by the European Commission in April 2015;
- The continued financial support provided to the Group by the Irish Government and Eurosystem;
- The successful conclusion of the Group's €525m capital raise and re-listing in May 2015;
- The improving macroeconomic environment including the continued stabilisation in Irish Sovereign Bond yields, continued growth in GDP, the continued decline in unemployment and the continued increase in house prices;
- External forecasts for the Irish economy which indicate continued and increasing economic recovery in the medium term;
- The raising by the Group of €300m of unsecured debt by way of a 3 year Senior Unsecured Medium Term Note during 2015 and the raising of €500m of five-year debt at a low cost of approximately 0.25% through a securitisation of residential mortgage backed securities during 2016;
- The significant progress made on the deleveraging of the Non-Core portfolios during 2016 with the completion of the sale of the Group's remaining UK business and the Group's Isle of Man mortgage business;
- The current expected trajectory of the Group's financial performance and return to profitability;
- The improved impairment performance; and
- The Group's projected liquidity and capital position.

Notes to the Consolidated Financial Statements

(continued)

2. Critical accounting estimates and judgements (continued)

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

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

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 €373m of a deferred tax asset on tax losses on the statement of financial position as at 31 December 2016.

In this regard, the Group has carried out an exercise to determine the likely number of years required to utilise the deferred tax asset arising on tax losses carried forward. Based on the Group's latest forecast plans to 2020 and assuming a level of profitability growth consistent with GDP growth of approximately 2.5%, it will take c. 22 years for the deferred tax asset on tax losses of €373m to be utilised. A level of profitability consistent with GDP growth continues to be considered by Management to be appropriate given the Group's primarily domestic retail focus and the expectation arising therefrom that, over the long-term, the Group's performance would be expected to broadly track the performance of the Irish economy. This is particularly the case given the completion of the sale of the Group's remaining UK business together with the sale of the Group's Isle of Man mortgage business during 2016. Management note that there has been a change in the assumed profitability growth of 2.5%, as discussed above. An assumed growth rate of 2% has been used in prior periods. This change in Management judgement arises on foot of improving medium and long-term external forecasts for the Irish economy (with a number of external organisations forecasting medium and long-term growth of c. 3%). Management are of the view that a long-term assumed growth rate of 2.5% is not unreasonable in this context.

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

The expected period of time to full utilisation of the Deferred Tax Asset has increased since 31 December 2015 from 17 to 22 years (an increase of 5 years). This is due mainly to changes in the expected quantum of the Group's projected profits in the near term, to take into account certain risk factors such as: low interest rates for a longer period, slower than previously anticipated mortgage market growth, more modest growth in market share and Minimum Required Eligible Liabilities ('MREL') funding costs. However, it should be noted that the Group expects to remain profitable, albeit potentially at a slightly slower pace. This also impacts the assumed long-term projections for the Group with the result that the expected utilisation period has extended. With the exception of these adjustments, assumptions underpinning the Deferred Tax Asset recoverability analysis are broadly in line with prior periods.

2. Critical accounting estimates and judgements (continued)

It should be noted that Management make certain judgements in the process of applying the Group's accounting policies which may impact on amounts recognised in the financial statements and consequently on taxable profits and the utilisation of tax losses. As set out in note 22, analysis carried out demonstrates that, were certain adverse events to arise (see below for further detail of the adverse events considered), it continues to be Management's view that there would be sufficient future taxable profits against which the full quantum of tax losses carried forward could be utilised, albeit that the period of time over which such utilisation would occur would be extended.

It should be further noted that the analysis of the estimated utilisation of the deferred tax asset arising on tax losses carried forward in PTSB is based on the current business model of the Company. There is no expectation of a major change in the business which would have a significant impact on the net deferred tax asset as currently recognised.

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

As set out above, in assessing the appropriateness of recognising a Deferred Tax Asset on tax losses carried forward, Management has considered the impact of various stress case scenarios on the period of recoverability. The three scenarios identified as having potentially significant implications for the Deferred Tax Asset recoverability are adverse changes in the interest rate environment, declining house prices leading to increased loan defaults and therefore increased impairment charges and increases in operating costs. These stress case scenarios are intended to simulate a situation where there is an economic downturn, consistent with the Group's ICAAP stress scenarios. If any one of the stress case scenarios were to occur, within a reasonably possible range, it is our expectation that the time period over which these assets might be recovered could extend from between 2 to 6 years. If all adverse assumptions were to arise the period of recoverability would be extended by a further 22 years (i.e. full utilisation by 2060). However, Management consider this scenario unlikely. Changes in these assumptions are most impacted by changes to house prices and unemployment, which represent the majority of any expected stress loss which could occur. This position will continue to be refined as we move through delivering our Restructuring Plan commitments; however, much of this estimation uncertainty may not be resolved for a number of years. However, as noted, based on the Group's latest forecast plan, it is Management estimate that the expected time period for recovery of the deferred tax asset on tax losses to be 22 years, i.e. full utilisation is expected by 2038.

c) Financial instruments

The Group's accounting policy for the determination of fair value of financial instruments is set out in note 1(vi)(d). The best evidence of fair value is quoted prices in an active market. The absence of quoted prices increases reliance on valuation techniques and requires the use of judgement in the estimation of fair value. This judgement includes evaluating available market data, determining the expected cash flows for the instruments, as well as identifying and applying an appropriate discount rate and credit spread.

Valuation techniques that rely on non-observable data require a higher level of Management judgement in estimating the fair value compared to those based on observable data.

The quality of market data, valuation techniques and other inputs into the valuation models used are subject to internal review and approval.

The Group carries certain financial assets at fair value. In estimating the fair value of these assets and derivatives, the Group seeks to use quoted market prices (level 1). Where quoted market prices are not available, the Group uses internally developed valuation models and valuation from external experts. Inputs to these models are taken from observable market data where possible (level 2) but where this is not possible, a degree of judgement is used (level 3). Such judgement considerations typically include items such as interest rate yield curves, equity prices, option volatilities and currency rates.

Further details of the fair value of financial assets and liabilities are set out in note 33.

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(continued)

2. Critical accounting estimates and judgements (continued)

d) Provisions

Management has followed the accounting requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" when assessing if a provision needs to be recognised. A provision is recognised when:

- an entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefit will be required to settle the obligations; and
- a reliable estimate can be made of the amount of the obligation.

The Group has recognised a provision which relates to legal and compliance costs of ongoing disputes in relation to legacy business issues with certain customers and other actions, including a Mortgage Redress Programme (MRP) in connection with an on-going investigation by the Central Bank of Ireland and the industry-wide CBI tracker review. At 31 December 2016, the Group continues to assess the population size of potentially impacted mortgage accounts where customer detriment may have occurred and to determine appropriate redress and compensation in such cases. The Group anticipates that the majority of this provision will be fully utilised within 12 months. Management has exercised judgement in arriving at the potential provision in respect of these issues and have reviewed historic internal data. There is significant estimation uncertainty involved in determining this provision, and in particular including the population of impacted customers and the nature and amount of any associated liabilities. These could result in material adjustments to the provision in the future. In this regard, further information as required by IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" is disclosed in note 29.

3. Operating segments

Core Bank:

The Core Bank is the core commercial part of the Group which offers a comprehensive range of retail banking products through multiple channels, in addition to corporate and institutional deposits, and which manages, through the AMU platform, the Group's non-performing and/or high risk home loans, buy-to-let and unsecured loan portfolios. The remaining component of the commercial real estate ("CRE") portfolio along with related residential home loans (€0.4bn) which was previously in the Non-Core business was transferred to the Core Bank from 1 January 2016.

Non-Core Business:

During 2016, the Non-Core Business comprised (i) a sterling residential mortgage portfolio of mostly buy-to-let loans held by a UK based subsidiary Lansdowne 199 Limited; (ii) a legacy portfolio of residential mortgages, held by an Isle of Man based subsidiary, Irish Permanent (IOM) Limited and Irish Permanent International (Isle of Man) Limited; and (iii) a deposit-taking business in the Isle of Man, operated through Permanent Bank International Limited ("PBI"). In Q4 2016, the entire loan portfolios of both Lansdowne 199 Limited and Irish Permanent (IOM) Limited were sold.

The Group continues to hold the IOM deposit-taking business operated through PBI.

As previously reported, all portfolios comprised within the Non-Core Business are closed for new business, with the exception of PBI.

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

The accounting policies of the segments are in line with those of the Group. Transactions between the reportable segments are on normal commercial terms and conditions. The primary performance measure utilised by the ExCo for the reportable segments is net interest income, impairments and profit before tax.

The Group operates a funding mechanism which allocates the funding and related costs across the Core/Non-Core SBUs. For the purposes of the segmental analysis the income / (expense) in respect of this intergroup funding is reported in the internal customers in net interest income, while on the balance sheet this funding is reported on the intergroup funding line.

The Group is not reliant on revenue from transactions with a single external customer that amounted to 10% or more of the Group's revenue in the current or comparative reporting periods.

3. Operating segments (continued)

Financial performance of the segments for the years ended 31 December 2016 and 31 December 2015 are presented below.

Year ended 31 December 2016

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

* This is based on geographical location and constitutes operations in the UK through Lansdowne 199 and operations in IOM conducted through PBI, and Irish Permanent (IOM) Limited.

Year ended 31 December 2015

	Core Bank	Non-Core		
	Total	Of which UK*		Total
	€m	€m	€m	€m
Net interest income				
From external customers	229	115	81	344
From internal customers	117	(117)	(107)	-
Total Net interest income / (expense)	346	(2)	(26)	344
Other banking income	35	-	-	35
Net other operating (expense)/income	(2)	1	1	(1)
Total operating income	379	(1)	(25)	378
Total operating expenses including bank levy and excluding exceptional items, depreciation and amortisation	(279)	(20)	(17)	(299)
Depreciation of property and equipment	(13)	-	-	(13)
Write-back of impairment on property revaluation	2	-	-	2
Amortisation of intangible assets	(7)	-	-	(7)
Total operating expenses excluding exceptional items	(297)	(20)	(17)	(317)
Operating profit / (loss) before write-back/(charge) for impairments and exceptional items	82	(21)	(42)	61
(Charge)/write-back of impairments for loans and advances, repossessed assets and debt securities	(63)	28	(6)	(35)
Operating profit/(loss) before exceptional items	19	7	(48)	26
Exceptional items (net)				(460)
Loss before taxation				(434)
Taxation				9
Loss for the year				(425)

* This is based on geographical location and constitutes operations in the UK conducted through CHL and Lansdowne 199 and operations in IOM conducted through PBI, and Irish Permanent (IOM) Limited.

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3. Operating segments (continued)

Segment assets and liabilities and capital expenditure of the Group's operating segments as at 31 December 2016 and 31 December 2015 are presented below.

31 December 2016

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

*This is based on geographical locations and constitutes operations in the UK through Lansdowne 199 and operating in IOM conducted through PBI, and Irish Permanent (IOM) Limited.

31 December 2015

	Core Bank	Non-Core		
	Total	Of which UK*		Total
	€m	€m	€m	€m
Assets				
Held for sale	-	91	-	91
Other assets	25,367	3,863	3,577	29,230
Total segment assets	25,367	3,954	3,577	29,321
Total segment liabilities	23,345	3,580	3,206	26,925
Total segment liabilities of which are intergroup funding	2,048	(2,048)	(1,674)	-
Capital expenditure	21	-	-	21

*This is based on geographical locations and constitutes operations in the UK conducted through CHL and Lansdowne 199 and operating in IOM conducted through PBI, and Irish Permanent (IOM) Limited.

4. Net interest income

	Year ended 31 December 2016	Year ended 31 December 2015
	€m	€m
Interest income		
Loans and advances to customers	492	572
Loans and advances to banks	-	2
Debt securities and other fixed-income securities	75	119
- Held to maturity	32	52
- Available for sale ("AFS")	35	51
- Loans and receivables	8	15
- Amortisation of AFS securities reclassified to loans and receivables (note 14)	-	1
Gains on interest rate hedges on assets (note 16)	1	1
	568	694
Interest expense		
Deposits from banks (including central banks)	(37)	(57)
Due to customers	(111)	(215)
Interest on debt securities in issue	(14)	(9)
Interest on subordinated liabilities	-	(24)
Fees payable on ELG Scheme (note 40)	(4)	(14)
Amortisation of core deposit intangibles (note 21)	(11)	(31)
Loans and advances to banks	(1)	-
	(178)	(350)
Net interest income	390	344

Interest recognised on impaired loans and advances to customers was €104m (31 December 2015: €128m).

Interest recognised on loans and advances to customers which are non-performing but not impaired was €27m (31 December 2015: €23m) and interest recognised on forborne loans and advances to customers was €60m (31 December 2015: €63m).

Included in net interest income are net gains on interest rate fair value hedges which include gains on hedging instruments of €20m (31 December 2015: €21m) and losses on hedged items attributable to hedged risk of €19m (31 December 2015: €20m).

Net interest income includes a charge in respect of deferred acquisition costs on loans and advances to customers of €26m (31 December 2015: €22m).

5. Fees and commission income / (expense)

	Year ended 31 December 2016	Year ended 31 December 2015
	€m	€m
Fees and commission income		
Retail banking and credit card fees	45	45
Brokerage and insurance commission	10	9
Other fee and commission income	2	2
Fees and commission income	57	56
Fees and commission expense	(18)	(17)
Net fees and commission income	39	39

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6. Net trading income / (expense)

	Year ended 31 December 2016	Year ended 31 December 2015
	€m	€m
Held-for-trading		
Interest rate instruments	4	(7)
Foreign exchange (losses)/gains	(1)	3
Net trading income/(expense)	3	(4)

7. Other operating income / (expense)

	Year ended 31 December 2016	Year ended 31 December 2015
	€m	€m
Gain on sale of share in Visa Europe	29	-
Other income	-	2
Other operating income	29	2
Other expenses	-	(3)
Other operating expense	-	(3)
Net other operating income/(expense)	29	(1)

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

	Year ended 31 December 2016	Year ended 31 December 2015
	€m	€m
Staff costs (as detailed below)	135	132
Other general and administrative expenses	127	140
Administrative, staff and other expenses (excluding exceptional items)	262	272

Other general and administrative expenses include operating lease rentals on land and buildings of €7m (31 December 2015: €8m) and fees paid to the Group auditors for services outlined below. Expenses which relate to the Bank Recovery and Resolution Directive ('BRRD') of €3m and Central Bank Industry Funding levy of €7m for the year ended 31 December 2015 are presented above. BRRD levy and Central Bank Industry Funding levy for the year ended 31 December 2016 are now presented in Bank levy and regulatory charges, note 9.

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

	Year ended 31 December 2016	Year ended 31 December 2015
	€m	€m
Statutory auditor's remuneration (including expenses and excluding VAT)		
- Audit of the individual and the Group financial statements	1.0	0.5
- Other assurance services*	0.4	0.4
- Tax advisory services	-	-
- Other non-audit services**	0.5	1.0

* Other assurance services relate to the review of fees paid in respect of the ELG scheme (see note 40 for further details) and other Central Bank reporting.

** Other non-audit services in 2016 principally relate to the accounting advice PwC provided on various projects including IFRS 9 and the launch of two new structured entities which was provided by PwC UK. PwC UK was paid €0.2m for this service. Non-audit services in 2015 principally related to PwC's reporting accountant role for the Group's public offer which is customarily undertaken by the auditor.

Staff costs

	Year ended 31 December 2016	Year ended 31 December 2015
	€m	€m
Wages and salaries including commission payable to sales staff	111	109
Staff redundancy costs	1	1
Social insurance	13	12
Pension costs		
- Payments to defined contribution pension schemes	11	11
Total staff costs	136	133

Staff redundancy costs of €1m for the year ended 31 December 2016 and 31 December 2015 are recognised in Exceptional items, note 10.

Staff costs of €6m (31 December 2015: €3m), have been capitalised to intangible assets as the cost incurred was directly related to developing software and it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Therefore these costs are not included in this note.

Staff numbers

The number of staff employed are broken down by geographical location and by their operating segments for 31 December 2016 and 31 December 2015 in the tables below:

Closing and average number of staff (including Executive Directors) employed during the year:

	Closing staff numbers		Average staff numbers	
	2016	2015	2016	2015
Ireland	2,399	2,269	2,392	2,275
UK	12	12	12	69
	2,411	2,281	2,404	2,344

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

	Closing staff numbers		Average staff numbers	
	2016	2015	2016	2015
Core Bank	2,399	2,260	2,391	2,269
Non-Core	12	21	13	75
	2,411	2,281	2,404	2,344

Information concerning Directors' emoluments is disclosed in the audited section of the Directors' Report on Remuneration on pages 93 to 94.

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9. Bank levy and regulatory charges

	Year ended 31 December 2016	Year ended 31 December 2015
	€m	€m
Bank Levy	27	27
SRF under BRRD	9	-
Other regulatory charges	25	-
Bank levy and regulatory charges	61	27

Expenses which relate to the BRRD and Central Bank Industry Funding levy for the year ended 31 December 2016 are presented above. BRRD levy and Central Bank Industry Funding levy for the year ended 31 December 2015 were €3m and €7m respectively and are presented in Administrative, staff and other expenses (excluding exceptional items), note 8.

10. Exceptional items

At 31 December 2016, exceptional items amounted to €414m which consisted of €399m in relation to deleveraging costs and €15m in relation to restructuring costs and other legacy legal provisions.

Deleveraging costs

During the year, the Group carried out a number of deleveraging transactions which included the sale of its residual UK loan portfolio and the loans of Irish Permanent (IOM) Limited. Details of these transactions are provided below:

Lansdowne 199 Limited ("Lansdowne 199")

On 28 October 2016, the Group entered into an agreement to sell the remaining €2.66bn (£2.3bn) of loans held by its UK business, Lansdowne 199.

The Group received consideration of €2.27bn (£1.9bn) for the sale of these assets in November 2016. After transaction and other costs the Group has recognised a loss on sale of €0.36bn. The assets sold were predominantly performing low rate interest only tracker mortgages and were sold at a discount, due primarily to the low yield of assets. As part of the sale the Group was required to terminate a secured lending facility agreement in place with an external counterparty associated with the underlying assets sold. Included in the loss are transaction costs, break fees and penalties associated with this transaction amounting to €20m.

Irish Permanent (IOM) Limited

On 19 December 2016, the Group entered into an agreement to sell the €248m loans held by its IOM business, Irish Permanent (IOM) Limited and Irish Permanent International (Isle of Man) Limited.

The Group received consideration of €210m on completion of the sale of these assets in December 2016 and after transaction and other costs has recognised a loss on sale of €42m. The assets sold were predominantly performing low rate interest only tracker mortgages and were sold at a discount due primarily to the low yield of assets.

There is a put option exercisable by the buyer should the buyer fail to obtain a registration from the Isle of Man Office of Fair Trading for a small number of Isle of Man loans amounting to €7m. Should the purchaser not receive this registration by 31 March 2017 then the Group may be required to repurchase these €7m of loans. If the put option is exercised, the Group has a call option to repurchase the remaining loan portfolio, otherwise the call is not exercisable. The Group have valued the option arrangement at €0.4m.

Other

Other deleveraging costs amounted to a total gain of €3m, which largely comprise of (i) a mark-to-market gain on a cashflow hedge which the Group used to hedge the basis and foreign currency risk on the deleveraged sterling portfolio which was primarily offset by (ii) adjustments related to previously deleveraged portfolios.

Restructuring and other legacy legal provisions

Restructuring costs and other in the current year primarily relates to on-going costs arising from the development of the Group Risk function to comply with the emerging regulatory framework, which amount to €22m, offset by the release of a €9m provision which had been held for legacy legal costs.

31 December 2015

At 31 December 2015 exceptional items amounted to €460m of which €453m related to deleveraging costs and the repurchase of the Convertible Contingent Capital Note ("CoCo"), and €7m related to the restructuring programme of certain elements of the business. Deleveraging costs included the sale of the subsidiary CHL together with its loans and the sale of certain commercial real estate loan portfolios.

11. Taxation

(A) Analysis of taxation charge/(credit)

	Year ended 31 December 2016	Year ended 31 December 2015
	€m	€m
Current taxation		
Charge for current year	1	3
Adjustments for prior periods	(2)	-
	(1)	3
Deferred taxation		
Origination and reversal of temporary differences	41	(12)
Deferred taxation recognised in the income statement (note 22)	41	(12)
Taxation charged/(credited) to income statement	40	(9)
Effective tax rate	(18%)	2%

The Group taxation charge for the year ended 31 December 2016 was €40m (31 December 2015: €9m tax credit). This charge is mainly due to (i) the inclusion of a current tax credit of €2m arising on a tax refund due in respect of Group subsidiary companies which is partially offset by a current tax charge on non-trading profits in PTSB plc (€1m); (ii) a current year deferred tax charge of €41m which arises due to: (a) the utilisation of tax losses carried forward to shelter taxable profits in the year (€29m) in PTSB plc, (b) a deferred tax credit of €1m on other timing differences in PTSB plc and (c) the adjustment of losses carried forward in PTSB plc for small changes to the 2015 corporation tax liability on finalisation of the corporation tax return (€2m credit) and an additional adjustment to prior year tax losses which may require revision due to uncertainty which arose during 2016 in relation to the tax deductibility of a category of historic expenditure (€15m charge).

(B) Reconciliation of standard to effective tax rate

	Year ended 31 December 2016	Year ended 31 December 2015
	€m	€m
Loss on the Group activities before tax	(226)	(434)
Tax calculated at standard ROI corporation tax rate of 12.5% (2015: 12.5%)	(28)	(54)
Adjustment to tax charge in respect of previous years	(2)	-
Tax effect of non-deductible expenses	54	53
Tax effect of non-taxable income	(1)	(8)
Other	4	-
Adjustment to tax losses carried forward	13	-
Taxation charged/(credited) to income statement	40	(9)

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

	Year ended 31 December 2016		
	Gross	Tax	Net
	€m	€m	€m
Revaluation of property	9	(3)	6
Currency translation adjustment reserve	1	-	1
AFS reserve:			
- Change in fair value of AFS securities	(26)	3	(23)
- Transfer to income statement on asset disposal	(22)	3	(19)
Cash flow hedge reserve:			
- Change in fair value	24	(3)	21
- Amortisation of dedesignated CFH to income statement	(9)	1	(8)
Balance as at 31 December 2016	(23)	1	(22)

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(continued)

11. Taxation (continued)

	Year ended 31 December 2015		
	Gross €m	Tax €m	Net €m
Revaluation of property	16	(3)	13
Currency translation adjustment reserve	-	-	-
AFS reserve:			
- Change in AFS securities	(13)	2	(11)
- Transfer to income statement on asset disposal	-	-	-
Cash flow hedge reserve			
- Change in fair value	44	(5)	39
- Amortisation of dedesignated CFH to income statement	5	(1)	4
Balance as at 31 December 2015	52	(7)	45

12. Loss per share

(A) Basic loss per share

	Year ended 31 December 2016	Year ended 31 December 2015
Weighted average number of ordinary shares in issue and ranking for dividend excluding treasury shares ¹	454,690,912	424,293,704
Loss for the year attributable to equity holders	(€266m)	(€425m)
AT1 coupon paid (see note 31)	(€10m)	-
Loss for the period attributable to equity holders including AT1 coupon paid	(€276m)	(€425m)
Basic loss per share (€ cent)	(60.7)	(100.2)

(B) Diluted loss per share

	Year ended 31 December 2016	Year ended 31 December 2015
Weighted average number of potential dilutive ordinary shares arising from the AT1 conversion feature	-	-
Weighted average number of ordinary shares excluding treasury shares held under employee benefit trust used in the calculation of diluted loss per share and including the potential dilutive ordinary shares from the AT1 conversion feature	454,690,912	424,293,704
Diluted loss per share (€ cent)	(60.7)	(100.2)

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

No adjustment to the weighted average number of ordinary shares for the effects of dilutive potential ordinary shares was required for the year ended 31 December 2016, as the AT1 securities were assessed due to the conversion feature within the security, and were found to have an anti-dilutive effect.

No adjustment was required for the year ended 31 December 2015, as the share options lapsed, the convertible contingent capital notes were repurchased in May 2015 and the conversion feature of the AT1 securities were found to have an anti-dilutive effect.

12. Loss per share (continued)

¹Weighted average number of shares

	2016	2015
Number of shares in issue at 1 January* (note 31)	454,695,492	365,257,973
Treasury shares held (note 31)	(4,580)	(4,580)
	(4,580)	(4,580)
Net movements during the year*		
Weighted average shares redesignated	-	49,484
Weighted average shares issued	-	58,990,827
Weighted average number of shares	454,690,912	424,293,704

*As per IAS 33, when calculating the loss per share the weighted average number of ordinary shares outstanding during the period and all periods presented shall be adjusted for events other than the conversion of potential ordinary shares that have changed the number of ordinary shares without a corresponding change in resources. During 2015, the Group carried out a share re-organisation which had no corresponding change in resources.

13. Cash and cash equivalents

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

	31 December 2016	31 December 2015
	€m	€m
Cash and balances with central banks	66	64
Items in the course of collection	30	31
Loans and advances to banks repayable on demand (maturity of less than 3 months) (note 17)	1,172	1,480
	1,268	1,575
Restricted cash included in loans and advances to banks repayable on demand	(668)	(839)
Cash and cash equivalents per statement of cash flows	600	736

At 31 December 2016, restricted cash of €668m (31 December 2015: €839m) relates to cash of €466m (31 December 2015: €300m) held by the Group's securitisation entities while €202m (31 December 2015: €539m) relates to cash collateral placed with counterparties in relation to derivative positions and repurchase agreements.

14. Debt securities

	31 December 2016				31 December 2015			
	HTM securities	AFS securities	Loans and receivables	Total	HTM securities	AFS securities	Loans and receivables	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Government bonds	1,151	1,277	8	2,436	1,555	1,506	16	3,077
NAMA bonds	-	-	246	246	-	-	762	762
Gross debt securities	1,151	1,277	254	2,682	1,555	1,506	778	3,839

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

	31 December 2016				31 December 2015			
	HTM securities	AFS securities	Loans and receivables	Total	HTM securities	AFS securities	Loans and receivables	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Listed	1,151	1,277	-	2,428	1,555	1,506	-	3,061
Unlisted	-	-	254	254	-	-	778	778
Gross debt securities	1,151	1,277	254	2,682	1,555	1,506	778	3,839

Debt securities with a carrying value of €0.01bn (31 December 2015: €1.6bn) have been pledged to third parties in sale and repurchase agreements. Of these debt securities €nil (31 December 2015: €0.9bn) have been placed with a Government Institution.

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14. Debt securities (continued)

As at 31 December 2016, the amount of debt securities remaining available to be used and eligible as collateral (though eligibility will depend on the criteria of the counterparty) in sale and repurchase agreements had a carrying value of €2.7bn (31 December 2015: €2.2bn).

Held to maturity ("HTM") securities of €1.2bn are comprised of Irish bonds. They represent securities with fixed maturities and fixed and determinable cash flows, which the Group has the ability and intention to hold until maturity.

Loans and receivables debt securities includes €246m of bonds issued by NAMA and €8m of NTMA investments held by a subsidiary. The movement in HTM, Available for sale ('AFS') and loans and receivables securities may be classified as follows:

	2016			2015		
	HTM securities	AFS securities	Loans and receivables	HTM	AFS securities	Loans and receivables
	€m	€m	€m	€m	€m	€m
As at 1 January	1,555	1,506	778	1,377	2,662	1,288
Change in fair value	-	(40)	-	-	(54)	-
Additions	-	-	-	275	-	16
Maturities / disposals	(377)	(188)	(528)	(93)	(1,105)	(531)
Interest net of cash receipts	(27)	(1)	4	(4)	3	5
At 31 December	1,151	1,277	254	1,555	1,506	778

AFS reclassified to loans and receivables

During the year ended 31 December 2008, the Group availed of the amendment to IAS 39 and IFRS 7 issued in October 2008, effective 1 July 2008, which permitted financial assets classified as AFS that would have met the definition of loans and receivables, had they not been designated as AFS, to be reclassified out of the AFS category to the loans and receivables category as the Group has the intention and ability to hold the financial assets for the foreseeable future or until maturity.

At 31 December 2016, there were no remaining securities recognised in the statement of financial position. The amounts for 31 December 2015 have been included for comparative purpose only.

The table below sets out the amounts actually recognised in the income statement and other comprehensive income in respect of assets reclassified out of AFS debt securities into loans and receivables.

	Income statement		Other comprehensive income	
	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015
	€m	€m	€m	€m
Amortisation	-	1	-	-
Total	-	1	-	-

The table below sets out the amounts that would have been recognised in the periods following reclassification if the reclassification had not been made:

	Income statement		Other comprehensive income	
	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015
	€m	€m	€m	€m
Fair value movement	-	1	-	-
Cumulative impact	-	185	-	(2)

At the date of reclassification, 31 December 2008, the effective interest rates on reclassified AFS investment securities ranged from 1.5% to 5% with expected recoverable cash flows of €2,098m. The expected remaining cash flows from these securities amounted to €nil at 31 December 2016 (31 December 2015: €nil).

The Group has not reclassified any debt securities from AFS to loans and receivables during the current or prior year.

15. Equity securities

	31 December 2016	31 December 2015
	€m	€m
As at 1 January	23	-
Acquisition	8	-
Revaluation	1	23
Disposals	(23)	-
Total equity investments	9	23

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

	31 December 2016	31 December 2015
	€m	€m
Unlisted	9	23
Gross equity securities	9	23

PTSB was a Principal Member of Visa Europe Ltd. (Visa Europe) and as such owned one share in Visa Europe with a fair value of €23m at 31 December 2015. In June 2016, all shares in Visa Europe were sold with Principal Members receiving consideration in the form of upfront cash consideration, deferred cash and preferred stock in Visa Inc. Given that the share in Visa Europe has been sold at 31 December 2016, the fair value of €23m recognised at 31 December 2015 is now realised. A gain of €29m has been recorded in operating income in the income statement in respect of the sale of the share in Visa Europe. This gain comprises €21m for the cash and deferred cash components and a further €8m for the preferred stock in Visa Inc. PTSB continues to hold the preferred stock in Visa Inc. at 31 December 2016. This was fair valued at €9m as at 31 December 2016 and is recognised in the Statement of Financial Position.

The fair value of this shareholding in Visa Inc. is classified as level 3 as the valuation of the share includes inputs that are based on unobservable market data (refer to note 33 for further details).

16. Derivative assets / liabilities

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

The derivative instruments used by the Group include:

- Currency forward rate contracts which are commitments to purchase and sell currencies, including undelivered spot transactions;
- Currency and interest rate swaps which are commitments to exchange one set of cash flows for another; and
- Cross-currency interest rate swaps which were primarily used to reduce the foreign exchange exposure on loan portfolios.
- Option with put/call features relating to the finalisation of the sale of the UK retail mortgage portfolio.

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

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(continued)

16. Derivative assets / liabilities (continued)

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

	31 December 2016			31 December 2015		
	Contract/ notional amount	Fair value asset	Fair value liability	Contract/ notional amount	Fair value asset	Fair value liability
	€m	€m	€m	€m	€m	€m
Designated as fair value hedges						
Interest rate swaps*	1,043	20	87	1,676	30	111
	1,043	20	87	1,676	30	111
Designated as cash flow hedges						
Cross-currency interest rate swaps	-	-	-	2,452	-	192
	-	-	-	2,452	-	192
Held for trading						
Forwards	417	2	5	499	7	1
Interest rate swaps	869	22	23	937	21	27
Cross-currency interest rate swaps	-	-	-	681	-	53
	1,286	24	28	2,117	28	81
Embedded derivatives	73	-	9	95	-	13
	73	-	9	95	-	13
Derivative assets & liabilities as per the statement of financial position	2,402	44	124	6,340	58	397

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

Fair value hedges

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

The gains / (losses) recognised in net interest income on the hedging instruments designated as fair value hedges and the hedged items attributable to the hedged risk are analysed below:

	31 December 2016 €m	31 December 2015 €m
Gains on hedging instruments	20	21
(Losses) on hedged items attributable to hedged risk	(19)	(20)
Net gains	1	1

Cash flow hedges

During the year, the Group used cross currency interest rate swaps as cash flow hedges in order to hedge the exposure between cash flows on its UK mortgage portfolio and its funding which was Euro denominated.

In November 2016, the UK mortgage portfolio was sold by the Group and the cash flow hedge arrangement was terminated. The total amount recognised in Net Trading Income in respect of the termination of the cash flow hedge arrangement during the year was a credit of €1.6m.

The cross currency interest rate swaps used in the cash flow hedge during 2016 matured in December 2016 and are not included on the Statement of Financial Position at 31 December 2016.

16. Derivative assets / liabilities (continued)

Net investment hedge in foreign operations

The Group hedges part of the currency risk of its net investment in foreign operations using currency borrowings.

In 2015, the Group put in place a net investment hedge where certain GBP denominated deposits in PTSB are designated as the hedging item.

The following gains / (losses) have been recorded in other comprehensive income in respect of hedging instruments held to manage the Group's net investment in foreign operations in addition to the gains / (losses) on the net investment:

	31 December 2016	31 December 2015
	€m	€m
Gains in respect of hedging instruments held for net investment in foreign operations	16	9
(Losses) in respect of non-derivative hedged net investment in foreign operations	(15)	(9)
Net gains	1	-

17. Loans and advances to banks

	31 December 2016	31 December 2015
	€m	€m
Held at amortised cost		
Placed with central banks	228	458
Placed with other banks	957	1,058
Total loans and advances to banks	1,185	1,516

Placements with other banks includes restricted cash of €668m (31 December 2015: €839m) of which €466m (31 December 2015: €300m) is held by Group's securitisation entities and €202m (31 December 2015: €539m) relates to cash collateral placed with counterparties in relation to derivative positions and repurchase agreements.

Loans and advances to banks amounting to €1,172m as at 31 December 2016 (31 December 2015: €1,480m) have a maturity of less than 3 months.

18. Loans and advances to customers

Loans and advances by category are set out below:

	31 December 2016	31 December 2015
	€m	€m
ROI residential mortgages		
- Held through special purpose entities	12,982	10,319
- Held directly	7,812	11,220
	20,794	21,539
UK residential mortgages		
- Held directly	-	3,569
	20,794	25,108
Commercial mortgage loans	243	382
Consumer finance		
- Term loans / other	331	319
Gross loans and advances to customers	21,368	25,809
Less: provision for impairment (note 19)	(2,482)	(2,688)
Assets classified as held for sale (note 41)	-	(91)
Net loans and advances to customers	18,886	23,030

Notes to the Consolidated Financial Statements

(continued)

18. Loans and advances to customers (continued)

Net loans and advances to customers is analysed as follows:

	31 December 2016	31 December 2015
	€m	€m
Core	18,886	19,188
Non-core	-	3,842
	18,886	23,030

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

	Gross loans and advances to customers		Net loans and advances to customers	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	€m	€m	€m	€m
ROI				
Tracker	13,545	14,198	11,909	12,494
Variable rate	7,343	7,411	6,514	6,528
Fixed rate	480	524	463	493
	21,368	22,133	18,886	19,515
UK				
Tracker	-	3,484	-	3,433
Variable rate	-	67	-	64
Fixed rate	-	18	-	18
	-	3,569	-	3,515
	21,368	25,702*	18,886	23,030**

* Excluded from this is €107m of commercial loans which are included in assets held for sale at 31 December 2015.

** Excluded from this is €91m of commercial loans which are included in assets held for sale at 31 December 2015.

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's and used as collateral for borrowings. All of the Group special purpose entities are consolidated. See note 42.

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

	31 December 2016	31 December 2015
	€bn	€bn
Residential mortgages held through special purpose entities	13.0	10.3
Notes issued by special purpose entities		
- rated	8.6	6.4
- unrated	4.4	3.9

18. Loans and advances to customers (continued)

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

	31 December 2016	31 December 2015
	€bn	€bn
Sold to third parties and included within debt securities in issue (non-recourse) on the Statement of Financial Position (note 27)	0.9	0.5
Held by the ECB as collateral in respect of funds raised under the euro system funding programme (note 25)	2.1	3.8
Held by other banks and institutions as part of collateralised lending or sale and repurchase agreements (note 25)	1.8	0.6
Other		
- Available collateral ¹	3.8	1.5
- Unrated notes	4.4	3.9
	13.0	10.3

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

As at 31 December 2016, the Group had €nil (31 December 2015: €1.6bn) drawn down under the Special Mortgage Backed Promissory Notes ("SMBPN") programme with the ECB. At 31 December 2015, this was secured by way of a floating charge over €4.2bn of ROI residential mortgages. Refer to note 25.

19. Impairment provisions

(a) Loans and advances to customers

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

A loan is considered to be impaired, and therefore its carrying amount is adjusted to reflect the effect of impairment, when there is objective evidence that events have occurred which give rise to an adverse impact of the estimated future cash flows of the asset. Impairment provisions are calculated either individually on loans where significant, or on groups of loans assessed collectively. Impairment losses are recorded as charges to the income statement.

The impaired loan balances as at 31 December 2016 were €4,912m (31 December 2015: €5,432m). As at 31 December 2016, there were €124m (31 December 2015: €131m) of loans which are greater than 90 days in arrears that are considered past due but not impaired. Refer to note 34 for further details.

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

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(continued)

19. Impairment provisions (continued)

31 December 2015	Loans and advances to customers €m	Impaired loans €m	Impaired % of total loans %	Impairment Provisions			Total provisions as % of impaired loans %	Total provisions as % of total loans %
				Specific €m	IBNR €m	Total €m		
Residential:								
ROI:								
- Home loans	15,862	3,712	23%	1,367	131	1,498	40%	9%
- Buy-to-let	5,596	1,360	24%	766	197	963	71%	17%
UK:								
- Home loans	234	27	12%	7	1	8	30%	3%
- Buy-to-let	3,335	111	3%	36	10	46	41%	1%
Commercial	382	137	36%	41	53	94	69%	25%
Consumer finance:								
- Term loans / other	318	85	27%	75	4	79	93%	25%
Total gross loans	25,727	5,432	21%	2,292	396	2,688	49%	10%
Impairment provision	(2,688)							
Assets classified as held for sale	(91)							
Deferred fees, discounts & fair value adjustments	82							
At 31 December	23,030							

Impairment (write-back)/charge on loans and advances to customers by geographical location

	Year ended 31 December 2016 €m	Year ended 31 December 2015 €m
Republic of Ireland ("ROI")		
Home loans	(66)	(12)
Buy-to-let	14	66
Commercial	(4)	(27)
Consumer finance	(9)	2
	(65)	29
United Kingdom ("UK")		
Buy-to-let	-	6
	-	6
Total impairment (write-back)/charge to the Income Statement	(65)	35

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

	Year ended 31 December 2016 €m	Year ended 31 December 2015 €m
Specific	(78)	4
IBNR	13	31
Total impairment (write-back)/charge to the Income Statement	(65)	35

19. Impairment provisions (continued)

Impairment (write-back)/charge by Segment

	Year ended 31 December 2016	Year ended 31 December 2015
	€m	€m
Core	(60)	62
Non-core	(5)	(27)
Total impairment (write-back)/charge to the Income Statement	(65)	35

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

2016	Residential mortgages		Commercial	Consumer	Total
Total	ROI €m	UK €m	€m	finance €m	€m
As at 1 January	2,461	54	94	79	2,688
Write-back for the year (as per Income Statement)	(52)	-	(4)	(9)	(65)
Increase due to interest booked but not recognised	51	-	2	3	56
Unwinding of discount	(40)	-	(2)	-	(42)
Amounts written off*	(84)	(10)	(9)	(7)	(110)
Recoveries payable to the Credit Institutions Resolution Fund (note 27)	-	-	-	(4)	(4)
Recoveries	1	-	-	3	4
Disposals	-	(37)	-	-	(37)
Exchange movements	-	(7)	-	-	(7)
Other	(1)	-	-	-	(1)
As at 31 December	2,336	-	81	65	2,482

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

2016	Residential mortgages		Commercial	Consumer	Total
Core	ROI €m	UK €m	€m	finance €m	€m
As at 1 January	2,427	-	-	79	2,506
Transfer of opening balance from Non-core	34	-	88	-	122
(Write-back)/charge for the year (as per Income Statement)	(52)	-	1	(9)	(60)
Increase due to interest booked but not recognised	51	-	2	3	56
Unwinding of discount	(40)	-	(2)	-	(42)
Amounts written off	(84)	-	(8)	(7)	(99)
Recoveries payable to the Credit Institutions Resolution Fund (note 27)	-	-	-	(4)	(4)
Recoveries	1	-	-	3	4
Disposals	-	-	-	-	-
Other	(1)	-	-	-	(1)
As at 31 December	2,336	-	81	65	2,482

Notes to the Consolidated Financial Statements

(continued)

19. Impairment provisions (continued)

2016

	Residential mortgages		Commercial	Consumer finance	Total
	ROI €m	UK €m			
Non-core					
As at 1 January	34	54	94	-	182
Transfer of opening balance to Core	(34)	-	(88)	-	(122)
Write-back for the year (as per Income Statement)	-	-	(5)	-	(5)
Increase due to interest booked but not recognised	-	-	-	-	-
Unwinding of discount	-	-	-	-	-
Amounts written off	-	(10)	(1)	-	(11)
Recoveries payable to the Credit Institutions Resolution Fund (note 27)	-	-	-	-	-
Recoveries	-	-	-	-	-
Disposals	-	(37)	-	-	(37)
Exchange movements	-	(7)	-	-	(7)
As at 31 December	-	-	-	-	-

2015

	Residential mortgages		Commercial	Consumer finance	Total
	ROI €m	UK €m			
Total					
As at 1 January	2,673	61	892	96	3,722
Charge/(write-back) for the year (as per Income Statement)	54	6	(27)	2	35
Increase due to interest booked but not recognised	54	-	11	4	69
Unwinding of discount	(41)	-	(6)	-	(47)
Amounts written off*	(46)	(16)	(26)	(23)	(111)
Recoveries payable to the Credit Institutions Resolution Fund (note 27)	-	-	-	(2)	(2)
Recoveries	3	2	-	2	7
Disposals	(225)	(3)	(750)	-	(978)
Exchange movements	-	4	-	-	4
Other	(11)	-	-	-	(11)
As at 31 December	2,461	54	94	79	2,688

2015

	Residential mortgages		Commercial	Consumer finance	Total
	ROI €m	UK €m			
Core					
As at 1 January	2,448	-	-	96	2,544
Charge for the year (as per Income Statement)	60	-	-	2	62
Increase due to interest booked but not recognised	53	-	-	4	57
Unwinding of discount	(41)	-	-	-	(41)
Amounts written off	(46)	-	-	(23)	(69)
Recoveries payable to the Credit Institutions Resolution Fund (note 27)	-	-	-	(2)	(2)
Recoveries	3	-	-	2	5
Disposals	(39)	-	-	-	(39)
Other	(11)	-	-	-	(11)
As at 31 December	2,427	-	-	79	2,506

19. Impairment provisions (continued)

2015	Residential mortgages			Consumer	
	ROI	UK	Commercial	finance	Total
Non-core	€m	€m	€m	€m	€m
As at 1 January	225	61	892	-	1,178
(Write-back)/charge for the year (as per Income Statement)	(6)	6	(27)	-	(27)
Increase due to interest booked but not recognised	1	-	11	-	12
Unwinding of discount	-	-	(6)	-	(6)
Amounts written off	-	(16)	(26)	-	(42)
Recoveries	-	2	-	-	2
Disposals	(186)	(3)	(750)	-	(939)
Exchange movements	-	4	-	-	4
Other	-	-	-	-	-
As at 31 December	34	54	94	-	182

(b) Repossessed Assets

In the year ended 31 December 2016, the Group incurred an impairment write-back on repossessed assets of €3m (31 December 2015: €1m charge). Repossessed assets are included in other assets (refer to notes 23 and 34 for further analysis).

20. Property and equipment

2016	Held at Fair Value Land and buildings €m	Held at Cost Office and computer equipment €m	Held at Cost Motor vehicles €m	Total €m
Cost or valuation				
At 1 January	142	48	-	190
Additions	4	8	-	12
Revaluations	11	-	-	11
Disposals	-	-	-	-
Reclassification to asset held for sale	(1)	-	-	(1)
At 31 December	156	56	-	212
Accumulated depreciation				
At 1 January	45	30	-	75
Provided in the year	5	7	-	12
Disposals	-	-	-	-
Reclassification to asset held for sale	-	-	-	-
At 31 December	50	37	-	87
Net book value at 31 December	106	19	-	125

Of the €11m revaluation, €2m was recognised in the income statement due to impairment write-back on land and buildings and €9m in the statement of comprehensive income.

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(continued)

20. Property and equipment (continued)

	Held at Fair Value Land and buildings €m	Held at Cost Office and computer equipment €m	Held at Cost Motor vehicles €m	Total €m
2015				
Cost or valuation				
At 1 January	118	49	4	171
Additions	7	6	-	13
Revaluations	18	-	-	18
Disposals	(3)	(6)	(4)	(13)
Reclassification	2	(1)	-	1
At 31 December	142	48	-	190
Accumulated depreciation				
At 1 January	41	27	3	71
Provided in the year	5	8	-	13
Disposals	(1)	(6)	(3)	(10)
Reclassification	-	1	-	1
At 31 December	45	30	-	75
Net book value at 31 December	97	18	-	115

The net book value of land and buildings include the following:

	31 December 2016 €m	31 December 2015 €m
Land	23	21
Buildings - freehold	67	60
Buildings - leasehold	16	16
	106	97

Land and buildings at 31 December 2016 held at fair value was €106m (31 December 2015: €97m). The historic cost of land and buildings is €110m (31 December 2015: €112m).

Fair value measurement of Group's land and buildings

The Group's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation less any accumulated depreciation recognised from the date of the latest revaluation. On the date of revaluation any accumulated depreciation is eliminated. The fair value measurements of the Group's freehold land and buildings as at 31 December 2016 and 31 December 2015 were performed by independent professional valuers having appropriate qualifications and recent experience in the fair value measurement of properties in the locations and categories being valued. The effective date of revaluation is 31 December 2016 and 31 December 2015.

The fair value of the freehold land and buildings were determined based on a market comparable approach that reflects recent transaction prices for similar properties using capitalisation yields ranging from 6% to 11%. There has been no change to the valuation techniques during the year.

20. Property and equipment (continued)

Details of the freehold land and buildings and information about the fair value hierarchy as defined in the Group's accounting policy as at 31 December 2016 are as follows:

31 December 2016	Level 1 €m	Level 2 €m	Level 3 €m	Total Fair value €m
Land	-	23	-	23
Buildings - freehold	-	67	-	67
	-	90	-	90

31 December 2015	Level 1 €m	Level 2 €m	Level 3 €m	Total Fair value €m
Land	-	21	-	21
Buildings - freehold	-	60	-	60
	-	81	-	81

21. Intangible assets

2016	Software €m	Core deposits* €m	Total €m
Cost			
At 1 January	52	156	208
Additions	16	-	16
At 31 December	68	156	224
Accumulated amortisation			
At 1 January	26	145	171
Provided in the year	8	11	19
At 31 December	34	156	190
Net book value at 31 December	34	-	34

2015	Software €m	Core deposits* €m	Total €m
Cost			
At 1 January	47	156	203
Additions	8	-	8
Reclassification	(3)	-	(3)
At 31 December	52	156	208
Accumulated amortisation			
At 1 January	21	114	135
Provided in the year	7	31	38
Reclassification	(2)	-	(2)
At 31 December	26	145	171
Net book value at 31 December	26	11	37

*Core deposit intangibles are amortised over five years from the date of recognition. Amortisation of these core deposit intangibles are reflected in net interest income, note 4. Core deposit intangibles are fully amortised as at 31 December 2016.

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22. Deferred taxation

	31 December 2016	31 December 2015
	€m	€m
Deferred tax liabilities	(20)	(22)
Deferred tax assets	373	415
Net Deferred tax assets	353	393

Net deferred tax assets are attributable to the following:

2016	At 1 January €m	Recognised in income statement €m	Recognised in equity €m	Recognised in other comprehensive income €m	At 31 December €m
Property and equipment	(8)	-	-	(3)	(11)
Unrealised gains/(losses) on assets/liabilities	(13)	-	4	-	(9)
Core deposit intangibles	(1)	1	-	-	-
Losses carried forward	414	(41)	-	-	373
Other temporary differences	1	(1)	-	-	-
	393	(41)	4	(3)	353

2015	At 1 January €m	Recognised in income statement €m	Recognised in equity €m	Other €m	At 31 December €m
Property and equipment	(4)	-	(4)	-	(8)
Unrealised gains/(losses) on assets/liabilities	(9)	-	(4)	-	(13)
Core deposit intangibles	(5)	4	-	-	(1)
Losses carried forward	420	(6)	-	-	414
Other temporary differences	(13)	14	-	-	1
	389	12	(8)	-	393

In line with the requirements of IAS 12 "Deferred Tax Assets", Management and Directors have formed the view that there should be sufficient future taxable profits within the PTSB legal entity against which PTSB tax losses carried forward can be used. Management and Directors have reviewed this position as at 31 December 2016 and remain of the view that it is appropriate to continue to recognise a deferred tax asset on the full quantum of tax losses carried forward in PTSB. This information is based on the following supporting evidence: (i) The formal approval of the Restructuring Plan by the European Commission during 2015 which provides significant support to the position that PTSB will continue as a single legal entity; (ii) A review of the quantum of tax losses carried forward in PTSB in conjunction with forecasted profitability (the projections used having been approved by the Board of Directors). This review demonstrated that it is probable that there will be sufficient future taxable profits within PTSB against which the full quantum of tax losses carried forward can be utilised; (iii) The consideration of forecasting risks, including sensitivity analysis on the financial projections used (including an analysis of the effects of higher than expected impairment levels and lower than expected net interest margin). This analysis demonstrated, were certain adverse events to occur, it would remain probable that there would be sufficient future taxable profits within PTSB against which the full quantum of tax losses carried forward could be utilised, albeit that the period of time over which such utilisation would occur would be extended; and (iv) The consideration of a number of other factors which may impact the utilisation of the tax losses including the macroeconomic environment, adherence to the Restructuring Plan and Group's financial position. These factors are set out in further details in note 2, critical accounting estimates and judgements.

It should also be noted that under current Irish tax legislation there is no time restriction on the utilisation of trading losses. Therefore, the tax losses carried forward in PTSB are available for utilisation against profits of the same trade in any future period. Also, the Directors are satisfied that taxable future profits should be available to recover the remaining deferred tax assets.

The total unused tax losses for which no deferred tax asset is recognised in the statement of financial position at 31 December 2016 are €164m (tax value: €21m) (31 December 2015: €164m). These unused tax losses relate wholly to the subsidiary entities.

In accordance with IFRS these balances are recognised on an undiscounted basis.

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

Finally, it should be noted that the full net deferred tax asset is not currently included in the Group's transitional CET1 capital. This is due to the fact that, under CRD IV/CRR, the Group was required to begin deducting deferred tax assets that rely on future profitability from CET1 capital in 2014. Transitional arrangements provide for the phasing-out of such assets over a period from 2014 to 2023 with full deduction from 2024. The net deferred tax asset that is reliant on future profitability that is included in CET1, and subject to deduction on a phased basis until 2023, is €284m as at 31 December 2016 (31 December 2015: €358m).

23. Other assets

	31 December 2016	31 December 2015
	€m	€m
Reposessed assets	70	58
Other	11	16
	81	74

€6m of reposessed assets, which were held as at 31 December 2015 were sold as part of the disposal of Lansdowne 199 loans in 2016 (see note 10 for further details). During the year, a further €19m of assets were reposessed while €4m of assets were sold. An impairment write-back in respect of these assets of €3m was also recorded in the income statement. These reposessed assets are held at fair value based on valuations performed by independent valuers having appropriate qualifications and recent exposure in the fair value measurement in locations and categories being valued or based on appropriate indexed valuations. These valuations are considered to be within level 2 in the IFRS 13 hierarchy. For further details in relation to reposessed assets, see note 34.

Management believes that selling the balance of properties within 12 months is improbable based on historic experience. Therefore, in light of the requirements of IFRS 5, the Group concluded that these reposessed assets do not meet the criteria to be classified as held for sale.

24. Prepayments and accrued income

	31 December 2016	31 December 2015
	€m	€m
Visa prepayment	91	36
Other prepayments	12	14
	103	50

25. Deposits by banks (including central banks)

	31 December 2016	31 December 2015
	€m	€m
Placed by the ECB	1,380	4,650
Placed by other banks and institutions on repurchase agreements	1,522	1,072
Other deposits	1	1,027
Net deposits by banks	2,903	6,749

Balances placed by the ECB

Maximum	5,410	8,225
Average	3,031	4,653

The Group received €1.4bn (31 December 2015: €3.0bn) of deposits from the ECB which are secured on €2.1bn (31 December 2015: €3.8bn) of notes issued by special purpose entities controlled by the Group.

At 31 December 2015, the Group held €1.6bn of deposits by the CBI under the SMBPN programme. The deposits were secured by a floating charge over €4.2bn of ROI residential mortgages. On 1 September 2016, the deposits placed by the CBI under the SMBPN programme matured.

Of the deposits received on repurchase agreements, €1.5bn (31 December 2015: €0.5bn) are collateralised on €1.8bn (31 December 2015: €0.6bn) of notes issued by special purpose entities controlled by the Group. The notes issued by special purpose entities are secured by a first fixed charge over residential mortgages held by the special purpose entities (refer to note 18).

Other deposits include €1m (31 December 2015: €5m) of cash collateral placed in relation to derivative positions and repurchase agreements. Other deposits previously included €1bn of a secured loan facility as at 31 December 2015. The secured loan facility was fully repaid as part of the Lansdowne 199 deleveraging in 2016.

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26. Customer accounts

	31 December 2016	31 December 2015
	€m	€m
Term deposits	8,790	10,682
Demand deposits	2,938	2,920
Current accounts	3,355	3,006
Notice and other accounts	1,901	1,942
Total Customer accounts	16,984	18,550

€0.2bn of deposits are placed by a Government institution (31 December 2015: €1.1bn) of which €nil of debt securities (31 December 2015: €0.9bn) forms part of a repurchase agreement and is included under term deposits. These deposits are collateralised on €nil (31 December 2015: €0.9bn) of debt securities. See note 14 for further details. The remaining €0.2bn (31 December 2015: €0.2bn) is included within term deposits.

Term deposits of €8.8bn (31 December 2015: €10.7bn) have decreased by €1.9bn primarily due to the discontinuance of the NTMA repurchase agreement of €0.9bn and a €0.6bn reduction in Interest First accounts.

An analysis of the contractual maturity profile of customer accounts is set out in the liquidity risk section of note 34.

27. Debt securities in issue

	31 December 2016	31 December 2015
	€m	€m
At amortised cost		
Bonds and medium-term notes	374	470
Non-recourse funding	950	533
	1,324	1,003
Maturity analysis		
Repayable in less than 1 year	50	25
Repayable in greater than 1 year but less than 2 years	304	50
Repayable in greater than 2 years but less than 5 years	13	316
Repayable in greater than 5 years	957	612
	1,324	1,003

Non-Recourse funding

During 2016, the group issued a €500m residential mortgage backed securitisation. As at 31 December 2016, the Group had advances of €1bn (31 December 2015: €0.5bn) collateralised on residential property loans of €1bn (31 December 2015: €0.5bn) subject to non-recourse funding by way of residential mortgage securitisations. Residential mortgage securitisations involve transferring the interest in pools of mortgages to special purpose entities which issue mortgage-backed floating rate notes to fund the purchase of the interest in mortgage pools. These loans, which have not been de-recognised, are shown within loans and advances to customers while the non-recourse funding is shown as a separate liability.

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

Bonds & Medium Term Notes (MTN's)

During the year €25m of MTN's matured (31 December 2015: €1.6bn) and further €71m of bonds matured early as these bonds contained a call option which was triggered during the period.

28. Other liabilities

	31 December 2016	31 December 2015
	€m	€m
Amounts falling due within one year		
PAYE and social insurance	4	3
Other taxation including DIRT	5	8
Other	41	63
	50	74

Included in Other is €6m (31 December 2015: €2m) due under the Financial Incentive Agreement entered into as part of the acquisition of loans and advances of Newbridge Credit Union ("NCU") in 2013. The funds relate to 50% of the impairment losses incurred by the Group on the loans and advances of NCU since its acquisition in 2013 and other costs. See note 40 for further details.

29. Provisions

	2016				2015			
	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	5	104	8	117	5	112	1	118
Provisions made during the year	-	12	5	17	1	33	7	41
Write-back of provisions during the year	-	(1)	-	(1)	(1)	-	-	(1)
Provisions used during the year	(1)	(41)	(7)	(49)	-	(41)	-	(41)
As at 31 December	4	74	6	84	5	104	8	117

Restructuring costs

This provision was initially recognised in 2013 due to the closure of a number of branches. As at 31 December 2016, the residual onerous lease provision is €4m (31 December 2015: €5m). The Group remains a lessee in a number of non-cancellable leases over properties that it no longer occupies. The provision relates to leases on properties of up to fourteen years and is calculated as the present value of future lease payments. It is expected that €1m of this provision will be utilised in the next 12 months.

Provision for legacy, legal and compliance liabilities

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

In December 2015, the Group received an industry-wide letter from the Central Bank of Ireland instructing it to undertake a review of its tracker mortgages. The terms of this review are broadly consistent with the Mortgage Product Review Group announced by the Group in 2015. At 31 December 2016, the Group continues to assess the population size of potentially impacted mortgage accounts where customer detriment may have occurred and to determine appropriate redress and compensation in such cases.

Of the €74m provision as at 31 December 2016, the Group had provided €61m (31 December 2015: €94m) for the Mortgage Redress Programme and the Central Bank of Ireland Tracker review. This represents the best estimate of the potential liabilities at 31 December 2016. The matter is being kept under review as more information becomes available.

The Group anticipates that the majority of this provision will be fully utilised within 12 months.

Other

This provision of €6m (31 December 2015: €8m) relates to indemnities and warranties provided by the Group together with further costs relating to deleveraging of various asset portfolios in prior periods.

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30. Subordinated liabilities

	2016 €m	2015 €m
As at 1 January	22	387
Repurchase of Contingent Convertible Notes	-	(366)
Other movements	-	1
As at 31 December*	22	22

	31 December 2016 €m	31 December 2015 €m
Dated		
€24m 0% non-callable lower tier 2 capital notes 2018	22	22
	22	22

*Included in the closing balance is a hedge accounting adjustment of €1m (31 December 2015: €1m).

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

Terms and conditions of other outstanding subordinated liabilities

The terms and conditions of the remaining outstanding subordinated liabilities of the Group as at 31 December 2016 are detailed as follows: €24m zero coupon, non-callable lower tier 2 capital notes repayable on 15 September 2018, issued at 43.1825% of aggregate nominal amount of €55m. Under the Lower Tier 2 Liability Management Exercise ("LME") carried out by the Group in 2011, €31m of the €55m original nominal amount of these notes were repurchased. The remaining notes accrete up at an effective interest rate of 8.76%.

The consent of the CBI is required before:

- Any repayment, for whatever reason, of a dated subordinated liability prior to its stated maturity; and
- Any exercise of any redemption option in any undated liability.

In the event of the winding up of the entity which issued the subordinated liability, the claims of the holders of the subordinated liabilities shall be subordinated to the claims of depositors, policyholders and creditors of the relevant entity other than creditors that are expressed to rank pari-passu with or junior to the claims of the holders of the subordinated liabilities.

31. Share capital, reserves and other equity instruments

Share capital

Share capital is the funds raised as a result of a share issue and comprises the ordinary shares of the holding company.

Authorised share capital

	31 December 2016 €m	31 December 2015 €m
Number of shares		
Ordinary shares of €0.50 each	1,550,000,000	775
Deferred shares of €0.289 each	84,344,636,678	24,376

Issued share capital

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

Balances as at 31 December 2016

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

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

Balances as at 31 December 2015

	€ 0.289 Deferred shares	€ 0.031 Ordinary shares	€ 0.001 Ordinary shares	€ 0.005 Ordinary shares	€ 0.50 Ordinary shares	Total
As at 1 January 2015	276,782,351	36,525,797,323	-	-	-	
Reorganisation						
Subdivision	-	-	1,132,299,717,013	36,525,797,323	-	
Rounding	-	-	12,505,131	6,867,600	-	
Consolidation	3,286,101,161	(36,525,797,323)	(1,132,312,222,144)	(36,532,664,923)	365,326,649	
Capital Raise						
New ordinary shares issued	-	-	-	-	88,888,889	
Open offer	-	-	-	-	479,954	
As at 31 December 2015	3,562,883,512	-	-	-	454,695,492	
Issued share capital (€m)	1,030				227	1,257
Shares held under employee benefit trust	499,111				4,580	

Capital Raise

During 2015, the Company issued new ordinary share capital of 88,888,889 shares by way of a private placing along with an open offer to existing shareholders of new Ordinary Share Capital of 479,954 shares, all with a nominal value of €0.50. This formed part of a capital transaction carried out by the Group in 2015. The private placement raised €400m and the open offer raised €2.2m.

Following this issuance of additional ordinary shares and the disposal of shares by the State, the Minister for Finance currently owns 74.9% of the share capital of the Company.

No shares were issued as a result of the exercise of options under the Group's share option schemes or under the Group's profit sharing scheme during the current or prior year.

Share Premium

The share premium reserve represents the excess of amounts received for share issues less associated issue costs over the par value of those shares of the Company. The Group recognised additional share premium of €357m on completion of the capital raise which is offset against €26m of costs.

On 22 July 2015, the Company obtained from the High Court of Ireland an order of court, confirming the cancellation and reduction of €1.49bn out of its share premium reserve to be transferred to its retained earnings reserve. The resulting reduction has been applied to reduce the existing deficit in the retained earnings reserve at 31 December 2015.

Other Reserves – Non-distributable

- Capital contribution reserve

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

- Revaluation reserve

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

- AFS reserve

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

- Cash flow hedge reserve

The cash flow hedge reserve comprises cumulative net gains or losses, net of tax, on effective cash flow hedging instruments.

- Currency translation adjustment reserve

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

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(continued)

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

- Other capital reserves

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

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

Retained earnings

The retained earnings include distributable and non-distributable earnings. This reserve represents the retained earnings of the holding company and subsidiaries after consolidation adjustments. It also includes €1,490m which was transferred from share premium and €118m which was transferred from the capital contribution reserve as noted above. Furthermore €10m coupon interest on the AT1 securities was paid from this reserve during 2016.

Other equity instruments - Non-distributable

Additional Tier 1 Securities

	2016	2015
	€m	€m
As at 1 January	122	-
Additional Tier 1 securities issued during the period	-	125
Issuance cost	-	(3)
As at 31 December	122	122

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

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

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

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

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

32. Analysis of other comprehensive income

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

31 December 2016	Revaluation reserve	Available for sale reserve	Cash flow hedge reserve	Currency translation adjustment reserve	Retained earnings	Total
	€m	€m	€m	€m	€m	€m
Other comprehensive income (net of tax)						
Revaluation of property	6	-	-	-	-	6
Currency translation adjustment	-	-	-	1	-	1
AFS reserve:						
Change in fair value of AFS financial assets	-	(23)	-	-	-	(23)
Disposal of AFS securities	-	(19)	-	-	-	(19)
Cash flow hedge reserve:						
Net change in fair value	-	-	21	-	-	21
Amortisation of dedesignated CFH to income statement	-	-	(8)	-	-	(8)
Total other comprehensive income	6	(42)	13	1	-	(22)

31 December 2015	Revaluation reserve	Available for sale reserve	Cash flow hedge reserve	Currency translation adjustment reserve	Retained earnings	Total
	€m	€m	€m	€m	€m	€m
Other comprehensive income (net of tax)						
Revaluation of property	13	-	-	-	-	13
Currency translation adjustment	-	-	-	-	-	-
AFS reserve:						
Change in fair value of AFS financial assets	-	(11)	-	-	-	(11)
Cash flow hedge reserve:						
Net change in fair value	-	-	39	-	-	39
Amortisation of dedesignated CFH to income statement	-	-	4	-	-	4
Total other comprehensive income	13	(11)	43	-	-	45

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33. Measurement basis and fair values of financial instruments

(a) Measurement basis and fair values of financial instruments

31 December 2016							
	Note	Held at amortised cost	At fair value through equity	At fair value through profit or loss	Designated as fair value hedges	Total carrying value	Fair Value
		€m	€m	€m	€m	€m	€m
Financial assets							
Cash and balances with central banks	13	66	-	-	-	66	66
Items in course of collection	13	30	-	-	-	30	30
Debt securities*	14	1,405	1,277	-	-	2,682	2,763
Equity securities	15	-	9	-	-	9	9
Derivative assets**	16	-	-	24	20	44	44
Loans and advances to banks	17	1,185	-	-	-	1,185	1,185
Loans and advances to customers	18	18,877	-	-	9	18,886	16,204
Financial liabilities							
Deposits by banks	25	2,903	-	-	-	2,903	2,903
Customer accounts	26	16,982	-	-	2	16,984	16,984
Debt securities in issue	27	1,321	-	9	(6)	1,324	1,328
Derivative liabilities**	16	-	-	37	87	124	124
Subordinated liabilities	30	21	-	-	1	22	23
31 December 2015							
	Note	Held at amortised cost	At fair value through equity	At fair value through profit or loss	Designated as fair value hedges	Total carrying value	Fair Value
		€m	€m	€m	€m	€m	€m
Financial assets							
Cash and balances with central banks	13	64	-	-	-	64	64
Items in course of collection	13	31	-	-	-	31	31
Debt securities*	14	2,333	1,506	-	-	3,839	3,935
Equity securities	15	-	23	-	-	23	23
Derivative assets**	16	-	-	28	30	58	58
Loans and advances to banks	17	1,516	-	-	-	1,516	1,516
Loans and advances to customers***	18	23,105	-	-	16	23,121	19,457
Financial liabilities							
Deposits by banks	25	6,749	-	-	-	6,749	6,759
Customer accounts	26	18,545	-	-	5	18,550	18,565
Debt securities in issue	27	1,006	-	(13)	10	1,003	991
Derivative liabilities**	16	-	192	94	111	397	397
Subordinated liabilities	30	21	-	-	1	22	22

*Debt securities held at amortised cost include €1,151m of held to maturity securities (31 December 2015: €1,555m).

**Derivative assets and liabilities held at fair value through profit or loss relate to embedded derivative instruments and derivative instruments deemed to be held for trading.

***Loans and advances to customers included assets held for sale of €91m at 31 December 2015 (note 41).

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

The following table sets out the fair values of financial instruments that the Group holds at 31 December 2016. It categorises these financial instruments into the relevant level on fair value hierarchy.

The fair values of financial instruments are measured according to the following fair value hierarchy:

Level 1 – financial assets and liabilities measured using quoted market prices (unadjusted).

Level 2 – financial assets and liabilities measured using valuation techniques which use observable market data.

Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data.

31 December 2016	Note	Total carrying value €m	Level 1 €m	Level 2 €m	Level 3 €m	Total fair value €m
Financial assets						
Cash and balances with central banks	13	66	-	66	-	66
Items in course of collection	13	30	-	30	-	30
Debt securities	14	2,682	2,509	254	-	2,763
Equity securities	15	9	-	-	9	9
Derivative assets	16	44	-	44	-	44
Loans and advances to banks	17	1,185	-	1,185	-	1,185
Loans and advances to customers	18	18,886	-	-	16,204	16,204
Financial liabilities						
Deposits by banks	25	2,903	-	2,903	-	2,903
Customer accounts	26	16,984	-	16,984	-	16,984
Debt securities in issue	27	1,324	-	1,328	-	1,328
Derivative liabilities	16	124	-	124	-	124
Subordinated liabilities	30	22	-	23	-	23
31 December 2015	Note	Total carrying value €m	Level 1 €m	Level 2 €m	Level 3 €m	Total fair value €m
Financial assets						
Cash and balances with central banks	13	64	-	64	-	64
Items in course of collection	13	31	-	31	-	31
Debt securities	14	3,839	3,919	16	-	3,935
Equity securities	15	23	-	-	23	23
Derivative assets	16	58	-	58	-	58
Loans and advances to banks	17	1,516	-	1,516	-	1,516
Loans and advances to customers*	18	23,121	-	-	19,457	19,457
Financial liabilities						
Deposits by banks	25	6,749	-	6,759	-	6,759
Customer accounts	26	18,550	-	18,565	-	18,565
Debt securities in issue	27	1,003	539	452	-	991
Derivative liabilities	16	397	-	397	-	397
Subordinated liabilities	30	22	-	22	-	22

*Loans and advances to customers include assets held for sale of €91m as at 31 December 2015 (note 41).

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(continued)

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

(b) Fair value measurement principles

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

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

Financial assets and financial liabilities not subsequently measured at fair value

Other than the AFS financial assets and derivative assets and liabilities, all other financial assets and liabilities are not measured at fair value at the reporting date. A description of the methods and assumptions used to calculate fair values of these assets and liabilities is set out below.

Cash and balances with central banks / Items in course of collection

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

Loans and advances to banks

For the purposes of fair value valuation, loans and advances to banks have been treated as cash and cash equivalents except for €13m which has a maturity of greater than three months. These loans and advances are repayable on demand and short-term in nature; hence, the fair value of these financial instruments is equal to their carrying value.

Loans and advances to customers

Loans and advances to customers are carried net of impairments. The Group uses a discounted cash flow valuation model to estimate the fair value for the ROI residential mortgages. Cash flows are discounted using the current weighted average standard variable portfolio rate. 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. For the commercial real estate portfolio, which constitutes less than 1% of the total loan portfolio net of provisions, a management estimated discount is applied based on indicative bids, where available.

A 1% change in the average discount rate would impact the fair value of the residential mortgage portfolio by approximately €1.8bn.

Debt securities - Loans and receivables (NAMA senior bonds)

Included in debt securities loans and receivables of €254m (31 December 2015: €778m) are €246m (31 December 2015: €762m) of NAMA senior bonds. The fair value of these securities is derived from market prices through independent pricing sources (level 1).

In the event of market prices not being available, the fair value of these bonds would be derived using a valuation technique as there is no active market for these bonds. The valuation techniques used in arriving at the fair value include, analysing available market data, yield on Irish Government bonds with similar maturity, expected cash flows from these securities, identifying a risk free discount rate and applying an appropriate credit spread (level 3).

Debt securities (HTM securities and other Loans and Receivables)

Included in debt securities at 31 December 2016 are €1,151m (31 December 2015: €1,555m) of HTM and €8m (31 December 2015: €16m) of loans and receivables other than NAMA bonds. HTM securities and the residual loans and receivables debt values are derived from observable market data through independent pricing sources such as Bloomberg (level 1), with the exception of €8m exchequer notes held with the NTMA (level 2).

Equity securities (AFS)

Included in equity securities at 31 December 2016 is €9m (31 December 2015: €23m) which are classified as level 3 as the valuation for this equity instrument includes unobservable market data inputs including management judgement in respect of the current value of the equity investment.

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

Deposits by banks / customer accounts

The estimated fair value of current accounts and deposits with no stated maturity which is repayable on demand (including non-interest bearing deposits), approximates to their book value. The estimated fair value of fixed-interest bearing deposits and other borrowings is based on discounted cash flows using interest rates for new deposits with similar remaining maturities (level 2).

Debt securities in issue / subordinated liabilities

The fair values of these liabilities are estimated using market prices of instruments that are substantially the same as those issued by the Group (level 2).

Financial assets and financial liabilities subsequently measured at fair value

On initial recognition, all financial instruments are measured at fair value. Following this the Group measures available for sale financial assets and certain derivative assets and liabilities at fair value through other comprehensive income. The remaining derivative assets and liabilities are held for trading and fair valued through the Income Statement.

Debt securities (AFS Securities)

Included in debt securities at 31 December 2016 are €1,277m (31 December 2015: €1,506m) of AFS securities. At 31 December 2016, all of the AFS securities fair value has been determined directly from observable market prices (level 1 inputs).

Derivative assets and liabilities

The fair values of the derivatives are determined using valuation techniques such as discounted cash flow and pricing models which are commonly used by market participants. These valuations are provided by third party brokers, and the models used incorporate observable market inputs such as current interest rate, time to maturity, forward foreign exchange rates, yield curves and volatility measures (level 2 inputs). Therefore, derivative assets and derivative liabilities have been classified as level 2 in the fair value hierarchy below.

Fair value measurements recognised in the statement of financial position

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

31 December 2016	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets measured at fair value				
Debt securities				
- AFS Debt securities (note 14)	1,277	-	-	1,277
Equity securities (note 15)	-	-	9	9
Derivative assets (note 16)	-	44	-	44
Financial liabilities measured at fair value				
Derivative liabilities (note 16)	-	124	-	124
31 December 2015	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets measured at fair value				
Debt securities				
- AFS Debt securities (note 14)	1,506	-	-	1,506
Equity securities (note 15)	-	-	23	23
Derivative assets (note 16)	-	58	-	58
Financial liabilities measured at fair value				
Derivative liabilities (note 16)	-	397	-	397

There were no transfers between level 1 and level 2 of the fair value hierarchy during 2016 or 2015.

Notes to the Consolidated Financial Statements

(continued)

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

Level 3 fair value measurements

(i) Reconciliation

	2016	2015
	€m	€m
Equity securities - AFS		
As at 1 January	23	-
Acquisition	8	-
Revaluation movement	1	23
Disposals	(23)	-
As at 31 December	9	23

Equity securities - AFS

PTSB was a Principal Member of Visa Europe Ltd. (Visa Europe) and as such owned one share in Visa Europe with a fair value of €23m at 31 December 2015. In June 2016, all shares in Visa Europe were sold with Principal Members receiving consideration in the form of upfront cash consideration, deferred cash and preferred stock in Visa Inc. Given that the share in Visa Europe has been sold at 31 December 2016, the fair value of €23m recognised at 31 December 2015 is now realised. A gain of €29m has been recorded in operating income in the income statement in respect of the sale of the share in Visa Europe. This gain comprises €21m for the upfront cash and deferred cash components and a further €8m for the preferred stock in Visa Inc. At 31 December 2016, management have assessed the valuation of the preferred stock held in Visa Inc. and determined this to be €9m. €1m has been recorded in Other Comprehensive Income – AFS reserves to reflect this revaluation adjustment.

Sensitivity analysis of level 3 fair value measurements

At 31 December 2016, financial instruments classified as Level 3 amounted to €9m. The fair value of this shareholding is classified as Level 3 as the valuation of the share includes inputs that are based on unobservable market data. Management have made assumptions and judgements, based on the best information available to PTSB by Visa Inc. to determine the fair value. The unobservable data includes potential legal costs which may impact on the final number of preferred stock receivable by the Group together with the applicable share price of the preferred stock and relevant US dollar FX rates. Adjustments have been made to the estimated consideration to take account of a range of costs which may be incurred by Visa Inc. along with fluctuations in the share price of Visa Inc. Management have considered the potential favourable and unfavourable effects on the valuation of the shareholding in Visa Inc. in the event that changes were to arise to these unobservable inputs. Management have stressed these unobservable inputs by +/- 100bps which would have a resultant impact on the fair value calculation by +/- €24k.

34. Financial risk management

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors have established the Board Risk and Compliance Committee ("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 Group Risk Committee, the Group Credit Committee and the Assets & Liabilities Committee.

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

The information contained in this note forms an integral part of the audited financial statements as described in the Basis of preparation on page 110 except for items denoted as unaudited, which are additional disclosures and do not form an integral part of the audited financial statements.

As noted in note 1.4, during 2016, the Group revised its application of the definition of non-performing loans. This resulted in the reclassification of certain loans, where a forbearance arrangement to maintain part capital and interest was in place and the terms being met, to non-performing loans. The Group has restated the non-performing loan disclosures for the prior year by €0.5bn (resulting in an increase of €448m ROI Home loans and an increase of €46m ROI Buy-to-lets) as set out in the various tables below which are annotated as restated.

34. Financial risk management (continued)

Further details on the Group risk management framework, the Group's risk appetite and strategy, risk governance and risk identification and assessment are described under the Risk Management section of this annual report which has not been subject to audit as this does not form an integral part of the financial statements.

The Group risk identification and assessment process identifies the following risks as being material to the operations of the Company:

1. Credit Risk
2. Liquidity Risk
3. Market Risk (including foreign currency exchange risk, credit spread risk and interest rate risk)

This note presents information about the Group's exposures and approach to the management of Credit Risk, Liquidity Risk and Market Risk (including foreign currency exchange risk, credit spread risk and interest rate risk).

The key financial risks arise in the underlying subsidiary companies of the Group. All of the Directors of the Company are also Directors on the Board of PTSB. In addition, they have representation on the Boards of Lansdowne 199 Limited, Springboard Mortgages Limited and Permanent Bank International Limited, its subsidiary companies. This allows the Directors to monitor the key risks and controls in the underlying subsidiaries.

Credit Risk

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

The manner in which the Group's exposure to credit risk arises, its policies and processes for managing it and the methods used to measure and monitor it are set out below:

Concentration Risk

The risk that any single (direct or indirect) exposure, or group of exposures, has the potential to produce losses large enough to threaten the institution's health or its ability to maintain its core business.

Settlement Risk

The risk that the Group delivers a sold asset or cash to a counterparty and then does not receive the corresponding cash or purchased asset as expected.

Credit-related Commitments

The Group manages credit-related commitments (including commitments and letters of offer) that are not reflected as loans and advances on the statement of financial position.

How Credit Risk Arises

Credit risk is defined as the potential for material financial loss arising from a failure to:

- Accurately predict the likelihood of a customer repaying their debt based upon their disclosed, known or discovered, attributes and characteristics at the point of funding;
- Accurately model the likelihood or extent of unexpected changes in the customer's ability or intent to repay their debt; and
- Accurately predict unexpected changes in the value of security pledged to the Group.

How Credit Risk is Managed

Credit risk is managed within a three lines of defence model, with the objective of being consistent with the Central Bank of Ireland Corporate Governance Code and European Banking Authority ("EBA") Guidelines on Internal Governance. To manage this model, Management operates the following:

- Policies and processes to identify, measure or assess, monitor, mitigate and report on risks (first line of defence);
- An internal control framework designed to manage credit policy and strategy, provide support to the business units in the effective application of policy and ensures that policies and procedures are complied with (second line of defence); and
- Group Internal Audit function to provide an independent review of the first two lines of defence (third line of defence).

To support the oversight of the first and second lines of defence, the Group has established a business unit with responsibility for managing Customer Credit Risk.

The Customer Credit Division consists of four individual business units each reporting to the Chief Credit Officer who reports to the Group's Chief Risk Officer (a member of the Group's Executive Committee and an executive member of the Board).

Notes to the Consolidated Financial Statements

(continued)

34. Financial risk management (continued)

The structure and roles of each unit within the Division are summarised below:

Customer Acquisition Strategy & Decisioning

The primary role of the unit is to support the design of new credit products/processes and manage the credit decisioning process.

Decision Science

The unit is tasked with building and maintaining all of the Group's models and in particular its scorecards and credit models.

Credit Policy, Management Information and Impairment

The unit's responsibility is three-fold:

- Managing the design and maintenance of credit policy and tracking and testing adherence to same;
- Managing the Bank's impairment calculations, forecasting and reporting; and
- Designing and delivering efficient credit portfolio data and reporting.

Collections Strategy

The unit is responsible for designing and developing effective strategies for the management of high risk credit facilities, including arrears collection outcomes.

Credit Business Excellence & Project Management Office

The unit supports the Chief Credit Officer, and other units in Credit, through the provision of Project Management expertise and by aiding in capacity planning and process improvement.

Key components in the Group's management of credit risk are summarised below:

Credit Policy

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

Lending Authorisation

The Group's credit risk management systems operate through a hierarchy of lending authorities. Exposures above certain predetermined levels require approval by the Group Credit Committee or the Board of Directors. Below Group Credit Committee level, a tiered level of discretion applies with individual discretion levels set to reflect the relevant staff members' level of seniority, expertise and experience and the Group's operational needs.

Credit Risk Measurement

Applications for credit are rated for credit quality as part of the origination and loan approval process. The risk, and consequently the credit grade, is reassessed periodically as part of the facility review process.

Credit scoring plays a central role in the ratings process. Credit scoring combined with appropriate portfolio risk segmentation is the method used to assign grades, and in turn the probability of defaults ("PDs"), to individual exposures. With regard to portfolio segmentation, the Group's credit exposures have been segmented to appropriately reflect the characteristics, and risk profile, associated with different types of exposures.

Scorecards have been designed for each segment based on the drivers or characteristics of default associated with each segment.

Typical scoring characteristics include financial details, bureau information, product, behavioural and current account data. For segments where there is not enough data to develop statistical models, expert judgement-based models are used.

34. Financial risk management (continued)

Unaudited

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

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

The internal grading below incorporates the IRB rating.

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

Derivative assets

Credit default risk also arises on non-traded / over-the-counter derivative exposures since the Group is exposed to the risk of the counterparty defaulting prior to the maturity of "in-the-money" products, thereby necessitating replacement of the contract at applicable market rates. To manage this risk, counterparty limits are maintained in the Group's investment accounting system, and Risk Management and Compliance teams undertake regular independent monitoring of counterparty exposure against limits. Breaches of counterparty limits are required to be notified to the ALCO.

In the case of most counterparties, to avoid a build-up of exposure on derivatives, the Group uses a credit support annex ("CSA"), which is an addendum to the bi-lateral ISDA Agreement with a counterparty, and which requires daily settlement of mark-to-market values of outstanding derivative deals.

The Group has substantially mitigated its derivative positions through the use of netting and collateral arrangements. The netting arrangements may be called upon in the event of a default. This allows a counterparty to net all assets and liabilities outstanding with the defaulting counterparty subject to the agreement when the default event occurs. The collateral arrangements in place require the counterparty in a liability position to place collateral to cover that shortfall. It is therefore not considered appropriate to include credit valuation adjustments ("CVA") or debt valuation adjustments ("DVA") when calculating the fair value of the derivative positions.

Collateral

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

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

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

The Group's requirements for collateral around completion, valuation and management requirements are set out in credit policy and business unit procedures.

Notes to the Consolidated Financial Statements

(continued)

34. Financial risk management (continued)

Credit Reporting / Monitoring

It is the Group's policy to ensure that adequate up to date credit management information is available to support the effective management of individual exposures and the overall credit portfolio. The Group allocates significant resources with the aim of ensuring on-going monitoring and compliance with approved risk limits. Credit risk at a Group, Business Unit, Operating Unit and Product Type Level is reported on a monthly basis to Senior Management.

This monthly reporting includes information and appropriate insights into portfolio trends including portfolio growth and quality. The Group Credit Committee monitors portfolio and customer concentration on an on-going basis with reference to pre-agreed portfolio control limits and guide points which are designed with reference to the Group's Risk Appetite Statement which is approved annually by the Group Board of Directors.

The Group Credit Committee also monitors credit policy exceptions on an on-going basis. In addition, other reports are submitted to Senior Management and the Group Credit Committee as required. The Group also operates a Credit Quality Review ("CQR") function which reports to the Chief Risk Officer and which is tasked with examining the quality of credit assessment and adherence to credit policy across the various portfolios.

The Group's Internal Audit function also provides an independent review of credit risk management controls and procedures.

Forbearance Measures

The Group has a process in place, the objective of which is to secure compliance with the requirements of the CBI 2013 Code of Conduct on Mortgage Arrears ("CCMA"), which sets out the framework that the Group must use when dealing with borrowers in mortgage arrears or in pre-arrears.

Forbearance occurs when a borrower is granted a temporary or permanent concession or agreed change to a loan ("forbearance measure"), for reasons relating to the actual or apparent financial stress or distress of that borrower.

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

During the period of forbearance, arrears are maintained and, unless the customer is paying more than their contractual minimum payment, arrears balances will remain and the loan will continue to be reported as in arrears with certain long term forbearance strategies (such as term extension and split mortgages) allowing for arrears capitalisation to occur. When customers come to the end of their arrangement period, depending on their circumstances, they may be offered a further arrangement or, if not suitable, they will continue to be managed as a mainstream collections case and if unable to recover, will then move towards repossession or voluntary sale.

Under the Group's current policy, customers can have their arrears balance capitalised once they have demonstrated they can pay the contractual minimum payment, but are unable to clear their historic arrears. This is usually demonstrated by the customer making six contractual monthly payments over the last six months and demonstrating that this level of repayment is sustainable into the future. Customers are typically able to recapitalise once over a 5 year period.

The Group currently offers the following forbearance strategies:

Interest only

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

Reduced payments (less than interest only)

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

Reduced payments (greater than interest only)

This is an arrangement where the borrower pays full interest on the loan balance plus some principal. This may be a long or short term arrangement. There is an expectation that the principal repayments will increase over time. The shortfall in principal is capitalised.

Arrears capitalisation

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

34. Financial risk management (continued)

Term extension

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

Split Mortgage

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

Hybrid

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

Payment moratorium

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

Loan Loss Provisioning

Through its on-going credit review processes, the Group seeks early identification of deteriorating loans with a view to taking corrective action to prevent the loan becoming impaired. It is the Group's policy to provide for impairment promptly and consistently across the portfolio. For those loans that become impaired, the focus is to minimise the loss that the Group will incur from such impairment. Loans that are at risk of impairment are managed by the Group's dedicated Asset Management Unit. Management of these accounts may involve implementing appropriate forbearance solutions, entering into sustainable restructuring arrangements or taking action to enforce the Group's security.

Other factors taken into consideration in estimating provisions include the domestic and international economic climate, changes in portfolio risk profile and the effect of any external factors such as legal or competition requirements.

Loan loss provisioning is an on-going process and the provisioning methodologies applied across the portfolio are subject to formal approval by the Group Credit Committee and Board Risk and Compliance Committee ("BRCC") on a half-yearly basis. The adequacy of impairment provisions is also reviewed by the Board Audit Committee on a half-yearly basis.

Where cash flows arising from the realisation of collateral held are included in impairment assessments, management typically rely on valuations or business appraisals from independent external professionals. However, in the case of property assets where restricted market liquidity continues to be a feature of the market, the Group uses estimated cash flows based on valuations from the most appropriate source available for the asset in question.

The Group's accounting policy on impairment provisioning is set out in note 1 and critical estimates and judgements exercised in the impairment provisions calculation are discussed in note 2.

All credit exposures, either individually or collectively, are regularly reviewed for objective evidence of impairment. Where such evidence of impairment exists, the exposure is measured for an impairment provision. Where objective evidence of impairment exists, as a result of one or more past events, the Group is required to estimate the recoverable amount of the exposure or group of exposures.

The Group's impairment provisioning methodologies are designed in accordance with IFRS. International Accounting Standard (IAS) 39 requires there to be objective evidence of impairment and that a credit loss has been incurred. The standard does not permit the recognition of expected losses, no matter how likely these expected losses may appear.

Notes to the Consolidated Financial Statements

(continued)

34. Financial risk management (continued)

Specific Impairment Provisions

Loans are assessed for specific provisions where they are individually significant loans or greater than 90 days in arrears and / or there is objective evidence that the loan is impaired. An impairment loss occurs where the Group does not expect to recover the full value of the loan facility. The criteria used by the Group to determine whether there is such objective evidence includes, but is not limited to:

- Delinquency in contractual interest or principal repayments;
- Significant financial difficulty of the borrower;
- Deterioration in value of the collateral;
- Where a borrower is in financial difficulty and a concession is granted that would not otherwise be considered;
- The probability that the borrower will enter bankruptcy or other financial re-organisation;
- A forbearance request by the customer accompanied by the submission of a Standard Financial Statement ("SFS");
- Absence of an active market (commercial mortgages);
- Borrower's inability to refinance the existing loan (commercial mortgages); and
- Any significant exceptional events.

Collective Assessment

In general, the Group employs statistical models to assess and calculate the appropriate provision charge for all loans greater than 90 days in arrears or when there is objective evidence of impairment. Those statistical models mainly incorporate historical trends of probability of defaults, rates by which defaulted or delinquent accounts are assumed to return to performing status (known as cure rates), the timing of recoveries of collateral and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates (Probability of Default), loss rates (Loss Given Default), cure rates and the expected timing of recoveries of collateral are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

However, in certain circumstances an individual assessment will be carried out and an impairment charge will be calculated. They are as follows:

Individual Assessment

ROI Residential Mortgages

In respect of residential mortgage exposures an individual assessment is performed for all accounts greater than €5m or where evidence is obtained that the borrower may be experiencing difficulties or any other indications as listed in the criteria used by the Group to determine whether there is objective evidence of impairment present. In such cases, a discounted cash flow approach is used incorporating the following factors:

- The Group's aggregate exposure to the customer;
- The recent repayment history i.e. the level of arrears and anticipated future repayments;
- The estimated value of the collateral and certain assumptions with regard to the peak to trough decline in residential house prices;
- The cost of realising the collateral; and
- The estimated time to realise the security / collateral.

For residential property securing non-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 all other exposures of over €1m and less than €5m, a risk based approach is adopted where collateral values are benchmarked to sample market comparatives.

34. Financial risk management (continued)

Commercial Mortgages

Commercial loans meeting the following criteria are reviewed individually for impairment:

- Loans greater than 90 days in arrears where the customer exposure is greater than €750,000 in value;
- Loans currently in forbearance where the customer exposure is greater than €750,000 in value; and
- Watch list cases – performing commercial loans but where evidence is obtained that the borrower may be experiencing financial difficulties.

To determine the appropriate account-specific impairment provision for commercial mortgages, a discounted cash flow is calculated incorporating the following factors:

- The Group's aggregate exposure to the customer;
- The viability of the customer's business model in generating sufficient cash flow to service its debt obligations;
- The estimated realisable value of any security (or other credit risk mitigants) and the likelihood of a successful repossession;
- The expected distribution available on any liquidation or bankruptcy;
- The cost of realising the collateral; and
- The estimated time to realise the security / collateral.

In addition to the above, the Group operates an annual review process for performing commercial loans and loans not subject to specific impairment assessment.

IBNR Impairment Provisions

Loans which are not specifically impaired or in default, are included in the IBNR provisioning approach. The provision on unimpaired loans which are collectively assessed is calculated using statistical models by determining the probability of arrears levels deteriorating and applying a Loss Given Default ("LGD") to the loan balance. These LGDs take into account valuation of collateral, discounting and expected cure rates which are based on historical experience and adjusted as appropriate for management judgement to reflect current conditions as at the statement of financial position date.

A provision may also be established if no loan-specific indicators of impairment loss have been identified and attributed to specific customers, where experience and other observable data indicate that such impairment losses are present in the portfolio as at the date of assessment.

The IBNR impairment provision factors in the historical loss experience in portfolios with similar credit risk characteristics, current economic conditions and behavioural trends of borrowers.

Valuation Methodologies

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

- ROI residential property valuations are based on valuations indexed by the newly implemented CSO Residential Property Price Index ("RPPI") or on a recent valuation where the property is repossessed. The Group policy is to ensure an independent valuation is updated within the last 3 years for residential property where the non-performing loan exposure is greater than €0.5m.
- 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.

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.

Notes to the Consolidated Financial Statements

(continued)

34. Financial risk management (continued)

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

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

	Notes	31 December 2016	31 December 2015
		€m	*Restated €m
Cash and balances with central banks	13	66	64
Items in course of collection	13	30	31
Debt securities (i)	14	2,682	3,839
Equity securities	15	9	23
Derivative assets (ii)	16	44	58
Loans and advances to banks (iii)	17	1,185	1,516
Loans and advances to customers (including assets held for sale at 31 December 2015) (iv)	18	18,827	23,121
		22,843	28,652
Commitments and contingencies	39	668	632
		23,511	29,284

Commitments and contingencies have been restated in respect of two matters. The 2015 number for commitments to extend credit '1 year and over' has been restated to include all undrawn mortgage stage payments which were previously not reported. This resulted in an additional €132m being included in this category. Additionally, €120m of undrawn mortgage commitments which were previously reported in '1 year and over' has been reclassified to commitments to extend credit 'less than 1 year', as the maturity date on these facilities are less than 12 months. This has resulted in a €120m net increase in commitments to extend credit 'less than 1 year', and a €12m net increase in commitments to extend credit '1 year and over'.

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

The following table gives an indication of the level of creditworthiness of the Group's debt securities and is based on an internally set rating that is equivalent to Moody's rating. There are no impaired debt securities as at 31 December 2016 or at 31 December 2015.

Debt securities neither past due nor impaired

	31 December 2016	31 December 2015
	€m	€m
Rating		
A	2,682	3,839
Total	2,682	3,839

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

	31 December 2016	31 December 2015
	Sovereign debt €m	Sovereign debt €m
Country		
Ireland	2,682	3,839
Total	2,682	3,839

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

34. Financial risk management (continued)

(ii) Derivative assets

	31 December 2016	31 December 2015
	€m	€m
Rating		
A	-	6
Covered by netting agreements	44	52
Total	44	58

The Group has executed CSA with its counterparties in respect of the majority of derivative instruments to mitigate its credit risk. As part of these agreements, the Group exchanges collateral in line with movements in the market values of derivative positions daily. The cumulative positive market value of derivative assets at 31 December 2016 was €44m (31 December 2015: €58m). The Group manages its collateral derivative positions with counterparties on a net basis. The net asset/liability exposure to counterparties was an €80m (31 December 2015: €339m) liability position.

(iii) Loans and advances to banks

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

	31 December 2016	31 December 2015
	€m	€m
Rating		
Aaa	228	458
Aa	151	30
A	693	979
Baa	49	48
Ba	64	1
Total	1,185	1,516

(iv) Loans and advances to customers

Asset Quality

The Core loans and advances relate to loans and advances to customers in respect of ROI residential mortgages, the remaining component of the commercial portfolio which was previously in Non-Core business and consumer finance originated by PTSB. The Non-Core loans and advances to customers as at 31 December 2015, related to UK residential mortgages and also included a small residual portfolio of commercial loans which were held for sale.

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

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

Notes to the Consolidated Financial Statements

(continued)

34. Financial risk management (continued)

A loan is considered to be impaired, and therefore its carrying amount is adjusted to reflect the effect of impairment, when there is objective evidence that events have occurred which give rise to an adverse impact on the estimated future cash flows of the asset. Impairment provisions are calculated either individually on loans where significant, or on groups of loans assessed collectively. Impairment losses are recorded as charges to the income statement.

31 December 2016

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

* Unaudited

31 December 2015

Restated

	Residential mortgages		Consumer		Total		Analysed as:	
	ROI	UK	Comm*	finance	Total	%	Core	Non-Core
	€m	€m	€m	€m	€m	%	€m	€m
**								
Excellent	10,245	2,064	17	153	12,479	49%	10,348	2,131
Satisfactory	3,840	1,190	140	49	5,219	20%	3,844	1,375
Fair risk	1,640	113	30	19	1,802	7%	1,653	149
Neither past due nor impaired	15,725	3,367	187	221	19,500	76%	15,845	3,655
Past due but not impaired	661	64	58	12	795	3%	665	130
Impaired	5,072	138	137	85	5,432	21%	5,103	329
	21,458	3,569	382	318	25,727	100%	21,613	4,114
Provision for impairment losses	(2,461)	(54)	(94)	(79)	(2,688)		(2,506)	(182)
	18,997	3,515	288	239	23,039		19,107	3,932
Deferred fees, discounts and fair value adjustment	81	-	-	1	82		81	1
	19,078	3,515	288	240	23,121		19,188	3,933

* Includes €91m of Assets classified as held for sale from the Commercial portfolio.

** Unaudited

Restated: As noted above, during 2016, the Group revised its application of the definition of non-performing loans. The Group has restated the non-performing loan disclosures for the prior year by €0.5bn. This has resulted in the movement of €358m of ROI Residential mortgages from Satisfactory to Fair Risk.

Analysis of the above tables is provided on the following page.

The residual Irish CRE Non-Core loans transferred back into Core on 1 January 2016. The Group deleveraged its remaining UK loan portfolios in the second half of 2016.

34. Financial risk management (continued)

The Group's Core loans after impairment amounted to €18.8bn or 100% of total loans and advances as at 31 December 2016 (31 December 2015: €19.1bn). The Group's Non-Core loans after impairment amounted to €nil or 0% of total loans and advances as at 31 December 2016 (31 December 2015: €3.9bn).

Loans which are neither past due nor impaired, before provision for impairment losses, amounted to €15.8bn or 74% of the loan book as at 31 December 2016 in comparison to €19.5bn or 76% of the loan book as at 31 December 2015.

As at 31 December 2016, €0.6bn or 3% of the loan portfolios are past due but not impaired compared to €0.8bn or 3% as at 31 December 2015.

Impaired loan balances on ROI residential mortgages as at 31 December 2016 were €4.8bn or 23% of the ROI loan book (31 December 2015: €5.1bn or 24%). Impaired loans on ROI residential mortgages as a % of the ROI loan book have decreased by 1% in 2016.

Impairment provisions were €2.5bn and represented 12% of total gross loans and advances to customers at 31 December 2016 compared to €2.7bn which represented 10% of total gross loans and advances to customers as at 31 December 2015.

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

31 December 2016

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

* Unaudited

31 December 2015

Restated	ROI residential mortgages		UK residential mortgages		Total
	Home loans	Buy-to-let	Home loans	Buy-to-let	
	€m	€m	€m	€m	€m
*					
Excellent	9,254	991	52	2,012	12,309
Satisfactory	1,449	2,391	135	1,055	5,030
Fair risk	911	729	6	107	1,753
Neither past due nor impaired	11,614	4,111	193	3,174	19,092
Past due but not impaired	536	125	14	50	725
Impaired	3,712	1,360	27	111	5,210
	15,862	5,596	234	3,335	25,027
Provision for impairment losses	(1,498)	(963)	(8)	(46)	(2,515)
	14,364	4,633	226	3,289	22,512
Deferred fees, discounts and fair value adjustment	81	-	-	-	81
	14,445	4,633	226	3,289	22,593

* Unaudited

Restated: As noted above, during 2016, the Group revised its application of the definition of non-performing loans. The Group has restated the non-performing loan disclosures for the prior year by €0.5bn. This has resulted in the movement of €334m of ROI Home loans from Satisfactory to Fair Risk, and €24m of ROI Buy-to-let loans from Satisfactory to Fair Risk.

Notes to the Consolidated Financial Statements

(continued)

34. Financial risk management (continued)

Non-performing loans:

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

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

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

**NPL Provision Coverage Ratio is calculated as impairment provisions as a % of non-performing loans

31 December 2015	ROI residential mortgages		UK residential mortgages		Comm.	Consumer finance	Total
	Home loans	Buy-to-let	Home loans	Buy-to-let			
	€m	€m	€m	€m	€m	€m	€m
Restated							
Not Impaired no arrears	489	419	2	5	4	-	919
Not Impaired < 90 days in arrears	63	21	3	6	-	-	93
Not Impaired > 90 days in arrears	127	4	-	-	-	-	131
Impaired loans	3,712	1,360	27	110	138	85	5,432
Non-performing loans	4,391	1,804	32	121	142	85	6,575
NPLs as % of gross loans	28%	32%	14%	4%	37%	27%	26%
Provision coverage ratio*	39%	71%	30%	42%	68%	93%	48%
NPL Provision coverage ratio**	34%	53%	25%	38%	66%	93%	41%

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

**NPL Provision Coverage Ratio is calculated as impairment provisions as a % of non-performing loans

Restated: As noted above, during 2016, the Group revised its application of the definition of non-performing loans. The Group has restated the non-performing loan disclosures for the prior year by €0.5bn, resulting in an increase of €448m ROI Home loans and an increase of €46m ROI Buy-to-lets.

Loans and advances which are past due but not impaired:

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

31 December 2016	ROI residential mortgages		UK residential mortgages		Comm.	Consumer finance	Total
	Home loans	Buy-to-let	Home loans	Buy-to-let			
	€m	€m	€m	€m	€m	€m	€m
0-30 days	239	84	-	-	5	10	338
31-60 days	48	25	-	-	2	2	77
61-90 days	25	9	-	-	-	1	35
91-180 days	23	1	-	-	-	-	24
181-360 days	21	-	-	-	-	-	21
> 360 days	75	4	-	-	-	-	79
Total past due not impaired	431	123	-	-	7	13	574
Fair value of collateral held*	420	99	-	-	4	-	523

34. Financial risk management (continued)

*Fair value of collateral held

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

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 2015

	ROI Residential mortgages		UK Residential mortgages		Comm.	Consumer finance	Total
	Home loans	Buy-to-let	Home loans	Buy-to-let			
	€m	€m	€m	€m	€m	€m	€m
0-30 days	313	102	2	6	5	9	437
31-60 days	60	13	9	39	2	2	125
61-90 days	36	5	3	5	51	1	101
91-180 days	25	1	-	-	-	-	26
181-360 days	25	-	-	-	-	-	25
> 360 days	77	4	-	-	-	-	81
Total past due not impaired	536	125	14	50	58	12	795
Fair value of collateral held*	516	114	14	50	48	-	742

*Fair value of collateral held

	ROI Residential mortgages		UK Residential mortgages		Comm.	Consumer finance	Total
	Home loans	Buy-to-let	Home loans	Buy-to-let			
	€m	€m	€m	€m	€m	€m	€m
0-30 days	297	92	2	6	4	-	401
31-60 days	58	12	9	39	1	-	119
61-90 days	34	5	3	5	43	-	90
91-180 days	25	1	-	-	-	-	26
181-360 days	25	-	-	-	-	-	25
> 360 days	77	4	-	-	-	-	81
Total past due not impaired	516	114	14	50	48	-	742

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34. Financial risk management (continued)

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 on the following page outline the composition of this ratio for the residential loan portfolio.

Actual and average LTVs across principal mortgage portfolios:

The tables below outline the weighted average LTVs for the total residential mortgage portfolios analysed across home loans and buy-to-let facilities by value. The weighted average LTV on the residential mortgage portfolios is 93% at 31 December 2016 compared to 90% at 31 December 2015.

The Group's residential mortgage lending LTVs at December 2016 reflect updated valuations obtained on high-exposure non-performing loans (largely impacting on high-exposure Buy-to-Let properties).

The Group also implemented the CSO Residential Property Price Index which was first released in September 2016. Comparatives at 31 December 2015 are not restated.

31 December 2016	ROI residential mortgages		UK residential mortgages		Total
	Home loans	Buy-to-let	Home loans	Buy-to-let	
	%	%	%	%	%
Less than 50%	22%	8%	-	-	18%
50% to 70%	19%	9%	-	-	16%
71% to 90%	20%	14%	-	-	18%
91% to 100%	8%	10%	-	-	9%
Subtotal	69%	41%	-	-	61%
101% to 110%	9%	11%	-	-	9%
111% to 120%	7%	11%	-	-	8%
121% to 130%	5%	8%	-	-	6%
131% to 140%	3%	7%	-	-	4%
141% to 150%	2%	5%	-	-	3%
151% to 160%	1%	3%	-	-	2%
161% to 170%	1%	3%	-	-	2%
171% to 180%	1%	2%	-	-	1%
Greater than 180%	2%	9%	-	-	4%
Subtotal	31%	59%	-	-	39%
Total	100%	100%	-	-	100%
Weighted average LTV:					
Stock of residential mortgages	84%	121%	-	-	93%
New residential mortgages	67%	64%	-	-	67%
Impaired mortgages	120%	180%	-	-	137%

34. Financial risk management (continued)

31 December 2015

	ROI residential mortgages		UK residential mortgages		Total
	Home loans	Buy-to-let	Home loans	Buy-to-let	
	%	%	%	%	%
Less than 50%	20%	7%	9%	8%	15%
50% to 70%	17%	10%	27%	34%	18%
71% to 90%	20%	15%	39%	41%	22%
91% to 100%	9%	11%	17%	14%	10%
Subtotal	66%	43%	92%	97%	65%
101% to 110%	8%	14%	5%	2%	9%
111% to 120%	8%	14%	1%	1%	8%
121% to 130%	7%	10%	-	-	7%
131% to 140%	4%	7%	1%	-	4%
141% to 150%	2%	4%	-	-	2%
151% to 160%	1%	2%	1%	-	1%
161% to 170%	1%	1%	-	-	1%
171% to 180%	1%	1%	-	-	1%
Greater than 180%	2%	4%	-	-	2%
Subtotal	34%	57%	8%	3%	35%
Total	100%	100%	100%	100%	100%
Weighted average LTV:					
Stock of residential mortgages	85%	112%	76%	73%	90%
New residential mortgages	68%	53%	-	-	68%
Impaired mortgages	118%	156%	78%	85%	127%

Analysis by LTV of the Group's residential mortgage lending which is neither past due nor impaired:

The table below illustrates that 77% of ROI residential home loan mortgages that are neither past due nor impaired are in positive equity as at 31 December 2016, a 3% increase on 2015. 51% of ROI residential BTL mortgages are in positive equity as at 31 December 2016. This is in line with 2015.

31 December 2016

	ROI residential mortgages				UK residential mortgages			
	Home loans		Buy-to-let		Home loans		Buy-to-let	
	€m	%	€m	%	€m	%	€m	%
Less than 50%	3,017	26%	384	10%	-	-	-	-
50% to 70%	2,492	22%	461	12%	-	-	-	-
71% to 90%	2,415	21%	664	17%	-	-	-	-
91% to 100%	944	8%	467	12%	-	-	-	-
Subtotal	8,868	77%	1,976	51%	-	-	-	-
101% to 110%	882	8%	475	11%	-	-	-	-
111% to 120%	789	7%	445	11%	-	-	-	-
121% to 130%	492	4%	331	8%	-	-	-	-
131% to 140%	181	2%	280	7%	-	-	-	-
141% to 150%	77	1%	144	4%	-	-	-	-
151% to 160%	49	1%	83	2%	-	-	-	-
161% to 170%	41	-	70	2%	-	-	-	-
171% to 180%	31	-	43	1%	-	-	-	-
Greater than 180%	39	-	119	3%	-	-	-	-
Subtotal	2,581	23%	1,990	49%	-	-	-	-
Total	11,449	100%	3,966	100%	-	-	-	-

Notes to the Consolidated Financial Statements

(continued)

34. Financial risk management (continued)

31 December 2015

	ROI residential mortgages				UK residential mortgages			
	Home loans		Buy-to-let		Home loans		Buy-to-let	
	€m	%	€m	%	€m	%	€m	%
Less than 50%	2,840	24%	355	9%	17	9%	255	8%
50% to 70%	2,320	20%	474	12%	55	28%	1,129	36%
71% to 90%	2,460	21%	715	17%	73	38%	1,310	41%
91% to 100%	988	9%	532	13%	33	17%	413	13%
Subtotal	8,608	74%	2,076	51%	178	92%	3,107	98%
101% to 110%	930	8%	568	14%	9	5%	39	1%
111% to 120%	847	7%	556	13%	1	1%	16	1%
121% to 130%	704	6%	393	9%	1	1%	5	-
131% to 140%	292	3%	253	6%	2	1%	4	-
141% to 150%	107	2%	119	3%	1	-	2	-
151% to 160%	51	-	63	1%	1	-	1	-
161% to 170%	31	-	33	1%	-	-	-	-
171% to 180%	16	-	21	1%	-	-	-	-
Greater than 180%	28	-	29	1%	-	-	-	-
Subtotal	3,006	26%	2,035	49%	15	8%	67	2%
Total	11,614	100%	4,111	100%	193	100%	3,174	100%

Analysis by LTV of the Group's residential mortgage lending which are 90 days past due or impaired:

In total 34% (31 December 2015: 37%) of the ROI residential mortgage portfolio which is 90 days past due or impaired has an LTV of up to 100% and 25% (31 December 2015: 17%) of loans has an LTV exceeding 150%.

31 December 2016

	ROI residential mortgages		UK residential mortgages		Total
	Home loans	Buy-to-let	Home loans	Buy-to-let	
	%	%	%	%	
Less than 50%	7%	1%	-	-	5%
50% to 70%	10%	4%	-	-	8%
71% to 90%	15%	6%	-	-	13%
91% to 100%	9%	6%	-	-	8%
Subtotal	41%	17%	-	-	34%
101% to 110%	9%	7%	-	-	9%
111% to 120%	9%	9%	-	-	9%
121% to 130%	9%	8%	-	-	9%
131% to 140%	8%	7%	-	-	8%
141% to 150%	6%	7%	-	-	6%
151% to 160%	4%	6%	-	-	4%
161% to 170%	3%	6%	-	-	4%
171% to 180%	2%	5%	-	-	3%
Greater than 180%	9%	28%	-	-	14%
Subtotal	59%	83%	-	-	66%
Total	100%	100%	-	-	100%
	€m	€m	€m	€m	€m
Loans greater than 90 days in arrears or impaired	3,524	1,366	-	-	4,890

34. Financial risk management (continued)

31 December 2015

	ROI residential mortgages		UK residential mortgages		Total
	Home loans	Buy-to-let	Home loans	Buy-to-let	
	%	%	%	%	%
Less than 50%	7%	1%	5%	1%	5%
50% to 70%	9%	4%	25%	16%	8%
71% to 90%	15%	8%	42%	44%	15%
91% to 100%	9%	7%	20%	25%	9%
Subtotal	40%	20%	92%	86%	37%
101% to 110%	9%	13%	5%	11%	10%
111% to 120%	10%	15%	1%	2%	11%
121% to 130%	9%	11%	-	1%	10%
131% to 140%	9%	11%	1%	-	9%
141% to 150%	7%	6%	1%	-	6%
151% to 160%	4%	4%	-	-	4%
161% to 170%	3%	3%	-	-	3%
171% to 180%	2%	3%	-	-	2%
Greater than 180%	7%	14%	-	-	8%
Subtotal	60%	80%	8%	14%	63%
Total	100%	100%	100%	100%	100%
	€m	€m	€m	€m	€m
Loans greater than 90 days in arrears or impaired	3,839	1,365	27	111	5,342

Loan origination profile of the residential mortgage loan portfolio before provision for impairment:

The table below illustrates that €6bn or 27% of the ROI residential mortgage portfolio originated before 2006. Between 2006 and 2008 origination was €13bn or 62% of the ROI residential mortgages. The residual of 11% of the ROI residential mortgages were originated between 2009 and 2016.

31 December 2016

	ROI residential mortgages portfolio		Impaired ROI residential mortgages portfolio		UK residential mortgages portfolio		Impaired UK residential mortgages portfolio	
	Number	Balance	Number	Balance	Number	Balance	Number	Balance
		€m		€m		€m		€m
1996 and before	1,630	27	322	8	-	-	-	-
1997	1,547	20	74	3	-	-	-	-
1998	2,038	41	117	6	-	-	-	-
1999	3,175	94	256	17	-	-	-	-
2000	3,956	158	365	30	-	-	-	-
2001	4,299	218	462	43	-	-	-	-
2002	6,232	389	563	60	-	-	-	-
2003	9,214	728	1,070	139	-	-	-	-
2004	13,211	1,388	1,656	263	-	-	-	-
2005	18,947	2,610	3,050	576	-	-	-	-
2006	27,333	5,170	5,494	1,353	-	-	-	-
2007	23,789	4,894	5,267	1,308	-	-	-	-
2008	15,189	2,856	3,341	839	-	-	-	-
2009	3,778	433	597	103	-	-	-	-
2010	1,424	128	73	10	-	-	-	-
2011	951	93	17	3	-	-	-	-
2012	519	47	6	2	-	-	-	-
2013	1,262	159	2	-	-	-	-	-
2014	2,615	358	6	1	-	-	-	-
2015	2,987	424	12	1	-	-	-	-
2016	3,131	500	8	1	-	-	-	-
Total	147,227	20,735	22,758	4,766	-	-	-	-

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(continued)

34. Financial risk management (continued)

31 December 2015	ROI residential mortgages portfolio		Impaired ROI residential mortgages portfolio		UK residential mortgages portfolio		Impaired UK residential mortgages portfolio	
	Number	Balance	Number	Balance	Number	Balance	Number	Balance
		€m		€m		€m		€m
1996 and before	2,790	36	401	8	13	1	2	-
1997	1,703	28	116	4	10	-	-	-
1998	2,223	51	159	8	31	2	2	-
1999	3,426	112	312	20	50	5	2	-
2000	4,231	182	451	35	70	6	4	-
2001	4,977	248	552	50	155	17	5	-
2002	6,632	438	647	67	177	17	4	1
2003	9,693	799	1,154	148	250	38	9	2
2004	13,880	1,505	1,784	280	790	139	26	6
2005	19,668	2,779	3,285	616	2,381	401	84	18
2006	28,369	5,330	5,786	1,336	5,295	910	132	22
2007	24,355	5,193	5,561	1,475	6,447	1,264	301	68
2008	15,582	2,978	3,573	891	3,388	695	94	20
2009	3,931	461	653	113	85	14	-	-
2010	1,499	138	74	10	294	55	6	1
2011	1,049	107	16	3	7	1	1	-
2012	550	51	3	2	37	2	4	-
2013	1,342	177	5	1	14	2	-	-
2014	2,786	403	2	3	2	-	-	-
2015	3,082	442	9	2	-	-	-	-
Total	151,768	21,458	24,543	5,072	19,496	3,569	676	138

Reposessed collateral

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

Stock of reposessions

	31 December 2016		31 December 2015	
	Number	Balance outstanding	Number	Balance outstanding
		€m		€m
Residential reposessions				
ROI:				
-Home loans	253	70	211	57
-Buy-to-let	229	63	196	51
Commercial	-	-	-	-
UK:				
-Home loans	-	-	2	-
-Buy-to-let	-	-	35	6
Total	482	133	444	114

Reposessed assets are sold as soon as practicable, with proceeds offset against any outstanding indebtedness. These assets which total €70m as at 31 December 2016 (31 December 2015: €58m) are included within other assets in the statement of financial position. During the year 158 residential properties were reposessed, comprising of ROI and UK properties and can be split as follows:

	ROI Number	UK Number
Home loans	69	2
BTL	48	39
Total	117	41

34. Financial risk management (continued)

During the year, 120 properties were disposed including 18 which were part of deleveraging. Of the 102 properties remaining, 60 of these were in the UK, representing 59% of the total disposals.

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

	ROI Number	UK Number
Home loans	27	4
BTL	15	56
Details of these disposals are included below.	42	60
Properties sold as part of asset disposal:		
BTL	-	18
Total	42	78

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

31 December 2015	Number of disposals	Balance outstanding at repossession €m	Gross sales proceeds €m	Costs to sell €m	Pre provisioning loss on sale* €m
Residential reposessions					
ROI:					
-Home loans	106	27	11	1	17
-Buy-to-let	60	18	5	-	13
Commercial	6	3	1	-	2
UK:					
-Home loans	10	2	2	-	-
-Buy-to-let	146	21	17	1	5
Year ended 31 December 2015	328	71	36	2	37

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

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(continued)

34. Financial risk management (continued)

Forborne loans - Advances to customers

(a) Asset Quality

The method of splitting the forborne loans and advances to customers over the different asset quality categories:

- Neither past due nor impaired
- Past due but not impaired
- Impaired

is the same as that used for asset quality of the Group's total loan portfolio.

The level of forborne UK Home Loans as at 31 December 2015 was minimal to the overall forborne loans and therefore is not disclosed in the below tables.

31 December 2016

	Residential mortgages			Commercial	Total	%
	ROI		UK			
	Home Loans	Buy-To-Let	Buy-To-Let			
	€m	€m	€m			
*						
Excellent	-	-	-	-	-	-
Satisfactory	653	464	-	4	1,121	19%
Fair risk	649	227	-	7	883	15%
Neither past due nor impaired	1,302	691	-	11	2,004	34%
Past due but not impaired	203	35	-	-	238	4%
Impaired	2,871	687	-	41	3,599	62%
	4,376	1,413	-	52	5,841	100%
Provision for impairment losses	(1,103)	(368)	-	(21)	(1,492)	
	3,273	1,045	-	31	4,349	

*Unaudited

31 December 2015

Restated

	Residential mortgages			Commercial	Total	%
	ROI		UK			
	Home Loans	Buy-To-Let	Buy-To-Let			
	€m	€m	€m			
*						
Excellent	-	-	-	-	-	-
Satisfactory	634	213	51	11	909	15%
Fair risk	532	439	10	8	989	17%
Neither past due nor impaired	1,166	652	61	19	1,898	32%
Past due but not impaired	241	38	6	-	285	5%
Impaired	3,028	699	21	40	3,788	63%
	4,435	1,389	88	59	5,971	100%
Provision for impairment losses	(1,147)	(374)	(8)	(18)	(1,547)	
	3,288	1,015	80	41	4,424	

*Unaudited

Restated: As noted above, during 2016, the Group revised its application of the definition of non-performing loans. The Group has restated the non-performing loan disclosures for the prior year by €0.5bn. This has resulted in the movement of €334m of ROI Home loans from Satisfactory to Fair Risk, and €24m of ROI Buy-to-let loans from Satisfactory to Fair Risk.

The balance of loans in the neither past due nor impaired category has increased by €106m or 6% while the balance of loans in the past due but not impaired category decreased by €47m or 16%. These movements are in line with expectations as loans progress through the forbearance cycle and the asset quality of these loans improve.

The impaired loan balances have decreased by €189m or 5% as the Group has negotiated and implemented an increased number of sustainable loan treatment programmes for customers in difficulty.

34. Financial risk management (continued)

Forborne loans and advances which are past due but not impaired:

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

31 December 2016

	ROI		UK		Total
	Home loans	Buy-To-Let	Buy-To-Let	Commercial	
	€m	€m	€m	€m	€m
0-30 days	93	32	-	-	125
31-60 days	17	2	-	-	19
61-90 days	11	-	-	-	11
91-180 days	17	-	-	-	17
181-360 days	15	-	-	-	15
> 360 days	50	1	-	-	51
Total past due not impaired	203	35	-	-	238
Fair value of collateral held*	197	28	-	-	225

*Fair value of collateral held

	ROI		UK		Total
	Home loans	Buy-To-Let	Buy-To-Let	Commercial	
	€m	€m	€m	€m	€m
0-30 days	87	25	-	-	112
31-60 days	17	2	-	-	19
61-90 days	11	-	-	-	11
91-180 days	17	-	-	-	17
181-360 days	15	-	-	-	15
> 360 days	50	1	-	-	51
Total past due not impaired	197	28	-	-	225

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 2015

	ROI		UK		Total
	Home loans	Buy-To-Let	Buy-To-Let	Commercial	
	€m	€m	€m	€m	€m
0-30 days	133	37	-	-	170
31-60 days	17	1	5	-	23
61-90 days	10	-	1	-	11
91-180 days	16	-	-	-	16
181-360 days	17	-	-	-	17
> 360 days	48	-	-	-	48
Total past due not impaired	241	38	6	-	285
Fair value of collateral held*	231	34	6	-	271

*Fair value of collateral held

	ROI		UK		Total
	Home loans	Buy-To-Let	Buy-To-Let	Commercial	
	€m	€m	€m	€m	€m
0-30 days	124	33	-	-	157
31-60 days	17	1	5	-	23
61-90 days	9	-	1	-	10
91-180 days	16	-	-	-	16
181-360 days	17	-	-	-	17
> 360 days	48	-	-	-	48
Total past due not impaired	231	34	6	-	271

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(continued)

34. Financial risk management (continued)

Forborne loans

(b) Impairment provisions

The following table reflects forborne loans and forborne loans >90 days in arrears for which provisions are held and an analysis of specific and collective & IBNR impairment provision balances held against these loans.

Total forborne loans

31 December 2016	Total loans €m	Total forborne loans €m	Forborne % of total loans %	Impairment Provisions			Total provisions as % of forborne loans %
				Specific €m	IBNR €m	Total €m	
Residential:							
ROI:							
- Home loans	15,286	4,376	29%	1,014	89	1,103	25%
- Buy-to-let	5,449	1,413	26%	317	51	368	26%
UK:							
- Buy-to-let	-	-	-	-	-	-	-
Commercial	243	52	21%	19	2	21	40%

31 December 2015	Total loans €m	Total forborne loans €m	Forborne % of total loans %	Impairment Provisions			Total provisions as % of forborne loans %
				Specific €m	IBNR €m	Total €m	
Residential:							
ROI:							
- Home loans	15,862	4,435	28%	1,068	79	1,147	26%
- Buy-to-let	5,596	1,389	25%	330	44	374	27%
UK:							
- Buy-to-let	3,335	88	3%	8	-	8	9%
Commercial	382	59	15%	15	3	18	31%

The total forborne loans excluding UK buy-to-let have decreased by €42m or 1% as the Group reaches agreement on resolution strategies with customers in difficulty.

Total forborne loans >90 days in arrears

31 December 2016	Total loans €m	Total forborne loans €m	Forborne % of total loans %	Impairment Provisions			Total provisions as % of forborne loans %
				Specific €m	IBNR €m	Total €m	
Residential:							
ROI:							
- Home loans	15,286	1,290	8%	501	2	503	39%
- Buy-to-let	5,449	301	6%	169	-	169	56%
UK:							
- Buy-to-let	-	-	-	-	-	-	-
Commercial	243	19	8%	9	-	9	47%

34. Financial risk management (continued)

31 December 2015	Total loans €m	Total forborne loans €m	Forborne % of total loans %	Impairment Provisions			Total provisions as % of forborne loans %
				Specific €m	IBNR €m	Total €m	
Residential:							
ROI:							
- Home loans	15,862	1,299	8%	510	2	512	39%
- Buy-to-let	5,596	312	6%	175	-	175	56%
UK:							
- Buy-to-let	3,335	5	-	3	-	3	60%
Commercial	382	17	4%	11	-	11	65%

The forborne loans > 90 days excluding UK buy-to-let in arrears have decreased by €18m or 1% due to the arrears for a large number of buy-to-let accounts falling below 90 days. These accounts remain forborne but exit the >90 days pool.

Forborne loans

(c) Weighted Average – LTV

Analysis by LTV of the Group's residential mortgage lending which are 90 days past due or impaired:

In total 37% of the ROI residential and Commercial mortgage portfolios which are 90 days past due have an LTV of up to 100% and 19% of loans have an LTV exceeding 150%.

31 December 2016

	Residential mortgages			Commercial %	Total %
	ROI		UK		
	Home loans %	Buy-to-let %	Buy-to-let %		
Less than 50%	6%	1%	-	13%	5%
50% to 70%	9%	4%	-	5%	8%
71% to 90%	16%	7%	-	12%	15%
91% to 100%	9%	6%	-	7%	9%
Subtotal	40%	18%	-	37%	37%
101% to 110%	11%	8%	-	3%	9%
111% to 120%	10%	11%	-	1%	10%
121% to 130%	10%	9%	-	3%	10%
131% to 140%	9%	9%	-	3%	9%
141% to 150%	6%	8%	-	8%	6%
151% to 160%	3%	6%	-	13%	4%
161% to 170%	3%	6%	-	1%	4%
171% to 180%	2%	5%	-	2%	2%
Greater than 180%	6%	20%	-	29%	9%
Subtotal	60%	82%	-	63%	63%
Total	100%	100%	-	100%	100%

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(continued)

34. Financial risk management (continued)

31 December 2015

	Residential mortgages			Commercial	Total
	ROI		UK		
	Home loans	Buy-to-let	Buy-to-let		
	%	%	%	%	%
Less than 50%	7%	2%	-	12%	6%
50% to 70%	9%	5%	7%	7%	8%
71% to 90%	16%	9%	49%	12%	15%
91% to 100%	10%	8%	18%	-	10%
Subtotal	42%	24%	74%	31%	39%
101% to 110%	10%	15%	18%	6%	11%
111% to 120%	10%	19%	4%	3%	11%
121% to 130%	10%	12%	2%	-	10%
131% to 140%	9%	9%	-	3%	9%
141% to 150%	7%	6%	-	2%	7%
151% to 160%	4%	3%	-	11%	4%
161% to 170%	2%	2%	-	2%	2%
171% to 180%	2%	3%	-	9%	2%
Greater than 180%	4%	7%	2%	33%	5%
Subtotal	58%	76%	26%	69%	61%
Total	100%	100%	100%	100%	100%

(d) Forbearance arrangements - ROI residential mortgages

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

The PDs associated with non-defaulted accounts which have been granted forbearance is 9.3% (10.8% for home loans and 7% for BTLs). The PDs for non-defaulted accounts excluding cases in forbearance is 2.5% (2.5% for home loans and 2.6% for BTLs). The PDs for defaulted accounts is 100% irrespective of the account status (forbearance or non-forbearance). This is not subject to audit.

ROI residential mortgages

The tables below set out the volume of loans for which the Group has entered formal temporary and permanent forbearance arrangements with customers as at 31 December 2016 and 31 December 2015.

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

(i) ROI residential home loan mortgages:

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

31 December 2016

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

34. Financial risk management (continued)

31 December 2015

	All loans		Loans > 90 days in arrears and / or impaired	
	Number	Balances €m	Number	Balances €m
Interest only	389	69	136	26
Reduced payment (less than interest only)	192	33	160	29
Reduced payment (greater than interest only)	14,043	2,151	7,306	1,244
Payment moratorium	185	30	116	19
Arrears capitalisation	3,284	477	1,955	307
Term extension	2,061	167	599	56
Hybrid*	2,341	344	1,701	263
Split mortgages	6,037	1,164	6,037	1,164
Total	28,532	4,435	18,010	3,108

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

The tables above reflect a decrease of 404 cases, as at 31 December 2016 for the Group in the number of ROI residential home loans in forbearance arrangements, a decrease of €59m. The average balance of forborne loans is relatively unchanged during the period (31 December 2016: €0.156m versus 31 December 2015: €0.155m). As at 31 December 2016, 60% of ROI residential home loan mortgages that are in a forbearance arrangement are >90 days in arrears and / or impaired compared to 63% of loans as at 31 December 2015.

(ii) ROI residential buy-to-let mortgages:

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

31 December 2016

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

31 December 2015

	All loans		Loans > 90 days in arrears and / or impaired	
	Number	Balances €m	Number	Balances €m
Interest only	1,454	558	487	176
Reduced payment (less than interest only)	30	11	29	11
Reduced payment (greater than interest only)	1,279	450	629	217
Payment moratorium	9	2	8	2
Arrears capitalisation	413	135	242	92
Term extension	61	11	29	5
Hybrid*	303	93	193	69
Split mortgages	391	129	391	129
Total	3,940	1,389	2,008	701

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

The tables above reflect an increase of 68 cases, as at 31 December 2016 for the Group in the number of ROI residential buy-to-let in forbearance arrangements, an increase of €24m. The average balance of forborne loans is unchanged during the period (31 December 2016: €0.353m versus 31 December 2015: €0.353m). As at 31 December 2016, 49% of ROI residential buy-to-let mortgages that are in a forbearance arrangement are >90 days in arrears and / or impaired compared to 51% of loans as at 31 December 2015.

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34. Financial risk management (continued)

Impairment charge and provisions on loans and advances to customers by product line

The balances in the preceding tables denoted impaired loan balances which are in forbearance arrangements. The tables below provide the impairment charges and provisions in respect of these balances, by lending type.

Forborne loans - impairment charge

	Year ended 31 December 2016			Year ended 31 December 2015		
	Performing €m	Non-performing €m	Total €m	*Restated		Total €m
				Performing €m	Non-performing €m	
Residential						
Home loans						
-ROI	(48)	(19)	(67)	(38)	58	20
Buy-to-let						
-ROI	(34)	13	(21)	(33)	(3)	(36)
-UK	-	-	-	-	1	1
Commercial	-	6	6	-	2	2
Total impairment (write-back)/charge	(82)	-	(82)	(71)	58	(13)

Restated: As noted above, during 2016, the Group revised its application of the definition of non-performing loans. The Group has restated the non-performing loan disclosures for the prior year by €0.5bn. This has resulted in minor changes to the ROI Home loan performing/non-performing split.

Forborne loans - stock of impairment provisions

	Year ended 31 December 2016			Year ended 31 December 2015		
	Performing €m	Non-performing €m	Total €m	*Restated		Total €m
				Performing €m	Non-performing €m	
Residential						
Home loans						
-ROI	34	1,069	1,103	39	1,108	1,147
Buy-to-let						
-ROI	28	340	368	19	355	374
-UK	-	-	-	-	8	8
Commercial	2	19	21	2	16	18
Total impairment provisions	64	1,428	1,492	60	1,487	1,547

Restated: As noted above, during 2016, the Group revised its application of the definition of non-performing loans. The Group has restated the non-performing loan disclosures for the prior year by €0.5bn. This has resulted in the movement of €36m of ROI Home loans from performing to non-performing and €5m of ROI Buy-to-let from Performing to Non-performing.

Forbearance arrangements - UK mortgages and Commercial mortgages

The incidence of the main type of forbearance arrangements for UK buy to let and commercial mortgages are analysed below:

UK buy to let mortgages

	31 December 2016		31 December 2015	
	Number	Balances	Number	Balances
		€m		€m
Arrears capitalisation	-	-	431	88
Total	-	-	431	88

Commercial mortgages

	31 December 2016		31 December 2015	
	Number	Balances	Number	Balances
		€m		€m
Interest only	3	1	4	1
Reduced payment (less than interest only)	1	2	2	2
Reduced payment (greater than interest only)	24	18	31	22
Payment moratorium	-	-	-	-
Arrears capitalisation	19	11	18	12
Term extension	22	9	19	11
Hybrid*	23	11	25	11
Split mortgages	1	-	-	-
Total	93	52	99	59

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

The balance of loans in forbearance in the commercial portfolio amounts to €52m a decrease of €7m or 12%.

34. Financial risk management (continued)

(e) Reconciliation of movement in forborne loans for all classes

The tables below provide an analysis of the movement of total forborne loans and forborne loans > 90 days in arrears during the year. It outlines the number and balances of forbearance treatments offered, expired and loans paid down during the year.

31 December 2016

	Residential mortgages				Comm. cases	Comm. balances	Total cases	Total balances
	ROI & UK							
	Home Loans cases	Home Loans balances	Buy to Let cases	Buy to Let balances				
	€m	€m	€m	€m				
Opening balance 01 January 2016	28,532	4,435	4,371	1,477	99	59	33,002	5,971
New forbearance extended during the period	2,629	382	561	170	8	2	3,198	554
Deleveraged loans	-	-	(431)	(88)	-	-	(431)	(88)
<i>Exited forbearance</i>								
- re-classified to past due > 90 days past due and/or impaired	(78)	(9)	(55)	(22)	(1)	-	(134)	(31)
<i>Re-classified to non-forbearance loans</i>								
- expired forbearance treatment	(2,192)	(295)	(337)	(92)	(8)	(4)	(2,537)	(391)
- expired loan paid down	(763)	(71)	(101)	(24)	(5)	(4)	(869)	(99)
Balance shift*	-	(66)	-	(8)	-	(1)	-	(75)
Closing balance of forbearance loans as at 31 December 2016	28,128	4,376	4,008	1,413	93	52	32,229	5,841

*Repayments in respect of loans which are in forbearance at the start and end of the year

31 December 2015

	Residential mortgages				Comm. cases	Comm. balances	Total cases	Total balances
	ROI & UK							
	Home Loans cases	Home Loans balances	Buy to Let cases	Buy to Let balances				
	€m	€m	€m	€m				
Opening balance 01 January 2015	31,184	4,864	5,023	1,681	1,115	781	37,322	7,326
New forbearance extended during the period	2,062	297	365	116	4	3	2,431	416
Deleveraged loans	(132)	(52)	(375)	(158)	(1,000)	(717)	(1,507)	(927)
<i>Exited forbearance</i>								
- re-classified to past due > 90 days past due and/or impaired	(150)	(18)	(26)	(9)	(1)	(1)	(177)	(28)
<i>Re-classified to non-forbearance loans</i>								
- expired forbearance treatment	(3,616)	(507)	(466)	(119)	(10)	(3)	(4,092)	(629)
- expired loan paid down	(816)	(67)	(150)	(29)	(9)	(2)	(975)	(98)
Balance shift*	-	(82)	-	(5)	-	(2)	-	(89)
Closing balance of forbearance loans as at 31 December 2015	28,532	4,435	4,371	1,477	99	59	33,002	5,971

*Repayments in respect of loans which are in forbearance at the start and end of the year

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(continued)

34. Financial risk management (continued)

Reconciliation of movement in Forborne Loans > 90 days in arrears

31 December 2016

	Residential mortgages						Total cases	Total balances €m
	ROI & UK				Comm. cases	Comm. balances €m		
	Home Loans cases	Home Loans balances €m	Buy to Let cases	Buy to Let balances €m				
Opening balance 01 January 2016	7,580	1,299	862	317	23	17	8,465	1,633
New forbearance extended during the period	1,614	237	208	72	10	6	1,832	315
Deleveraged loans	-	-	(20)	(5)	-	-	(20)	(5)
Exited forborne & >90, now forborne < 90	(1,443)	(220)	(177)	(69)	(1)	-	(1,621)	(289)
<i>Exited forbearance</i>								
- re-classified to past due/in default	(15)	(2)	(2)	(1)	-	-	(17)	(3)
<i>Re-classified to non-forbearance loans</i>								
- expired forbearance treatment	(4)	-	-	-	-	-	(4)	-
- expired loan paid down	(324)	(35)	(39)	(16)	(2)	(4)	(365)	(55)
Balance shift*	-	11	-	3	-	-	-	14
Closing balance of forbearance loans as at 31 December 2016	7,408	1,290	832	301	30	19	8,270	1,610

*Repayments in respect of loans which are in forbearance at the start and end of the year

31 December 2015

	Residential mortgages						Total cases	Total balances €m
	ROI & UK				Comm. cases	Comm. balances €m		
	Home Loans cases	Home Loans balances €m	Buy to Let cases	Buy to Let balances €m				
Opening balance 01 January 2015	9,661	1,686	1,133	431	582	391	11,376	2,508
New forbearance extended during the period	1,549	213	245	82	15	5	1,809	300
Deleveraged loans	(63)	(41)	(90)	(50)	(568)	(373)	(721)	(464)
Exited forborne & >90, now forborne < 90	(3,225)	(528)	(381)	(138)	(2)	(5)	(3,608)	(671)
<i>Exited forbearance</i>								
- re-classified to past due/in default	-	-	-	-	-	-	-	-
<i>Re-classified to non-forbearance loans</i>								
- expired forbearance treatment	-	-	-	-	-	-	-	-
- expired loan paid down	(342)	(35)	(45)	(8)	(4)	(1)	(391)	(44)
Balance shift*	-	4	-	-	-	-	-	4
Closing balance of forbearance loans as at 31 December 2015	7,580	1,299	862	317	23	17	8,465	1,633

*Repayments in respect of loans which are in forbearance at the start and end of the year

34. Financial risk management (continued)

Liquidity Risk

Liquidity risk is the risk that the Group may experience difficulty in financing its assets and / or meeting its contractual obligations as and when they fall due, without incurring excessive cost. Liquidity risk arises from differences in timing between cash inflows and cash outflows and is dependent on the maturity profile and composition of the balance sheet. Cash inflows are driven, among other things, by the maturity structure of loans and investments held by the Group, while cash outflows are driven, among other things, by the outflows from deposit accounts, new lending and by the maturity of the debt issued by the Group. Liquidity risk may increase due to the unexpected lengthening of maturities or non-repayment of assets, a sudden withdrawal of deposits or the inability to refinance maturing liabilities. These factors are often associated with times of distress or adverse market events such as financial or economic turmoil.

Governance

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

Regulatory Compliance

The Group is required to comply with the liquidity requirements of the Central Bank of Ireland with joint supervision from the ECB under the Single Supervisory Mechanism ("SSM").

Liquidity Management

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

Therefore liquidity management consists of two main activities under both normal and stressed conditions:

1. Operational liquidity management, which focuses on monitoring current and expected daily cash flows to ensure that the Group's liquidity needs are met. This takes account of the liquidity value of the Group's liquid asset portfolio, which can be readily converted into cash to cover any unforeseen outflows; and
2. Strategic liquidity management, which focuses on assessing an optimal balance sheet structure taking into account the expected future maturity profile of the Group's assets and liabilities.

Liquidity Risk Assessment and Measurement

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

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

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

Net Stable Funding Ratio ("NSFR") and Asset Encumbrance constitute the additional core liquidity and funding metrics within the overarching liquidity management framework that are measured, monitored and reported.

The Group also actively monitors a comprehensive list of early warning indicators ("EWIs") covering a range of market wide and bank specific events. The purpose of the EWIs is to provide forewarning of any potential liquidity trigger events and with the objective of allowing the Group sufficient time to intervene and mitigate any emerging risk.

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

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34. Financial risk management (continued)

Stress testing forms a key pillar of the overall liquidity risk framework. The Group performs weekly stress testing and scenario analysis to evaluate the impact of stresses on its liquidity position. The stress tests incorporate both Group specific and systemic risks that are designed to examine the adequacy of the Group liquidity buffer.

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

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

Funding Profile

The ALCO monitors sources of funding, reviews short-term/ long-term borrowings and their respective maturity profiles. The Group's funding profile based on remaining maturities was:

	31 December 2016	31 December 2015
	%	%
Customer deposits	80	70
Long-term debt	9	4
Short-term debt	11	26
	100	100

The ALCO also monitors the dependencies inherent in funding by reviewing the Group's usage of lines of credit with financial institutions. Long-term debt refers to debt with a maturity greater than 12 months from year-end and short-term debt is that which has a maturity of less than 12 months from year-end.

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

31 December 2016

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

31 December 2015

	Up to 1 month	1-3 months	3-6 months	6-12 months	1-2 years	Over 2 years	Total
	€m	€m	€m	€m	€m	€m	€m
Liabilities							
Deposits by banks	3,785	1,942	-	1,039	-	-	6,766
Customer accounts	10,131	2,759	1,955	2,370	1,168	244	18,627
Debt securities in issue	-	5	18	20	67	1,281	1,391
Subordinated liabilities	-	-	-	-	-	24	24
Derivative liabilities	-	-	3	193	15	91	302
Total liabilities	13,916	4,706	1,976	3,622	1,250	1,640	27,110

For products where the contractual maturity date may be different from actual behaviour, the Group uses statistical methodologies to manage liquidity on an expected or behaviourally adjusted basis.

34. Financial risk management (continued)

The following table details the Group's liquidity analysis for derivative instruments that do not qualify as hedging instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates from the yield curves at the end of the reporting year.

31 December 2016	Up to 1 month €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	Over 2 years €m	Total €m
Net settled:							
Interest rate swaps	-	-	(1)	(1)	11	(3)	6
Gross settled:							
FX forwards							
- inflow	315	99	-	-	-	-	414
- outflow	(320)	(99)	-	-	-	-	(419)
Balance at 31 December 2016	(5)	-	(1)	(1)	11	(3)	1

31 December 2015	Up to 1 month €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	Over 2 years €m	Total €m
Net settled:							
Interest rate swaps	-	-	(1)	(2)	(3)	12	6
Gross settled:							
FX forwards							
- inflow	255	244	-	-	-	-	499
- outflow	(253)	(241)	-	-	-	-	(494)
Balance at 31 December 2015	2	3	(1)	(2)	(3)	12	11

Market Risk

Market risk is the risk of experiencing losses due to factors that affect the overall performance of the financial markets. From the Group's perspective, Market Risk consists of three components being Foreign Exchange Risk, Credit Spread Risk and Interest Rate Risk. Interest rate risk constitutes the majority of the Group's market risk.

Governance

The Group's Risk Appetite Statement and associated policies set out the governance and limit framework for the management of market risk exposures. The policies are approved at least annually by the Board on the recommendation of the BRCC and the Asset and Liability Committee ("ALCO"). Market risks within the Group are subject to internal controls and reporting procedures and are monitored by the ALCO. Group Treasury is responsible for the management of market risk exposures on the balance sheet. Group risk and Group internal audit functions provide further oversight and challenge to the market risk framework.

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34. Financial risk management (continued)

Foreign Currency Exchange Risk

Foreign currency exchange risk is the volatility in earnings resulting from the retranslation of foreign currency denominated assets and liabilities from mismatched positions. There has been a significant reduction in the Group's foreign denominated assets following the successful deleveraging of the UK mortgage portfolio in November 2016. The main foreign exchange exposure for the Group arises from the Isle of Man deposit book business conducted by Permanent Bank International. The Group may also be exposed to smaller intermittent positions arising from the normal business activities of a Retail bank.

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

Foreign Exchange exposures also may arise as a result of non-Euro contractual payment obligations to third parties. Group Treasury will manage these exposures in line with the underlying policy framework.

The aggregate euro denominated 31 December 2016 FX position was €2.7m (31 December 2015 €3.2m).

Credit Spread Risk

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

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

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

Interest Rate Risk

Interest rate risk arises due to the structural mismatch between assets and liabilities in the balance sheet and is the risk that an investment's value will change due to a change in the absolute level of interest rates, the spread between two rates, shape of the yield curve or any other interest rate relationship.

The Group is primarily exposed to re-price, yield curve and basis risk. Interest rate risk modelling is produced and quantified and reported against internal limits to senior management daily.

In defining the level of interest rate risk the Group applies the 200bps shock scenario subject to the interest rate flooring assumptions.

The 31 December 2016 interest rate risk level was calculated as €26m (31 December 2015: €46m). The reduction in risk is primarily driven by the successful deleveraging of the UK mortgage portfolio which has reduced the Groups overall exposure.

34. Financial risk management (continued)

Gap analysis is a technique for measuring a bank's interest rate risk exposure beginning with a maturity / re-pricing schedule that distributes interest-sensitive assets, liabilities, and derivative positions into "time bands" according to their maturity (if fixed-rate), time remaining to their next re-pricing (if floating-rate) or behavioural convention in order to identify any sources of significant mismatches.

A summary of the Group's interest rate gap position is as follows:

Interest Rate Re-pricing

31 December 2016	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 5 years	Over 5 years	Total
	€m	€m	€m	€m	€m	€m
Assets						
Euro	18,167	420	966	2,260	450	22,263
Sterling	146	-	-	1	-	147
US dollar	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total assets (A)	18,313	420	966	2,261	450	22,410
Liabilities						
Euro	(13,485)	(1,254)	(1,722)	(5,026)	(644)	(22,131)
Sterling	(367)	(30)	(47)	(11)	-	(455)
US dollar	(47)	(3)	(1)	-	-	(51)
Other	(3)	-	-	-	-	(3)
Total liabilities (B)	(13,902)	(1,287)	(1,770)	(5,037)	(644)	(22,640)
Derivatives						
Euro	608	(48)	(392)	(408)	(55)	(295)
Sterling	247	-	-	-	-	247
US dollar	29	-	-	-	-	29
Other	-	-	-	-	-	-
Derivatives affecting interest rate sensitivities (C)	884	(48)	(392)	(408)	(55)	(19)
Interest rate repricing gap						
Euro	5,290	(882)	(1,148)	(3,174)	(249)	(163)
Sterling	26	(30)	(47)	(10)	-	(61)
US dollar	(18)	(3)	(1)	-	-	(22)
Other	(3)	-	-	-	-	(3)
Interest rate repricing gap (A) + (B) + (C)	5,295	(915)	(1,196)	(3,184)	(249)	(249)
Cumulative interest rate repricing gap	5,295	4,380	3,184	-	(249)	

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34. Financial risk management (continued)

31 December 2015	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 5 years	Over 5 years	Total
	€m	€m	€m	€m	€m	€m
Assets						
Euro	19,362	1,496	370	2,712	454	24,394
Sterling	3,537	10	20	50	(5)	3,612
US dollar	1	-	-	-	-	1
Other	-	-	-	-	-	-
Total assets (A)	22,900	1,506	390	2,762	449	28,007
Liabilities						
Euro	(17,049)	(1,518)	(2,048)	(4,948)	(706)	(26,269)
Sterling	(1,436)	(83)	(131)	(56)	-	(1,706)
US dollar	(72)	(5)	(4)	-	-	(81)
Other	(4)	-	-	-	-	(4)
Total liabilities (B)	(18,561)	(1,606)	(2,183)	(5,004)	(706)	(28,060)
Derivatives						
Euro	3,956	(122)	2	(812)	4	3,028
Sterling	(3,532)	(1)	-	-	-	(3,533)
US dollar	58	5	-	-	-	63
Other	-	-	-	-	-	-
Derivatives affecting interest rate sensitivities (C)	482	(118)	2	(812)	4	(442)
Interest rate repricing gap						
Euro	6,269	(144)	(1,676)	(3,048)	(248)	1,153
Sterling	(1,431)	(74)	(111)	(6)	(5)	(1,627)
US dollar	(13)	(1)	(4)	-	-	(18)
Other	(4)	-	-	-	-	(4)
Interest rate repricing gap (A) + (B) + (C)	4,821	(219)	(1,791)	(3,054)	(253)	(496)
Cumulative interest rate repricing gap	4,821	4,602	2,811	(243)	(496)	

35. Capital management

PTSB is regulated by the European Central Bank ("ECB") under the Single Supervisory Mechanism (SSM). While there are a number of regulated entities within the Group which have individual regulatory capital requirements and are regulated by their local regulators, PTSB is the principal regulated entity.

The ECB has adopted the Basel III framework, under CRD IV, on a phased basis from 1 January 2014, with full implementation by 2024. CRD IV consists of the Capital Requirements Regulation ("CRR"), which is directly applicable to firms across the EU and the new CRD, which was signed in to Irish law on 31 March 2014.

The core objective of the Group's capital management policy is to ensure that the Group complies with its regulatory capital requirements and maintains sufficient capital to cover its business risks and support its strategy. The Group has established an Internal Capital Adequacy Assessment Process (ICAAP) with the objective of ensuring that it is adequately capitalised against the inherent risks to which its business operations are exposed and to maintain an appropriate level of capital to meet the ECB minimum regulatory capital requirements. The ICAAP is subject to review and evaluation by the ECB and the Central Bank. The management of capital within the Group is monitored by the BRCC and the Capital Adequacy Committee in accordance with Board approved policy.

The Group's regulatory capital comprises three tiers:

- CET1 capital, which includes ordinary share capital, share premium, retained earnings and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes;
- Additional Tier 1 Capital which includes qualifying convertible perpetual financial instruments with discretionary coupons; and
- Tier 2 Capital which includes qualifying subordinated liabilities, revaluation reserves and other regulatory capital adjustments.

The Group's 2016 SREP capital requirement was 11.45% Transitional CET1. The SREP requirement is subject to annual review by the ECB. The Group has been notified by the ECB of its 2017 SREP requirement which is effective from 1 January 2017. The SREP decision requires that the Group maintains a CET1 ratio of 9.2% and a Total Capital ratio of 12.7% on a transitional basis.

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

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

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35. Capital management (continued)

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

The following table summarises the composition of regulatory capital and the ratios of PTSB, the primary regulated entity of the Group, as at 31 December 2016 and 31 December 2015 which are calculated in accordance with CRD IV regulatory capital requirements.

	31 December 2016	31 December 2015
	€m	*Restated €m
Common Equity Tier 1 capital		
Share capital and share premium	1,590	1,588
Reserves	378	676
Prudential filters	(141)	(178)
Total qualifying CET1 capital	1,827	2,086
Additional Tier 1 Capital	98	105
Total qualifying Tier 1 capital	1,925	2,191
Tier 2 capital		
Subordinated liabilities	12	8
Revaluation reserve	12	14
Other	54	69
Total qualifying Tier 2 capital	78	91
Total own funds	2,003	2,282

* The amount of Additional Tier 1 Capital and Tier 2 instruments included within the consolidated capital of the holding company is restricted within the limits laid down under the CRR. This has resulted in a restatement of the Tier 1 Capital from €122m to €105m and the restatement of Subordinated liabilities from €11m to €8m.

The Group calculates risk-weighted assets which are determined according to the specified CRR requirements that seek to reflect the varying levels of risk attached to assets and exposures not recognised in the statement of financial position.

	31 December 2016	31 December 2015
	€m	€m
Risk weighted assets		
Total risk-weighted assets	10,593	12,210
- Credit Risk	10,099	11,805
- Operational Risk	493	405
Capital Ratios		
Common Equity Tier 1 capital ratio (Transitional basis)	17.2%	17.1%
Total capital ratio (Transitional basis)	18.9%	18.7%

The total capital ratio is calculated and reported to the Central Bank on a quarterly basis.

The movement in the Group's regulatory capital is summarised below:

	2016	2015
	€m	€m
Balance as at 1 January	2,282	2,212
Capital issued during the year (net of transaction cost)	-	495
Operating loss after tax	(266)	(425)
Core deposit intangible add-back/deduction	1	27
Deferred tax assets add-back/deduction	(25)	(47)
Other movements*	11	20
Balance as at 31 December	2,003	2,282

*Other movements are explained as follows:

	31 December 2016	31 December 2015
	€m	€m
Reductions in Tier 2 subordinated debt	4	(3)
Excess of provisions over expected losses on IRB (cap 0.6% RWA)	(14)	(15)
Increase/(reduction) in other own funds	21	38
Other movements	11	20

36. Current / non-current assets and liabilities

The following table provides an analysis of certain asset and liability line items as at 31 December 2016 and 31 December 2015. The analysis includes amounts expected to be recovered or settled no more than 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current).

	Note	31 December 2016			31 December 2015 *Restated		
		Current	Non-current	Total	Current	Non-current	Total
		€m	€m	€m	€m	€m	€m
Assets							
Cash and balances at central banks	13	66	-	66	64	-	64
Items in the course of collection	13	30	-	30	31	-	31
Debt securities	14	924	1,758	2,682	1,346	2,493	3,839
Equity Securities	15	-	9	9	23	-	23
Derivative assets	16	6	38	44	12	46	58
Loans and advances to banks	17	1,185	-	1,185	1,516	-	1,516
Loans and advances to customers*	18	993	17,893	18,886	1,101	21,929	23,030
Assets classified as held for sale	41	1	-	1	91	-	91
Prepayments and accrued income	24	103	-	103	50	-	50
Other assets	23	11	70	81	10	64	74
Deferred tax assets	22	13	340	353	23	370	393
Liabilities							
Deposits by banks (including central banks)	25	2,373	530	2,903	6,749	-	6,749
Customer accounts	26	14,964	2,020	16,984	17,152	1,398	18,550
Debt securities in issue	27	50	1,274	1,324	25	978	1,003
Derivative liabilities	16	20	104	124	256	141	397
Accruals		10	-	10	9	-	9
Other liabilities	28	50	-	50	74	-	74
Provisions	29	72	12	84	9	108	117
Subordinated liabilities	30	-	22	22	-	22	22

* The 2015 amount designated as current for Loans and advances to customers previously included those loan balances due to mature in the next 12 months. The 2015 amount designated as current has been restated to include €690m of contractual capital payments which are contractually due to be received within the next 12 months in respect of loans that are not due to mature in the next 12 months.

37. Transfer of financial assets

In the ordinary course of business, the Group enters into transactions that result in the transfer of financial assets that consist of loans and advances to customers. In accordance with note 1.5 (vi), the transferred financial assets continue either to be recognised in their entirety or to the extent of the Group's continuing involvement, or are derecognised in their entirety.

The Group transfers financial assets primarily through the following transactions:

- (i) sale and repurchase of securities; and
- (ii) securitisation activities in which loans and advances to customers are sold to Structured Entities ("SEs") that in turn issue notes to investors which are collateralised by purchased assets.

(a) Transferred financial assets that are not derecognised in their entirety

Sale and repurchase agreements

Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. The Group continues to recognise the securities in their entirety in the statement of financial position as Loans and advances to customers (note 18) and Debt securities (note 14) because it retains substantially all the risks and rewards of ownership. The cash consideration received is recognised as a financial asset and a financial liability is recognised for the obligation to pay the repurchase price. As the Group sells the contractual rights to the cash flows of the securities it does not have the ability to use or pledge as collateral the transferred assets during the term of the arrangement.

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37. Transfer of financial assets (continued)

Securitisations

The Group sells loans and advances to customers to SEs that in turn issue notes to investors that are collateralised by the purchased assets. For the purpose of disclosure in this note, a transfer of such financial assets may arise if the Group sells assets to a consolidated SE, the transfer of financial assets is from the Group (that includes the consolidated SE) to investors in the notes issued by the SE. The transfer is in the form of the Group assuming an obligation to pass cash flows from the underlying assets to investors in the notes.

Although the Group does not own more than half of the voting power, it has the power to control the relevant activities of the SE and the ability to affect the variable returns of the investee and hence these SEs are consolidated. In these cases, the consideration received from the investors in the notes in the form of cash is recognised as a financial asset and a corresponding financial liability is recognised. The investors in the notes have recourse only to the cash flows from the transferred financial assets.

When the Group transfers assets as part of the securitisation transactions it does not have the ability to use or pledge as collateral the transferred assets during the term of the arrangement.

The table below sets out an overview of carrying amounts and fair values related to transferred financial assets that are not derecognised in their entirety and associated liabilities.

	31 December 2016		31 December 2015	
	Sale and repurchase agreements	Securitisations	Sale and repurchase agreements	Securitisations
	€m	€m	€m	€m
Carrying amount of assets	3,866	935	10,858	528
Carrying amount of associated liabilities	2,902	950	6,647	533
Liabilities that have recourse only to the transferred financial assets				
Fair value of assets	3,867	744	10,799	416
Fair value of associated liabilities	2,907	963	6,648	539
Net position	960	(219)	4,151	(123)

(b) Transferred financial assets that are derecognised in their entirety

The Group has not transferred any financial assets that were derecognised in their entirety.

38. Offsetting financial assets and financial liabilities

In accordance with IAS 32 Financial Instruments: Presentation, the Group reports financial assets and financial liabilities on a net basis on the balance sheet only if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The tables below provide the impact of master netting agreements on all derivative financial instruments that are subject to master netting agreements or similar agreements, but do not qualify for netting on the balance sheet.

The tables highlight the amounts that have been offset on the balance sheet and those amounts covered by collateral placed with or by counterparties to these trades. It does not highlight where right of offset is available in the event of a default, as allowed under ISDA master agreements.

38. Offsetting financial assets and financial liabilities (continued)

The tables below provide analysis of derivative financial assets and liabilities subject to offsetting, enforceable master netting agreements and similar agreements:

	31 December 2016					
	Effect of offsetting on the statement of financial position			Related amounts not offset in the statement of financial position		
	Gross financial assets/ (liabilities) recognised	Gross financial (liabilities)/ assets offset	Net amounts reported on the statement of financial position	Financial instruments	Cash collateral	Net amount
	€m	€m	€m	€m	€m	€m
Assets						
Derivative assets	44	-	44	-	-	44
Total	44	-	44	-	-	44
Liabilities						
Derivative liabilities	(124)	-	(124)	-	74	(50)
Repurchase agreements	(2,902)	-	(2,902)	-	18	(2,884)
Total	(3,026)	-	(3,026)	-	92	(2,934)

	31 December 2015					
	Effect of offsetting on the statement of financial position			Related amounts not offset in the statement of financial position		
	Gross financial assets/ (liabilities) recognised	Gross financial (liabilities)/ assets offset	Net amounts reported on the statement of financial position	Financial instruments	Cash collateral	Net amount
	€m	€m	€m	€m	€m	€m
Assets						
Derivative assets	58	-	58	-	(1)	57
Total	58	-	58	-	(1)	57
Liabilities						
Derivative liabilities	(397)	-	(397)	-	338	(59)
Repurchase agreements	(6,647)	-	(6,647)	-	6	(6,641)
Total	(7,044)	-	(7,044)	-	344	(6,700)

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(continued)

39. Commitments and contingencies

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

Credit commitments	31 December 2016	31 December 2015
	€m	*Restated €m
Guarantees and irrevocable letters of credit	5	5
Commitments to extend credit		
- less than 1 year	516	468
- 1 year and over	147	159
Total commitments to extend credit	663	627
Total credit commitments	668	632

*Commitments and contingencies have been restated in respect of two matters. The 2015 number for commitments to extend credit '1 year and over' has been restated to include all undrawn mortgage stage payments which were previously not reported. This resulted in an additional €132m being included in this category.

Additionally, €120m of undrawn mortgage commitments which were previously reported in '1 year and over' has been reclassified to commitments to extend credit 'less than 1 year', as the maturity date on these facilities are less than 12 months.

This has resulted in a €120m net increase in commitments to extend credit 'less than 1 year', and a €12m net increase in commitments to extend credit '1 year and over'.

Operating lease commitments

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

	31 December 2016	31 December 2015
	€m	€m
Less than 1 year	8	7
Greater than 1 year and less than 5 years	28	27
Greater than 5 years	19	24
Total operating lease commitments	55	58

Other contingencies

The Group, like all other banks, is subject to litigation in the normal course of its business. Based on legal advice, other than matters referred to in note 29, the Group does not believe that any such litigation will have a material effect on its income statement or statement of financial position.

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

40. Related parties

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

(A) Directors' shareholdings

The interests of the Directors and the Company Secretary, including interests of their close family members in the share capital and share options of the Company are as follows:

Number of beneficial ordinary shares held	31 December 2016			31 December 2015		
	Ordinary shares	Options	Share awards	Ordinary shares	Options	Share awards
Alan Cook	-	-	-	-	-	-
Jeremy Masding	-	-	-	-	-	-
Emer Daly	5	-	-	5	-	-
Stephen Groarke (appointed 17 May 2016)	-	-	-	-	-	-
Andrew Power (appointed 27 September 2016)	-	-	-	-	-	-
Ronan O'Neill (appointed 26 July 2016)	4	-	-	-	-	-
Julie O'Neill	-	-	-	-	-	-
Richard Pike	-	-	-	-	-	-
Ken Slattery	-	-	-	-	-	-
David Stewart (resigned 20 April 2016)	-	-	-	-	-	-
Dominic Dodd (resigned 20 April 2016)	-	-	-	-	-	-
Ciarán Long (Company Secretary)	334	-	-	334	-	-

Ciarán Long, as a trustee of the employee benefit trust set up under the terms of the long-term incentive plan, has a non-beneficial interest in 4,580 shares held in the plan (31 December 2015: 4,580).

Details of the Directors' remuneration is included in the Directors' Remuneration Report on page 94.

(B) Transactions with key management personnel

Key management personnel include Non-Executive Directors, Executive Directors and members of the Executive Committee (ExCo). The Executive Directors and members of the ExCo are listed below:

Members of the ExCo at 31 December 2016

Jeremy Masding	Group Chief Executive Officer
Patricia Carroll	Interim Group Chief Financial Officer
Stephen Groarke	Group Chief Risk Officer
Toby Clements	Group Chief Operating Officer
Tony Hession	Group HR Director
Emil Ivanov	Group Strategy and Planning Director
Brendan Lynott	Distribution Director
Ger Mitchell	Group Product Review Director
Mark Coan	Commercial Director
Shane O'Sullivan	Managing Director of Asset Management Unit
Andrew Walsh	Group Chief Legal Officer

Additionally David Curtis and Niall O'Grady were all considered to be key management personnel during 2016 and their details have been included below.

Non-Executive Directors are compensated by way of fees. In certain circumstances expenses incurred by Non-Executive Directors during the normal course of business are paid by the Group and are included in taxable benefits in B(i) below. The compensation of Executive Directors and members of the ExCo comprises salary and other benefits together with pension benefits. Previously they also participated in the Group's profit sharing, share option schemes and long-term incentive plans. No awards have been issued under these schemes and plans since 2008.

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(continued)

40. Related parties (continued)

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

	31 December 2016	31 December 2015
Non-Executive Directors	7	7
Executive Directors and Senior Management	11	12
	18	19

B (i) Total compensation to Executive and Non-Executive Directors is as follows:*

	Year ended 31 December 2016 €'000	Year ended 31 December 2015 €'000
Fees	546	574
Taxable benefits	78	97
Salary and other benefits	651	1,122
Pension benefits - defined contribution	73	93
Total	1,348	1,886

Total compensation to other key management personnel is as follows:

	Year ended 31 December 2016 €'000	Year ended 31 December 2015 €'000
Taxable benefits	2	25
Salary and other benefits	2,430	3,061
Pension benefits - defined contribution	260	298
CFO Fees	512	173
Total	3,204	3,557

* Total compensation to Executive/Non-Executive Directors is now shown separately to other key management personnel.

40. Related parties (continued)

During 2016, three (2015: three) connected persons to the key management personnel were employees of the Group none of whom are directors of the Group. The aggregate compensation to paid to these individuals amounted to €0.079m (2015: €0.094m).

B (ii) Balances and transactions with key management personnel:

In the normal course of its business, the Group had loan balances and transactions with key management personnel and their connected persons. The loans are granted on normal commercial terms and conditions with the exception of certain home loans where Executive Directors and Senior Managers may avail of subsidised loans on the same terms as other eligible management of the Group. All of the loans in the scope of the related party guidelines as outlined under the Companies Act 2014, the Central Bank Related Party lending code 2013 and IAS 24 Related party disclosures are secured, and all interest and principal due at the statement of financial position date has been repaid on schedule and therefore, no provision for loan impairment is required. Total outstanding balances of loans, credit cards, overdrafts and deposits are as follows:

	31 December 2016 €'000	31 December 2015 €'000
Balances		
Loans	2,745	2,340
Unsecured credit card balances and overdrafts	5	8
Deposits	977	1,231

	Year ended 31 December 2016 €'000	Year ended 31 December 2015 €'000
Transactions during the year		
Loan advances	1,572	-
Loan repayments	736	105
Interest received on loans	59	46
Interest paid on deposits	(8)	(6)

Loans to Directors

31 December 2016	Balance as at 1 Jan €'000	Advances during year €'000	Principal repaid €'000	Balance as at 31 Dec €'000	Interest paid €'000	Maximum balance €'000
Jeremy Masding	21	44	28	37	3	65
Stephen Groarke	4	40	8	36	1	44
	25	84	36	73	4	109

31 December 2015	Balance as at 1 Jan €'000	Advances during year €'000	Principal repaid €'000	Balance as at 31 Dec €'000	Interest paid €'000	Maximum balance €'000
Jeremy Masding	28	-	7	21	2	28
	28	-	7	21	2	28

During the year the Group's Interim Chief Financial Officer was seconded from professional services firm KPMG, of which she is a partner. Fees for this secondment are included in total compensation to key management personnel shown above. During 2016 the Group also paid fees of €14m (31 December 2015: €8.6m) to KPMG for advice, assistance and support on various projects, and in particular, relating to a number of regulatory and compliance projects of importance to the Group. Whilst Ms. Carroll was seconded to the Group, she was not involved in the delivery of any of the services supplied by KPMG, nor was she involved in the selection of KPMG for any of the work undertaken. Ms. Carroll has been seconded to the Group since October 2015 and the majority of any ongoing KPMG work for the Group had commenced prior to this date. At all times the Group has maintained appropriate segregation from Ms. Carroll and the relevant services provided by KPMG to ensure that there is no conflict of interest.

Notes to the Consolidated Financial Statements

(continued)

40. Related parties (continued)

(C) Irish Government and Irish Government related entities

Following the Group's share issuance in May 2015, the Minister for Finance continues to be the majority shareholder of the Group (and the ultimate controlling party per IAS 24). The Irish Government is recognised as a related party as the Government is deemed to have control over the Group as defined by IAS 24. The Group has applied the amended IAS 24 which exempts an entity from the related party disclosure requirements in respect of the Government and Government related entities unless transactions are individually or collectively significant. In the normal course of business, the Group has entered into transactions with the Government and Government related entities involving deposits, senior debt and dated subordinated debt.

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

- PTSB and its subsidiary Permanent Bank International Ltd were participating covered institutions under the Government's Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the "ELG Scheme") which guaranteed certain eligible liabilities (including deposits) of up to five years in maturity prior to its withdrawal by the Minister for Finance from 29 March 2013. Under the ELG Scheme, the Group issued a 5 year €2bn bond in March 2010 which matured in 2015. The charge to the income statement in respect of the ELG Scheme to 31 December 2016 was €4m (31 December 2015: €14m). The liabilities covered by the scheme at 31 December 2016 amounted to €273m (31 December 2015: €760m).
- The Group holds securities issued by the Government and Government related entities of €2,682m (31 December 2015: €3,839m).
- Customer accounts include deposits of €0.2bn placed by a Government institution (31 December 2015: €1.1bn). Further details on these deposits are provided in note 26.
- At 31 December 2015, the Group held €1.6bn of deposits placed by the CBI under the SMBPN programme. The deposits were secured by a floating charge over €4.2bn of ROI residential mortgages. On 1 September 2016, the deposits placed by the CBI under the SMBPN programme matured. See note 25 for further details.
- The Group entered into banking transactions in the normal course of business with local Government and Semi-State Institutions such as Local Authorities and County Councils. These transactions principally include the granting of loans, the acceptance of deposits and clearing transactions.
- A Bank Levy imposed by the Government through the Finance Bill 2014 is payable in the second half of each calendar year. As per the accounting guidance the obligating event occurs as the activity that triggers the payment of the levy occurs in accordance with the relevant legislation. In 2016 the amount recognised in the income statement was €27m (31 December 2015: €27m). The Bank levy has been extended by 5 years to 2021 as announced by the Minister for Finance on 13 October 2015.
- During 2013, following the Transfer Order requested by the Central Bank and issued by the High Court dated 10 November 2013, the Group acquired certain assets, liabilities, books and records of Newbridge Credit Union ("NCU") and all its employees transferred to the Group. As part of this transaction, along with the assets and liabilities of NCU, a cash financial incentive of €23m was paid from the Credit Institutions Resolution Fund, which forms part of the Financial Incentives Agreement ("FIA") signed between the Central Bank and the Group dated 10 November 2013. It was also agreed in the FIA that the Central Bank will use the Credit Institution Resolution Fund to compensate the Group for 50% of any future impairment losses incurred on NCU loans and advances to customers. Similarly, it was also agreed that if any provision write-backs or future recoveries of previously written off NCU loans and advances to customers occurs, the Group will pay a cash amount equivalent to 50% of the provision write-back or the recoveries to the Credit Institutions Resolution Fund. As per the FIA, this arrangement will continue for ten years from the transfer date. At 31 December 2016, the Group had recorded a payable of €4m due under the FIA.
- At the 31 December 2016 the Company had an intercompany balance of €3m (31 December 2015: €3m) with its principal subsidiary PTSB.

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

40. Related parties (continued)

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

	Loans and advances to Banks	Debt securities held	Derivative assets	Derivative liabilities	Deposits by banks
	€m	€m	€m	€m	€m
Allied Irish Banks plc					
31 December 2016	47	-	-	1	-
31 December 2015	3	-	-	2	496
Bank of Ireland					
31 December 2016	3	-	-	2	-
31 December 2015	-	-	-	-	151

41. Assets classified as held for sale

At 31 December 2016, assets classified as held for sale amounted to €1m (31 December 2015: €91m). These assets relate to four branch properties which are no longer occupied by the Group and are part of the Group's Core segment as outlined in Operating segments, note 3. Management expect to complete the sale of these assets within the next 12 months.

The assets held for sale in 2015 relate to a net loan balance of €91m in loans and advances to customers from the Group's commercial loan portfolio ("CRE").

42. Principal subsidiary undertakings and interest in subsidiaries and structured entities

Under IFRS 10 'Consolidated financial statements', the Group has control over an entity when it has the power to direct relevant activities that significantly affect the investee return, it is exposed or has rights to variable returns from its involvement in the investee and has the ability to affect those returns through its powers over the entity.

A subsidiary is considered material if the value of the consolidated total assets at the end of the financial year of the subsidiary and the entities it controls (if any) is more than 1.0% of the total assets of the Group.

The key subsidiaries of the parent meeting the criteria outlined above are:

Name and registered office	Nature of business	Incorporated in	% of ordinary shares held
Held directly by the company:			
Permanent TSB plc 56-59 St. Stephens Green, Dublin 2	Retail banking and mortgage lending	Ireland	100
Held by subsidiaries:			
Permanent Bank International Limited Hillary House, Prospect Hill, Douglas, Isle of Man, IM1 1EQ	Deposit business	IOM	100

In presenting details of the principal subsidiary undertakings, the exemption permitted by section 315 (a) (i) of the Companies Act 2014 in relation to disclosing related undertaking net assets or profit or loss, has been availed of, and the Company will annex a full listing of Group undertakings to its annual return to the Companies Registration Office.

The reporting date for each of the Group's principal subsidiary entities is 31 December.

The principal country of operation of each company is the country in which it is incorporated.

The registered office of Permanent TSB Group Holdings plc is 56-59 St. Stephens Green, Dublin 2.

Notes to the Consolidated Financial Statements

(continued)

42. Principal subsidiary undertakings and interest in subsidiaries and structured entities (continued)

(A) Company's interest in subsidiary undertakings

The Company is the ultimate holding company of the Group while PTSB is a 100% subsidiary of the Company. The investment in PTSB is carried at the recoverable amount in the holding company statement of financial position. The investment amounted to €1,161m (31 December 2015: €1,459m). During 2016, the average share price of the Group decreased and market sentiment towards the banking sector disimproved. As a result of these indicators, the Group carried out an impairment assessment using a combination of internal group models, and externally available data to inform their view of the current valuation of the investment. This resulted in the investment being impaired by €300m. This was offset by a €2m provision release relating to issuance costs of share capital and other equity instruments from the 2015 capital raise.

(B) Structured entities (SEs)

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their on-going activities. Depending on the Group's power to direct the relevant activities of the investee and its exposure or rights to variable returns from its involvement in the investee and the ability to use its power over the investee to affect the amount of the investor's return, it may consolidate the entity.

Control and voting rights

The Directors of the individual SEs are independent of the Group and neither the Group nor any of its subsidiaries have voting rights in the share capital of these entities. The Group initiated the setup of these SEs and, as architect dictated the terms relating to the operation of these SE's. The Group, as administrator, provides services to the individual SEs. The Group, as administrator, has power to:

- Exercise rights, powers and discretions of the Issuers in relation to the mortgage loans and their related security and to perform its duties in relation to the mortgages loans and their related securities: and
- To do or cause to be done any and all other things which it reasonably considers necessary, convenient or incidental to the administrator of the mortgage loans and their related security or the exercise of such rights, powers and discretions.

The key activities performed by the Group's subsidiaries as administrator:

- Is to manage the credit risk associated with the mortgages contained in the individual SEs.
- Determine and set rates of interest applicable to loans on each rate setting date in accordance with the terms of the loans and negotiate the cost of funds associated with these mortgages which may result in a variable return in the entity.

These two items highlight the power the Group has to direct the relevant activities of these entities that significantly affect the investee returns and the ability to use its power to effect variable returns of investors.

The Group provides funding to each of these vehicles by way of a subordinated loan and has an entitlement to deferred consideration. Through the subordinated loan and the deferred consideration the Group is exposed to the variable returns of these SEs.

The Group currently has seven SEs in issue in the Republic of Ireland the details of which are outlined below. During 2016, Fastnet 11 DAC and Fastnet 12 DAC were set up.

	Sub loan provided
SEs setup with ROI Residential Mortgages	
- Fastnet 3 DAC	✓
- Fastnet 5 DAC	✓
- Fastnet 6 DAC	✓
- Fastnet 9 DAC	✓
- Fastnet 10 DAC	✓
- Fastnet 11 DAC	✓
- Fastnet 12 DAC	✓

Although the Group does not own more than half of the voting power, it has the power to control the relevant activities of the SE and the ability to affect the variable returns of the investee and hence these SEs are consolidated. In these cases, the consideration received from the investors in the notes in the form of cash is recognised as a financial asset and a corresponding financial liability is recognised. The investors in the notes have recourse only to the cash flows from the transferred financial assets.

When the Group transfers assets as part of the securitisation transactions it does not have the ability to use or pledge as collateral the transferred assets during the term of the arrangement.

At 31 December 2016, restricted cash of €466m (31 December 2015: €300m) relates to cash held by the Group's securitisation entities.

43. Reporting currency and exchange rates

The consolidated financial statements are presented in millions of Euro.

The following tables show for the current year-end and prior year-end, the average and closing rates used by the Group:

	31 December 2016	31 December 2015
€ / £ exchange rate		
Closing	0.8562	0.7340
Average	0.8228	0.7242
€ / US\$ exchange rate		
Closing	1.0541	1.0887
Average	1.1032	1.1044

44. Events after the reporting period

No events occurred between the reporting date 31 December 2016 and the date of the financial statements were approved for issue by the Board of Directors being the 7 March 2017 that may require adjustments to the disclosure in these financial statements.

Appendix

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

Additional credit information

ROI Residential portfolio

The tables below provide additional detail in respect of the Group's retail mortgage portfolios which is the segment of the lending market to which the Group has most exposure.

The following parameters form part of the IRB approach used by the Group in calculating impairment provisions associated with these portfolios:

- Exposure at Default is defined as the Group's gross exposure on the loan facility upon default of an obligor
- Average Probability of default (PD) is the internal ratings assigned using sets of characteristics or attributes associated with the exposure.
- Average Loss Given Default (LGD) is a "Workout" approach used to estimate actual loss on exposures.

Exposure by geographical location

31 December 2016	Exposure at Default (€m)	Average PD (%)	Average LGD (%)
ROI	20,772	25.0%	10.0%
UK	176	31.2%	12.7%
Other EU	37	30.0%	11.5%
Rest of the World	64	23.9%	11.9%
Total	21,049	25.0%	10.0%

31 December 2015	Exposure at Default (€m)	Average PD (%)	Average LGD (%)
ROI	21,430	25.9%	9.4%
UK	3,671	8.0%	11.9%
Other EU	38	22.1%	10.8%
Rest of the World	70	24.8%	11.5%
Total	25,209	23.3%	9.8%

Exposure by Grade

	31 December 2016		31 December 2015	
	Exposure at Default (€m)	Average PD (%)	Exposure at Default (€m)	Average PD (%)
Excellent	10,277	0.7%	12,428	0.8%
Satisfactory	4,296	1.6%	5,502	1.7%
Fair	1,463	11.3%	1,797	15.8%
Defaulted	5,013	100.0%	5,482	100.0%
	21,049	23.9%	25,209	23.3%

For financial reporting purposes, impairment allowances are recognised based on objective evidence of impairment at the Balance Sheet date with respect to losses that have been incurred. As a result, impairment allowances will differ from amounts calculated from expected loss model perspective.

Additional credit information (continued)

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

Loan loss provisioning-IBNR

The impairment on unimpaired loans which are collectively assessed is calculated using statistical models by determining the probability of arrears levels deteriorating and applying loss given default's to the impaired loan balance.

The following tables detail the parameters by internal risk grading used by the Group in calculating the impairment provisions in respect of the ROI residential and consumer portfolios. The parameters in respect of ROI residential cured and forborne loans are also detailed.

ROI: Owner occupiers	31 December 2016			31 December 2015 Restated		
	Exposure (€m)	Average PD (%)	Average LGD (%)	Exposure (€m)	Average PD (%)	Average LGD (%)
Excellent	9,231	0.9%	15.8%	9,279	1.1%	15.3%
Satisfactory	1,430	5.6%	19.0%	1,463	6.4%	17.3%
Fair	1,043	15.7%	20.8%	1,203	16.7%	18.0%
Cured	392	10.3%	22.9%	384	18.0%	18.5%
Forborne	1,385	11.4%	21.4%	1,276	13.5%	20.1%

ROI: Buy-to-Let	31 December 2016			31 December 2015 Restated		
	Exposure (€m)	Average PD (%)	Average LGD (%)	Exposure (€m)	Average PD (%)	Average LGD (%)
Excellent	974	1.3%	28.0%	993	1.1%	29.7%
Satisfactory	2,675	2.1%	36.6%	2,400	2.3%	37.7%
Fair	430	16.5%	39.2%	830	9.1%	39.5%
Cured	137	7.1%	42.3%	204	14.7%	42.5%
Forborne	723	6.4%	40.0%	686	7.8%	40.8%

ROI: Consumer

The Group's non-residential portfolios include Term Lending (including Newbridge Credit Union), Credit Cards and Overdrafts and the tables below provide additional detail in respect of non-residential IBNR parameters:

Non-residential	2016			2015		
	Exposure (€m)	Average PD (%)	Average LGD (%)	Exposure (€m)	Average PD (%)	Average LGD (%)
Excellent	157	0.8%	69.9%	154	1.3%	66.1%
Satisfactory	51	1.6%	73.4%	50	4.2%	73.0%
Fair	33	4.9%	74.0%	28	6.5%	69.0%

Provision amounts calculated outside of the statistical models are excluded from the above. The LGD on the 'Fair' grade in the ROI residential mortgage portfolio is driven by a number of conservative scalars applied in respect over defaulted, multiple forborne etc.

Abbreviations and Definitions

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

ALCO Asset and Liability Committee
AFS Available For Sale
AMU Asset Management Unit
AT1 Additional Tier 1
AQR Asset Quality Review
BAC Board Audit Committee
BPIF Banking and Payments Federation Ireland
BRCC Board Risk and Compliance Committee
BTL Buy To Let
CA Comprehensive Assessment
CBI Central Bank of Ireland
CCMA Code of Conduct on Mortgage Arrears
CET 1 Common Equity Tier 1
CFH Cash Flow Hedge
CHL Capital Home Loans
CODM Chief Operating Decision Maker
CRD Capital Requirements Directive
CRE Commercial Real Estate
CRR Capital Requirements Regulation
CSA Credit Support Annex
CSO Central Statistics Office
CVA Credit Valuation Adjustment
DIRT Deposit Interest Retention Tax
DVA Debt Valuation Adjustments
EAD Exposure At Default
EBA European Banking Authority
ECB European Central Bank
ECL Expected Credit Loss
EIR Effective Interest Rate
ELG Eligible Liabilities Guarantee Scheme
EU European Union
EWI Early Warning Indicator
ExCo Executive Committee
FIA Financial Incentives Agreement
FVTPL Fair Value Through Profit or Loss
FX Foreign Exchange
GDP Gross Domestic Product
GIA Group Internal Audit
HFS Held For Sale
HFT Held For Trading
HL Home loan
HTM Held To Maturity
IAS International Accounting Standard
IASB International Accounting Standards Board
IBNR Incurred But Not Reported
ICAAP Internal Capital Adequacy Assessment Process
IFRIC International Financial Reporting Interpretations Committee
IFRS International Financial Reporting Standards
ILAAP Internal Liquidity Adequacy Assessment Process
IMF International Monetary Fund
IOM Isle of Man
IRB Internal Ratings Board

IRRBB Interest Rate Risk in the Banking Book
ISDA International Swap Dealers Association
LCR Liquidity Coverage Ratio
LGD Loss Given Default
LME Liability Management Exercise
LTRO Long Term Refinancing Operation
LTV Loan To Value
MART Mortgage Arrears Resolution Targets
MARS Mortgage Arrears Resolution Strategy
MREL Minimum Requirement for Own Funds and Eligible Liabilities
MTN Medium Term Note
NAMA National Asset Management Agency
NCU Newbridge Credit Union
NII Net Interest Income
NIM Net Interest Margin
NPL Non Performing Loan
NSFR Net Stable Funding Ratio
NTMA National Treasury Management Agency
OCI Other Comprehensive Income
OTC Over the counter
PBI Permanent Bank International Limited
PD Probability of Default
PPI Payment Protection Insurance
PTSB Permanent TSB plc
PTSBGH Permanent TSB Group Holding plc
PwC PricewaterhouseCoopers
RMBS Residential Mortgage Backed Securities
ROI Republic of Ireland
RPPI Residential Property Price Index
RWA Risk Weighted Assets
SBU Strategic Business Unit
SE Structured Entities
SFS Standard Financial Statement
SMBPN Special Mortgage Backed Promissory Note
SME Small & Medium Enterprises
SPE Special Purpose Entity
SREP Supervisory Review & Evaluation Process
SSM Single Supervisory Mechanism
UK United Kingdom
VAT Value Added Tax

AFS Available for sale ("AFS") are non-derivative financial investments that are designated as available for sale and are not classified as a (i) loan receivable (ii) held to maturity investments or (iii) financial assets at fair value through profit or loss.

Arrears Arrears relates to any interest or principal payment on a loan which has not been received on its due date. When customers are behind in fulfilling their obligations with the result that an outstanding loan is unpaid or overdue, they are said to be in arrears.

Basis point One hundredth of a per cent (0.01%), i.e. 100 basis points is 1%. It is the common unit of measure for interest rates and bond yields.

Basel III Basel III is a global, voluntary regulatory framework on bank capital adequacy, stress testing and market liquidity risk.

Brexit Is an abbreviation of the term "British Exit". It refers to the United Kingdom's withdrawal from the European Union.

Buy-To-Let Residential mortgage loan provided to purchase residential investment property to rent it out.

CET 1 ratio Ratio of a bank's core equity capital to its total risk-weighted assets.

Company Permanent TSB Group Holdings plc or PTSBGH

Commercial property Commercial property lending focuses primarily on the following property segments:
a) Apartment complexes;
b) Develop to sell;
c) Office projects;
d) Retail projects;
e) Hotels; and
f) Selective mixed-use projects and special purpose properties.

Common Equity Tier 1 (CET1) capital Common Equity Tier 1 (CET1) capital is recognised as the highest quality component of capital. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. It is predominately comprised of common shares; retained earnings; undistributed current year earnings; but may also include non-redeemable non-cumulative preferred stock.

Concentration risk The risk that any single (direct or indirect) exposure or group of exposures has the potential to produce losses large enough to threaten the institution's health or its ability to maintain its core business.

Contractual Maturity Date on which a scheduled payment is due for settlement and payable in accordance with the terms of a financial instrument.

Cost of risk ratio Annualised impairment charges divided by the average balance of net loans and advances to customers.

Cost to income ratio Total operating expense divided by total operating income.

Credit Default Risk The event in which companies or individuals will be unable to make the required payments on their debt obligations.

CRD Capital Requirements Directives ("CRD"): Statutory law implemented by the European Union for capital adequacy. CRD have introduced a supervisory framework in the European Union which reflects the Basel II and Basel III rules on capital measurement and capital standards.

Credit-related commitments

Commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the customers.

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

Credit Risk Mitigation Methods to reduce the credit risk associated with an exposure by the application of credit risk mitigants. Examples include: collateral; guarantee; and credit protection.

CVA Credit Valuation Adjustment ("CVA") is the difference between the risk-free portfolio value and the true portfolio value that takes into account the possibility of counterparty's default.

Customer accounts Money deposited with the Group by counterparties other than banks and classified as liabilities. This includes various types of unsecured deposits, credit current and notice accounts.

Debt securities Instruments representing certificates of indebtedness of credit institutions, public bodies and other undertakings. Debt securities can be secured or unsecured.

Debt securities in issue Transferable certificates of indebtedness of the Group to the bearer of the certificates. They include commercial paper, certificates of deposit, bonds and medium-term notes.

Default When a customer fails to make timely payment of interest or principal on a debt security or to otherwise comply with the provisions of a bond indenture. Depending on the materiality of the default, if left unmanaged it can lead to loan impairment.

DVA Debt Valuation Adjustments ("DVA") an adjustment made by an entity to the valuation of over-the-counter derivative liabilities to reflect within fair value the entity's own credit risk.

Eurozone The eurozone, is a monetary union of 19 of the 28 European Union (EU) member states which have adopted the euro (€) as their common currency and sole legal tender. The other nine members of the European Union continue to use their own national currencies. The eurozone consists of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

Exposure At Default Exposure at default ("EAD") is the gross exposure under a facility upon default of an obligor.

Fair value The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Forbearance Forbearance occurs when a borrower is granted a temporary or permanent concession or agreed change to a loan, for reasons relating to the actual or apparent financial stress or distress of that borrower. Forbearance strategies are employed in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid foreclosure or repossession. Such arrangements can include extended payment terms, a temporary reduction in interest or principal repayments, payment moratorium and other modifications.

Foreign currency exchange risk The risk that the volatility in earnings resulting from the retranslation of foreign currency (e.g. Sterling and US dollar) denominated assets and liabilities from mismatched positions.

GDP Gross Domestic Product ("GDP") is a monetary measure of the value of all final goods and services produced in a period of time (quarterly or yearly). GDP estimates are commonly used to determine the economic performance and standard of living of a whole country or region, and to make international comparisons.

Group Permanent TSB plc Group Holdings plc and its subsidiary undertakings.

Guarantee A formal pledge by the Group to pay debtor's obligation in case of default.

HTM Held to maturity ("HTM") non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Home loan A loan provided by bank, secured by the borrower's primary residence or second home.

Hybrid A combination of two or more forbearance arrangements.

Abbreviations and Definitions

(continued)

ICAAP Internal Capital Adequacy Assessment Process undertaken to ensure the Group is adequately capitalised against the risks in its business operations. The ICAAP is subject to review and evaluation by the regulatory authorities.

ILAAP Internal Liquidity Adequacy Assessment Process undertaken to ensure the Group has adequate liquidity against the risks in its business operations. The ILAAP is subject to review and evaluation by the regulatory authorities.

Impaired loans A loan is considered to be impaired, and therefore its carrying amount is adjusted to reflect the effect of impairment, when there is objective evidence that events have occurred which give rise to an adverse impact on the estimated future cash flows of the asset. Impaired provisions are calculated either individually on loans where significant, or on groups of loans assessed collectively. Impairment losses are recorded as charges to the income statement.

IRBA The Internal Ratings Based Approach ("IRBA") allows bank to use their own estimated risk parameters for the purpose of calculating regulatory capital for credit risk to estimate probability of default ("PD"), loss given default ("LGD"), exposure at default ("EAD"), maturity ("M") and other parameters required to arrive at the total risk weighted assets ("RWA").

ISDA Master Agreements A standard agreement used in over-the-counter derivatives transactions. The ISDA Master Agreement, published by the International Swaps and Derivatives Association (ISDA), is a document that outlines the terms applied to a derivatives transaction between two parties. Once the two parties agree to the standard terms, they do not have to renegotiate each time a new transaction is entered into.

Loan to deposit ratio The ratio of loans and receivables compared to customer accounts as presented in the statement of financial position.

LCR Liquidity Coverage Ratio: The ratio to ensure that bank has an adequate amount of high quality liquid assets in order to meet short-term obligations under a stress scenario lasting for 30 days. The LCR will be phased in over a number of years, with credit institutions obliged to hold 60% of their full LCR in 2015, (70%) in 2016, (80%) in 2017 and (100%) in 2018, as per CRD IV.

LGD Loss Given Default ("LGD") is the share of an asset that is lost when a borrower defaults on a loan.

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

LTV Loan To Value ("LTV") A lending risk assessment ratio of mortgage amount to value of property.

Market risk The risk of change in fair value of a financial instrument due to adverse movements in equity prices, property prices, interest rates or foreign currency exchange rates.

Medium term notes Medium term notes ("MTNs") are debt notes issued by the Group which usually mature in five to ten years. They can be issued on a fixed or floating coupon basis.

NAMA National Asset Management Agency ("NAMA") was established in 2009 as one of a number of initiatives taken by the Irish Government to address Irish Financial crisis and the deflation of the Irish bubble.

NII Net Interest Income ("NII") is the difference between interest earned on assets and interest paid on liabilities.

NIM Net Interest Margin ("NIM") is a performance metric that measures the difference between interest income generated on lendings and the amount of interest paid on borrowings relative to the amount of interest-earning assets.

NPLs Non-performing loans are defined as impaired loans, loans which are greater than 90 days in arrears, loans where the borrower is assessed as unlikely to repay the loan in full without the realisation of the collateral and loans which are deemed unlikely to pay as defined by the May 2013 CBI guidelines on impairment provisioning / EBA ITS.

NSFR Net Stable Funding Ratio ("NSFR") is designed to act as a minimum enforcement mechanism to complement the shorter term focused liquidity coverage ratio

Operational Risk The risks inherently present in the Group's business, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error, fraud, or from external events.

PD Probability of Default ("PD") is a financial term describing the likelihood that a borrower will be unable to meet its debt obligations.

Repurchase agreement A short term funding agreement that allows a borrower to create a collateralised loan by selling a financial asset to a lender. As part of the agreement, the borrower commits to repurchase the security at a date in the future repaying the proceeds of the loan. For the counterparty to the transaction, it is termed a reverse repurchase agreement or a reverse repo.

RMBS Residential Mortgage Backed Securities ("RMBS") are debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property.

RWAs Risk weighted assets ("RWAs") is a measure of amount of banks' assets or off-balance sheet exposures which are weighted according to risk on prescribed rules and formulas as defined in the under Basel Banking Accord.

Securitisation Securitisation is the process of taking an illiquid asset, or group of assets, and through financial engineering, transforming them into a security.

Settlement Risk The risk that the Group delivers a sold asset or cash to a counterparty and then does not receive the corresponding cash or purchased asset as expected.

SSM The Single Supervisory Mechanism ("SSM") is a mechanism which has granted the European Central Bank (ECB) a supervisory role to monitor the financial stability of banks based in participating states. The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe.

SME Small and medium enterprises.

SPE/SPV Special purpose entity ("SPE") is a legal entity which can be a limited company or a limited partnership created to fulfil specific or temporary objectives. SPEs are typically used by companies to isolate the firm from financial risk. This term is used interchangeably with SPV (Special Purpose Vehicle).

Stress testing A technique used to evaluate the potential effects on an institution's financial condition of an exceptional but plausible event and/or movement in a set of financial variables.

Structured securities Structured securities are complex lending arrangements created to meet needs that cannot be met from traditional financial instruments available in the markets, through the structuring of assets or debt issues in accordance with customer and/or market requirements. Structured debt securities have the potential to decrease risk, create liquidity, and increase yield.

Tier 1 capital Tier I capital is core capital; this includes equity capital and disclosed reserves.

Tier 2 capital Tier 2 capital is supplementary bank capital that includes items such as revaluation reserves, undisclosed reserves, hybrid instruments and subordinated term debt.

Tracker mortgage A mortgage which follows the Base Rate of interest set by the European Central Bank and will be fixed at a certain percentage above this rate.

