INTERIM REPORT

FOR THE SIX MONTHS ENDED

30 JUNE 2019

permanent tsb

Forward Looking Statements

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

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

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

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

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	Half year ended 30 June 2019	Half year ended 30 June 2018
	€m	€m
Total operating income	**210**	234
Total operating expenses (before exceptional, other non-recurring items and impairment charges)*	**(163)**	(161)
Underlying profit before impairment charge	**47**	73
Impairment charge on loans and advances to customers	**(5)**	-
Underlying profit*	**42**	73
Exceptional and other non-recurring items (net)	**(14)**	(16)
Profit before taxation	**28**	57
Taxation	**(7)**	(1)
Profit after taxation for the period	**21**	56

* See table 5 on page 11 for a reconciliation of underlying profit to operating profit on an IFRS basis.

Performance Metrics		
Net interest margin (NIM) (1)	**1.82%**	1.77%
Adjusted cost income ratio(2)	**69%**	61%
Return on equity (3)	**2%**	3%

Key Consolidated Balance Sheet and Funding Metrics	**30 June 2019**	31 December 2018
	€m	€m
Total shareholders' funds	**1,988**	1,980
Total assets	**20,476**	21,810
Total net loans and advances to customers	**15,806**	15,888
Total customer accounts	**17,371**	17,020
Loan to deposit ratio (LDR)(4)	**91%**	93%
Liquidity coverage ratio (LCR)(5)	**186%**	160%
Regulatory capital (transitional basis)		
Common equity tier 1 capital	**1,731**	1,768
Available regulatory capital	**1,877**	1,921
Risk weighted assets (RWAs)(6)	**10,306**	11,990
Common equity tier 1 ratio(7)	**16.8%**	14.7%
Total capital ratio (8)	**18.2%**	16.0%

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

Chief Executive Review

Introduction

In the first half of 2019, business performance continued to trend positively in line with expectations. The majority of legacy issues have now been dealt with. The Bank can now focus almost exclusively on its strategic priorities. The Bank has a strong foundation for profitable growth as evident from growth in lending volumes and its strong capital and liquidity position.

The Bank reported a profit after tax of €21 million in the first half of 2019.

Economic Environment

Economic growth in Ireland continues at pace. A key highlight is the labour market, with employment levels growing by c. 3%, bringing unemployment to an estimated 4.5% in 2019, the lowest level since February 2005. The rise in employment also brings wage inflation which is expected to be 3.4% in 2019, outstripping the general increases in prices, thereby resulting in higher household incomes. GDP is expected to grow by 4% in 2019, reflecting the buoyant labour market and slightly stronger consumer sentiment; this is offset, in part, by slower than expected housing completions and softer underlying business investment. While the housing market has continued to grow, the pace of growth has been slightly slower than expected due to constrained housing supply, for both new and second-hand properties. That said, it is expected that mortgage drawdowns in Ireland will exceed €10 billion in 2019. Whilst Brexit uncertainties continue to remain, our business is not directly impacted, however any negative impact on the Irish economy could, in turn, have an adverse impact on the Bank.

Business Performance Overview

Overall business performance for the first half of this year showed good progress which is a reflection of the renewed focus on customer and business growth as we transition away from an organisation which has been principally focused on resolving legacy issues.

We maintain a robust deposit base while managing the cost of funds in line with a continuing low interest rate environment. At 30 June 2019, total deposits (including current accounts) amounted to €17.4 billion representing 95% of our funding base.

New lending volumes of €0.7 billion were approximately 22% higher than the same period in 2018. Mortgage lending, which grew by 18% year-on-year, contributed over 85% of total new lending. The Bank's mortgage market share of 14.7% in the first half of 2019 increased from 13.8% for the first half of 2018. Whilst the mortgage market has become very competitive, we have preserved price discipline and made process improvements to deliver a better customer experience.

Personal term lending grew by 16% year-on-year, with an increase of more than 40% in term lending via the direct channel (mobile, desktop and voice). SME lending grew by 259%, a significant improvement on the previous year, albeit from a low base.

Financial Performance Overview

Operating Profit

The Group recorded a total profit after tax for the first half of the year of €21 million which compares to €56 million for the same period in 2018.

Overall Net Interest Income has reduced by 6% year on year as a result of reduced income from non-performing loans (NPLs) due to loan sales in 2018 and lower treasury income. Performing loan book income has grown by 3% year-on-year which, together with the continued management of cost of funds, supports a NIM of 1.82%. Overall, we expect NIM to remain stable through 2019.

Net Fees and Commission Income is broadly in line with the prior year.

Net Other Income of €12m primarily relates to gains on the sale of Properties In Possession. Year-on-year, Net Other Income has reduced by 45% as 2018 reported one off gains from treasury activity.

Operating Expenses (Excluding Exceptional, Non-Recurring Items and Regulatory Charges)

We are working to transform the Bank's approach to efficiency and effectiveness through a multitude of dimensions including: culture, technology infrastructure and business model.

In this regard, whilst Total Operating Expenses (excluding Exceptional, Non-Recurring Items and Regulatory Charges) of €145 million for the first half of the year increased marginally by €2 million from €143 million in 2018, this masks the savings initiatives that were delivered to ensure that investment is paid for within its cost base. This is a key principle that will underpin the strategic choices that are made over the coming years.

The adjusted Cost Income Ratio (excluding Exceptional, Non-Recurring Items and Regulatory Charges) increased from 61% to 69% for the first half of 2019.

Digital Transformation Programme

The Bank's Digital Transformation Programme is a key enabler of delivering profitable growth, improving customer journeys and, supporting the delivery of an efficient and effective Bank. In this regard, we have selected four experienced partners to support the Digital Transformation Programme, including: EY for Business Integration; Infosys Finacle for Systems Integration and Digital Platform; Baltic Technology Group for support in renovating the Core Banking platform; and, Novabase for support in renovating the Mortgage Servicing platform.

It is significant that the Bank's digital offering is being well received by its customers; we have more than 300k active customers using the Mobile App for their banking requirements, with 27 million successful account log-ins to the App in the first half of this year.

As we progress further with the Digital Transformation Programme, we continue to enhance the customer journey. For example, we are planning to launch Credit Card and Overdraft End To End Application In App in the second half of 2019.

In addition, we have launched a new Mortgage Broker Portal where Intermediary partners can now track applications through the mortgage application to payout journey. This shows significant progress in strengthening our relationship with Intermediaries, differentiating us from peers.

Impairment Charge

The total Impairment Charge for the first half of 2019 was €5 million. This compares to a nil charge for the same period in 2018. The underlying loan book is performing well reflecting stability of the portfolio and the current macroeconomic environment.

NPLs

Non-performing loans of €1,685 million remain broadly in line with balances at 31 December 2018. The NPL ratio remains at 10%. The Bank continues to manage actively the NPL portfolio and is committed to reducing the NPL ratio to mid-single digits in the medium term.

Capital

Following both the completion of Project Glas and the clarity received in relation to the capital treatment on the Glenbeigh securitisation in the first quarter of 2019, the Pro-Forma CET1 capital ratio reported at 31 December 2018 was 14.0% and 17.0% on a Fully Loaded and Transitional basis, respectively.

At 30 June 2019, the Common Equity Tier 1 (CET1) capital ratio was 14.4% and 16.8%, on a Fully Loaded and Transitional basis respectively. This compares to the Bank's reported CET1 ratio of 12.2% and 14.7% at 31 December 2018, on a Fully Loaded and Transitional basis respectively.

Capital ratios remain strong and well above both Management and Regulatory minima.

Culture

Evolving the Bank's Organisational Culture continues to be a key strategic priority as a critical enabler in rebuilding trust with customers and continuing to deliver commercial growth. We have made significant progress in the evolution of the Bank's culture through an Organisational Culture Programme that has delivered a number of key interventions including: the launch of our refreshed Banking Blueprint; a Diversity & Inclusion (D&I) Strategy; and, a Speak Freely Framework.

The Banking Blueprint describes who we are and how we work together resulting in a more sustainable and valuable organisation. It codifies and shapes the culture of PTSB, and supports the delivery of Fair Customer Outcomes by connecting and engaging with every colleague such that the 'PTSB Way' is commonly understood.

The Diversity & Inclusion Strategy Programme is essential to the Bank nurturing different perspectives; encouraging open dialogue and new ideas in a trusting and respectful environment; and, enabling us to connect with customers and employees. A diverse and inclusive workforce is the critical enabler of a high-performance culture.

The Speak Freely Framework codifies the aspiration for all colleagues to raise issues, opportunities and concerns in a safe environment. It is only by building a culture of transparency can we deliver fair outcomes for all stakeholders.

As we move into the second half of the year, we will continue to focus on improving further our culture to deliver our vision to be The Bank of Choice.

Customers

Delivering fair customer outcomes is a key strategic priority for the Bank and is paramount to the success of our Business. We continue to focus on improving the customer experience and responding to the evolving needs of customers by improving both human and digital propositions. For example, we now have over 100 mobile staff available to meet customers at a time and place of their choosing. We are committed to further investment in all areas of the customer experience.

Summary And Outlook

In the first half of 2019, we continued to maintain strong business momentum with lending volumes growing across mortgage, consumer finance and SME markets. We have increased our year-on-year market share in mortgage lending while maintaining price discipline.

In addition, we maintain capital levels comfortably above the required regulatory and management minima. This positions the Bank for investment, profitable growth and the continued reduction in NPLs over the medium term.

As we close out the first half of the year, I am confident that the Bank is showing progress in its underlying business. We will continue to build a Retail and SME Bank that is focused on delivering fair outcomes for its customers and quality earnings for its shareholders. We will be The Bank Of Choice.

Jeremy Masding

Jeremy Masding
Chief Executive
24 July 2019

Financial Review

Basis of preparation

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

The Group has a tightly drawn accounting policy for exceptional items (see note 1 of the Group's 2018 Annual Report) and exceptional items are considered to include:

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

However, from time to time certain material non-recurring items occur which do not meet the definition of exceptional items as set out in the accounting policy. To assist the users of the financial statements and to ensure consistency in reporting with other financial institutions, these items are disclosed separately from underlying profit in the financial review. These items are clearly identified as non Generally Accepted Accounting Principles (GAAP) items and reconciled back to the IFRS income statement. In first six months of 2019, the only such item was €3m relating to increased costs in respect of the Group's legacy legal compliance investigations with the Central Bank of Ireland (CBI). This was excluded from underlying profit because these additional costs related to significant one off historic events and are not in respect of trading in 2019.

A reconciliation between the underlying profit and operating profit on an IFRS basis is set out on page 11.

Basis of calculation

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

Management performance summary condensed consolidated income statement

	Half year ended 30 June 2019	Half year ended 30 June 2018
	€m	€m
Net interest income	**181**	193
Net fees and commissions income	**17**	19
Net other income	**12**	22
Total operating income	**210**	234
Total operating expenses (excl. exceptional, other non-recurring items and regulatory charges)*	**(145)**	(143)
Regulatory charges	**(18)**	(18)
Underlying profit before impairment	**47**	73
Impairment charge on loans and advances to customers	**(5)**	-
Underlying profit	**42**	73
Exceptional and other non-recurring items (net) comprises	**(14)**	(16)
Restructuring and other costs	**(12)**	(1)
Impairment on deleveraging on non-performing loans	**1**	-
Legacy legal compliance CBI investigations costs	**(3)**	(15)
Profit before taxation	**28**	57
Taxation	**(7)**	(1)
Profit for the period	**21**	56

*See table 5 on page 11 for a reconciliation of underlying profit to operating profit on as IFRS basis.

Financial performance headlines

- **Underlying profit** has decreased to €42m for the period ended 30 June 2019 from €73m for 30 June 2018 primarily due to a reduction in net interest income, a reduction in other income, an increase in impairment charge and a modest increase in total operating expenses.

- **Net interest income** decreased by €12m for the first six months to 30 June 2019 to €181m. This is due to deleveraging of non-performing loans and advances to customers in the second half of 2018 which is partially offset by a decrease in interest expense in customer accounts as a result of a reduction in average market interest rates.

- **Net fees and commissions income** decreased by €2m to €17m during the period ended 30 June 2019. This is due to a reduction in overdraft fees.

- **Net other income** decreased by €10m to €12m during the period ended 30 June 2019. The reduction is due to certain one off gains recognised on the sale of legacy treasury structures in the first half of 2018. Of the €12m gain in the period ended 30 June 2019, €9m relates to gains as a result of sales of the Group's properties in possession and €3m relates to gains on Mark-to-Market (MTM) movement on treasury assets.

- **Operating expenses** (excluding exceptional and other non-recurring items) increased by €2m from 30 June 2018 to €145m for the period ended 30 June 2019. The movement is primarily due to an increase in staff costs.
- **Impairment** is €5m for the period ended 30 June 2019, this compared to a charge of €nil for the period ended 30 June 2018. The impairment charge reflects the stability of the portfolio and the current macroeconomic environment.
- **Exceptional and other non-recurring items** are €14m for the first half of 2019. This comprises a €12m charge relating to phase 2 of the Group's voluntary severance scheme which was announced during 2018 and a €3m charge relating to increased costs in respect of the Group's legacy legal compliance investigations with the CBI offset by an impairment release relating to deleveraging of NPLs.

Net interest income (NII)	NIM
€181m	1.82%

Interest income decreased by €24m during the period ended 30 June 2019. Interest income primarily comprises income on loans and advances to customers, and debt securities and derivative assets.

- Interest income on loans and advances to customers decreased by €24m for the six month period to 30 June 2019. The decrease is primarily driven by deleveraging of the non-performing loan book in 2018.

Interest expense decreased by €12m during the period ended 30 June 2019. Interest expense primarily comprises interest incurred on customer accounts, deposits by banks, debt securities in issue and derivative liabilities.

- Interest expense on customer accounts has decreased by €7m for the 6 month period ended 30 June 2019. This is due to a reduction in interest rates on customer accounts due to a lower interest rate environment.
- Interest expense on debt securities in issue and derivative liabilities has decreased by €4m for the six month period ended 30 June 2019. This is due to a reduction in the cost of funding required due to deleveraging of NPLs.

The following table sets out the average balances of interest-earning assets and interest-bearing liabilities for the periods ended 30 June 2019 and 30 June 2018. The table also outlines the amount of interest income earned and interest expense incurred by the Group in the six month period ended 30 June 2019 and 30 June 2018, 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 2018 to 30 June 2019 and similar for the comparative period.

Table 1: Average balance sheet

	Half year ended 30 June 2019			Half year ended 30 June 2018		
	Average Balance	**Interest**	**Average Yield/Rate**	Average Balance	Interest	Average Yield/Rate
	€m	**€m**	**%**	€m	€m	%
Interest-earning assets						
Loans and advances to customers	**15,838**	**190**	**2.42%**	18,168	214	2.38%
Debt securities and derivative assets	**2,563**	**20**	**1.57%**	2,307	21	1.84%
Loans and advances to banks	**1,588**	**1**	**0.13%**	1,424	-	-
Total average interest-earning assets	**19,989**	**211**	**2.13%**	21,899	235	2.16%
Interest-bearing liabilities						
Customer accounts	**17,167**	**21**	**0.25%**	16,998	28	0.34%
Deposits by banks	**958**	**1**	**0.21%**	2,020	2	0.20%
Debt securities in issue and derivative liabilities	**860**	**6**	**1.41%**	1,522	10	1.32%
Loans and advances to banks	**-**	**2**	**-**	-	2	-
Subordinated liabilities	**-**	**-**	**-**	23	-	-
Total average interest-bearing liabilities	**18,985**	**30**	**0.32%**	20,563	42	0.41%
Total average equity attributable to owners	**2,065**			2,104		
Net Interest Margin	**1.82%**			1.77%		

Average interest-earning assets

- The average balances on loans and advances to customers reduced by €2,330m and the average interest rate increased by 4bps. These movements are driven by deleveraging of the non-performing loan book in the second half of 2018, the natural reduction of the loan book due to loan repayments exceeding new lending and the effect of reductions to the Group's fixed rate products.
- The average balances on debt securities and derivative assets increased by €256m for the period ended 30 June 2019 to €2,563m from €2,307m at 30 June 2018. This increase is primarily due to the purchase of debt securities during the second half of 2018 offset by maturities of debt securities during 2019. The average interest rate decreased from 1.84% for the period ended 30 June 2018 to 1.57% for the period ended 30 June 2019. This is due to the purchase of lower yielding Irish Government bonds in 2019 which replaced higher yielding treasury assets that have matured.

Average interest-bearing liabilities

- The average interest rate on customer accounts decreased to 9 bps for the period ended 30 June 2019 from 0.34% for the period ended 30 June 2018, reflecting rate reductions on both retail and corporate deposits during 2018 and 2019. The average balance of customer accounts increased by €169m for the period ended 30 June 2019 from €16,998m to €17,167m, reflecting continued market trends towards savings.
- The average balance of deposits by banks decreased from €2,020m for the period ended 30 June 2018 to €958m for the period ended 30 June 2019 due to a reduction of funding required as a result of deleveraging of the non-performing loan book.
- The average balances of debt securities in issue and derivative liabilities for the period ended 30 June 2019 was €860m compared to €1,522m for the period ended 30 June 2018. This movement is due to the maturity of certain medium-term notes, the natural reduction of asset backed securities (ABS), and acceleration of redemption of external ABS reflecting changes in the funding requirements of the Group.

Net fees and commissions and other income
€29m

The following table sets out the components of the Group's net fees and commissions and other income in the periods ended 30 June 2019 and 30 June 2018.

Table 2: Net fees and commissions and other income

	Half year ended 30 June 2019	Half year ended 30 June 2018
	€m	€m
Net fees and commission income	**17**	19
Net other income	**12**	22
Total net other income	**29**	41

Net fees and commission income of €17m for the period ended 30 June 2019 decreased by €2m. This is due to a reduction in overdraft fees.

Net other operating income of €12m for the period ended 30 June 2019 decreased by €10m compared to the six months ended 30 June 2018. The reduction is due to certain one off gains recognised on the sale of legacy treasury structures in the first half of 2018. Of the €12m gain in the period ended 30 June 2019, €9m relates to gains as a result of sales of the Group's properties in possession and €3m relates to gains on MTM movement on treasury assets.

Total operating expenses (excluding exceptional and other non-recurring items)
€163m

The following table sets out the components of the Group's total operating expenses (excluding exceptional and other non-recurring items) in the periods ended 30 June 2019 and 30 June 2018.

Table 3: Operating expenses

	Half year ended 30 June 2019 €m	Half year ended 30 June 2018 €m
Staff Costs:		
Wages and salaries including commission paid to sales staff	**64**	62
Social insurance	**7**	7
Pension costs	**6**	6
Total staff costs	**77**	75
General and administrative expenses	**51**	56
Administrative, staff and other expenses	**128**	131
Depreciation of property and equipment	**11**	6
Amortisation of intangible assets	**6**	6
Total operating expenses (excluding exceptional, other non-recurring items and regulatory charges)	**145**	143
Regulatory charges	**18**	18
Total operating expenses (excluding exceptional and other non-recurring items)	**163**	161
Headline cost to income ratio*	**78%**	69%
Adjusted cost to income ratio**	**69%**	61%

*Defined as total operating expenses (excluding exceptional and other non-recurring items) divided by total operating income.
**Defined as total operating expenses (excluding exceptional, other non-recurring items and regulatory charges) divided by the total operating income.

Total operating expenses (excluding exceptional and other non-recurring items) increased by €2m from €161m for the period ended 30 June 2018 to €163m for the period ended 30 June 2019.

Staff Costs
Total staff costs have increased by €2m for the period ended 30 June 2019 compared to the period ended 30 June 2018.

General and administrative expenses
General and administrative expenses decreased by €5m for the period ended 30 June 2019 to €51m. This is primarily due to changes in accounting policy for leases resulting from IFRS 16. General and administration expenses for the period ended 30 June 2018 included €4m operating lease rentals on land and buildings and vehicles. For further details see note 22.

Depreciation of property and equipment
The depreciation of property and equipment increased by €5m for the period ended 30 June 2019 from €6m for period ended 30 June 2018. This is relating to the changes in accounting policy from IFRS 16, resulting in increased right-of-use assets. For further details see note 22.

Impairment
€5m

The table below sets out the components of the Group's impairment charge in the periods ended 30 June 2019 and 30 June 2018.

Table 4: Impairment

	Half year ended 30 June 2019 Total €m	Half year ended 30 June 2018 Total €m
Total impairment charge on loans and advances to customers	**5**	-
Total impairment charge on loans and advances to customers	**5**	-

Impairment is €5m (before exceptional items, see table 5 on the following page) for the period ended 30 June 2019, this compared to a charge of €nil for the period ended 30 June 2018. The impairment charge reflects the stability of the portfolio and the current macroeconomic environment.

Exceptional and other non-recurring items
€14m

Exceptional and other non-recurring items for the period ended 30 June 2019 comprise a €12m charge relating to phase 2 of the Group's voluntary severance scheme which was announced during 2018 and a €3m charge relating to increased costs in respect of the Group's legacy legal compliance investigations with the CBI. This is offset by an impairment release of €1m relating to deleveraging of NPLs.

Financial Review

The table below outlines the adjustments to bring the management income statement in line with the IFRS income statement for the periods ended 30 June 2019 and 30 June 2018 respectively. Underlying profit in the management income statement is stated before exceptional and other non-recurring items whereas operating profit in the IFRS income statement is stated after these items.

Table 5: Exceptional and other non-recurring items

	Half year ended 30 June 2019	Half year ended 30 June 2018
	€m	€m
Operating profit per IFRS income statement	**28**	57
Other exceptional items in IFRS total operating expenses	**12**	1
Exceptional impairment in IFRS credit impairment loss	**(1)**	-
Legacy legal compliance CBI investigations costs*	**3**	15
Underlying profit per management income statement	**42**	73

*Included in IFRS administrative, staff and other expenses.

Summary condensed consolidated statement of financial position

	30 June 2019	31 December 2018
	€m	€m
Assets		
Home loans	**12,039**	12,040
Buy-to-let	**3,316**	3,418
Total residential mortgages	**15,355**	15,458
Commercial mortgages	**129**	123
Consumer finance	**322**	307
Total loans and advances to customers (net of provisions)	**15,806**	15,888
Loans and advances to banks	**1,698**	1,159
Debt securities	**2,136**	2,647
Equity securities	**17**	13
Other assets	**716**	1,953
Assets held for sale	**103**	150
Total assets	**20,476**	21,810
Liabilities and equity		
Current accounts	**4,456**	4,147
Retail deposits	**10,440**	10,648
Corporate & institutional deposits	**2,475**	2,225
Total customer accounts	**17,371**	17,020
Deposits by banks and other financial institutions	**206**	1,552
Debt securities in issue	**729**	1,095
Other liabilities	**182**	163
Total liabilities	**18,488**	19,830
Total equity	**1,988**	1,980
Total equity and liabilities	**20,476**	21,810

Total assets decreased by €1,334m or 6% to €20,476m during the period year ended 30 June 2019. This is primarily due to a reduction in debt securities from the maturity of Irish Government bonds and the reduction in other assets as a result of the payment of a loan sale receivable due from the purchaser of the Glas portfolio. This decrease is offset by an increase in loans and advances to banks from placements with central banks due to cash held as a result of the maturity of debt securities.

Total liabilities decreased by €1,342m or 7% to €18,488m during the half year ended 30 June 2019. This is primarily driven by a reduction in funding from repo transactions due to the strong liquidity position of the Group and a reduction in principle in external ABS issued. This decrease is offset by an increase in current accounts reflecting continued market trends towards saving.

Financial Review

Assets

The following table outlines the Group's loans and advances to customers as at 30 June 2019 and 31 December 2018.

Table 6 (a): Loans and advances to customers

	30 June 2019	31 December 2018
Residential mortgages:	**€m**	€m
Home loans	**12,403**	12,413
Buy-to-let	**3,904**	4,003
Total residential mortgages	**16,307**	16,416
Commercial	**171**	165
Consumer finance	**349**	335
Total loans and advances to customers measured at amortised cost	**16,827**	16,916
Of which are reported as non-performing loans	**1,685**	1,696
Deferred fees, discounts and hedging adjustments	**60**	55
Provision for impairment losses	**(1,081)**	(1,083)
Total loans and advances to customers	**15,806**	15,888

Gross loans and advances to customers decreased by €89m in the period ended 30 June 2019. This is due to the level of redemptions exceeding new lending.

Total new lending
€713m

Total new lending for the six month period ended 30 June 2019 amounted to €713m (30 June 2018: €585m); this represents a 22% period-on-period increase. New residential mortgage lending for the six month period ended 30 June 2019 was €610m (30 June 2018: €516m); this reflects a 18% growth period-on-period with the Group increasing its market share of year to date mortgage drawdowns from 13.8% to 14.7%. In addition, the Group has increased personal lending by 16%, from €61m for the six month period ended 30 June 2018 to €71m for the period ended 30 June 2019; driven by a combination of improvements in the Group's digital offering channel and market growth. SME lending increased from €9m for the six month period ended 30 June 2018 to €31m for the period ended 30 June 2019. The significant increase, albeit from a low base, is mainly driven by secured lending.

NPLs	**NPLs as a % of gross loans**
€1,685m	**10%**

The following table outlines the Group's NPLs as at 30 June 2019 and 31 December 2018.

Table 6 (b): NPLs

	30 June 2019	31 December 2018
	€m	€m
Home loans	**1,068**	1,100
Buy-to-let	**546**	516
Commercial	**48**	55
Consumer Finance	**23**	25
Non-performing loans	**1,685**	1,696
NPLs as % of gross loans	**10%**	10%
Foreclosed assets*	**102**	148
Non-performing assets (NPAs)**	**1,787**	1,844
NPAs as % of gross loans	**11%**	11%

*Foreclosed assets are defined as assets held on the balance sheet which are obtained by taking possession of collateral or by calling on similar credit enhancements.
** Non-performing assets are defined as NPLs plus foreclosed assets.

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

NPLs reduced by €11m to €1,685m for the period ended 30 June 2019.

The following table outlines the Group's debt securities as at 30 June 2019 and 31 December 2018.

Table 7: Debt securities

	30 June 2019	31 December 2018
	€m	€m
Government bonds	2,093	2,603
Corporate bonds	43	44
Total debt securities	**2,136**	2,647

During the period ended 30 June 2019, the debt securities portfolio decreased by €511m from €2,647 at 31 December 2018 due to maturities of a number of Irish Government bonds.

Liabilities

The following table outlines the Group's customer accounts as at 30 June 2019 and 31 December 2018.

Table 8: Customer Accounts

	30 June 2019	31 December 2018
	€m	€m
Term deposits	7,276	7,320
Demand deposits	3,742	3,724
Current accounts	4,456	4,147
Notice and other accounts	1,897	1,829
Total customer accounts	**17,371**	17,020

At 30 June 2019, customer accounts increased to €17,371m, an increase of €351m compared to 31 December 2018, primarily due to an increase in current accounts reflecting continued market trends towards savings. This is complimented by the Group's competitive pricing policies and strong service levels offset by the reductions in the term deposits.

The following table outlines the Group's deposit by banks as at 30 June 2019 and 31 December 2018.

Table 9: Deposits by banks

	30 June 2019	31 December 2018
	€m	€m
Placed by other banks and institutions on repurchase agreements	205	1,551
Other	1	1
Total deposits by banks	**206**	1,552

During the period ended 30 June 2019, deposits by banks decreased by €1,346m to €206m, compared to €1,552m at the year ended 31 December 2018. This decrease is primarily due to decreases of repurchase agreements of notes issued by special purpose entities retained by the Group.

The following table outlines the Group's debt securities in issue as at 30 June 2019 and 31 December 2018.

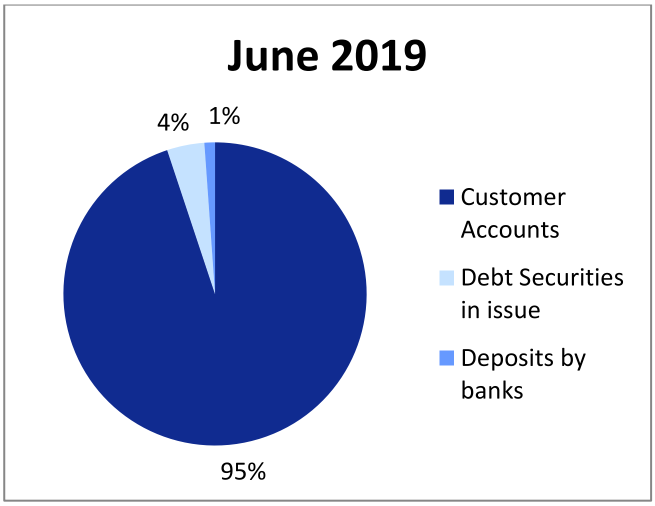
Table 10: Debt Securities in Issue

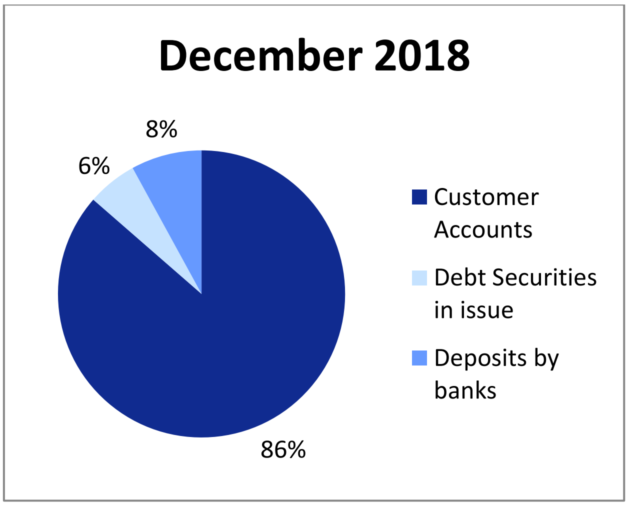
	30 June 2019	31 December 2018
	€m	€m
Bonds and medium-term notes	17	18
Non-recourse funding	712	1,077
Total debt securities in issue	**729**	1,095

Debt securities in issue decreased by €366m in the period ended 30 June 2019 primarily due to the reduction in external ABS issued and acceleration of redemption of an external ABS reflecting changes in the funding requirements of the Group.

Funding profile

The following graphs show the Group's funding profile as at 30 June 2019 and 31 December 2018:





For the period ended 30 June 2019, customer accounts amounted to €17,371m, which made up 95% of total funding, compared to 86% for the period ended 31 December 2018. The remaining funding requirements comprise of debt securities in issue of €729m and deposits by banks (on repurchase agreements) at €206m.

Following the successful execution of the Glas and Glenbeigh NPL strategy transactions the Group was carrying excess liquidity through cash reserves held with the CBI. The excess liquidity facilitated the repayment of the Capital Market sourced repo funding. This combined with the acceleration of the redemption of external securitisation has resulted in the relative increase in customer deposit funding. As the Group plans to issue senior unsecured debt to meet Minimum Requirement for own funds and Eligible Liabilities (MREL) requirements and market facing securitisations through the Fastnet programme in the medium term the deposit concentration is anticipated to be diluted.

All non-recourse funding is repayable after five years. Customer deposits along with deposits by banks are predominantly short term in nature, being less than one year. Further details on the maturity profile of these deposits are provided in note 26.

Regulatory capital

PTSBGH's regulatory (transitional) and fully loaded capital position as at 30 June 2019 and 31 December 2018 under Capital Requirements Directive IV (CRD IV) / Capital Requirements Regulation (CRR) is summarised as follows:

Table 11: Regulatory capital - capital position

	30 June 2019		31 December 2018	
	Transitional	**Fully loaded**	Transitional	Fully loaded
	€m	**€m**	€m	€m
Capital resources:				
Common equity tier 1*	**1,731**	**1,478**	1,768	1,456
Additional tier 1**	**82**	**88**	87	95
Tier 1 capital	**1,813**	**1,566**	1,855	1,551
Tier 2 capital**	**64**	**64**	66	66
Total capital	**1,877**	**1,630**	1,921	1,617
Risk weighted assets	**10,306**	**10,287**	11,990	11,966
Capital ratios:				
Common equity tier 1 capital	**16.8%**	**14.4%**	14.7%	12.2%
Tier 1 capital***	**17.6%**	**15.2%**	15.5%	13.0%
Total capital	**18.2%**	**15.8%**	16.0%	13.5%
Leverage ratio******	**8.8%**	**7.7%**	8.4%	7.1%

*The 2019 Interim Profit is reflected in PTSBGH's capital ratios calculations. The application for the inclusion of the Interim Profit in the regulatory capital metrics is being sought under Article 26 (2) of the CRR.
**The amount of Additional tier 1 capital and tier 2 instruments included within the consolidated capital of the holding company is restricted within the limits laid down under the CRR.
***The Tier 1 capital ratio is the ratio of PTSBGH's common equity and Additional tier 1 capital to its RWAs.
****The leverage ratio is calculated by dividing Tier 1 Capital by gross balance sheet exposures (total assets and off balance sheet exposures).

Table 12: Regulatory capital – CET 1capital

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

	30 June 2019		31 December 2018	
	Transitional	**Fully Loaded**	Transitional	Fully Loaded
	€m	**€m**	€m	€m
Total equity	**1,988**	**1,988**	1,980	1,980
Less: AT1 capital	**(122)**	**(122)**	(122)	(122)
Captive insurance equity*	**(9)**	**(9)**	(9)	(9)
Adjusted capital	**1,857**	**1,857**	1,849	1,849
Prudential Filters:				
Intangibles	**(43)**	**(43)**	(41)	(41)
Deferred Tax	**(172)**	**(339)**	(143)	(344)
IFRS9 (Transitional adjustment)**	**86**	**-**	111	-
Others	**3**	**3**	(8)	(8)
Common equity tier 1	**1,731**	**1,478**	1,768	1,456

*Irish Permanent Property Company dac which was established as a Captive insurance entity.
**The CET1 transitional impact to the Group as a result of EU Regulation 2017/2395 mitigating the impact of the introduction of IFRS 9 on own funds.

PTSBGH's regulatory (transitional) common equity tier 1 (CET1) ratio at 30 June 2019 is 16.8%. This has increased by (+2.1ppts) since 31 December 2018 reflecting the net impact of a reduction in credit RWAs (+2.4ppts) predominantly due to deleveraging of NPLs. This was partially offset by a reduction in CET1 capital (-0.3ppts) mainly due to an increase in the deferred tax prudential filter and IFRS9 transitional deductions (-0.5ppts) and June year to date profit after tax (+0.2ppts).

The fully loaded CET1 ratio is 14.4% at 30 June 2019 (31 December 2018: 12.2%).

The regulatory (transitional) total capital ratio of 18.2% at 30 June 2019 is (+2.2ppts) higher than the position at 31 December 2018 of 16.0% and the fully loaded position has increased by (+2.3ppts) to 15.8% (31 December 2018: 13.5%).

Transitional CET1 capital resources are €1,731m at 30 June 2019. This has reduced by (-€37m) since December 2018 primarily due to an increase in the deferred tax prudential filter and IFRS 9 transitional deductions (-€54m), AT1 Coupon, intangible assets and other (-€11m) and June YTD profit after tax (+€28m). Transitional total capital is further impacted by (-€7m) due to a decrease in qualifying additional tier 1 debt and tier 2 capital.

PTSBGH's has elected to apply the transitional arrangement related to IFRS 9 which partially mitigates the impact on own funds. This involves a capital add back of a portion of the increase in impairment loss allowance on transition to IFRS 9 and also any subsequent increase in the stage 1 and 2 loss allowances at future reporting dates. The transition period is for five years, with an 85% add-back allowed in 2019 (95% in 2018), decreasing to 70%, 50% and 25% in subsequent years.

The leverage ratio on a transitional basis at 30 June 2019 of 8.8% (31 December 2018 of 8.4%) has increased primarily due to deleveraging of NPLs.

PTSBGH's 2019 Supervisory Review and Evaluation Process (SREP) require that PTSBGH maintain a minimum CET1 ratio of 10.45% and Total Capital ratio of 13.95% on a transitional basis.

Effective 5 July 2019, the CET1 and Total Capital requirements will increase by +1% due to the introduction of the countercyclical buffer (CCyB).

Risk Management

1. Group Risk Management and Governance

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

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

The Group implements a Risk Management Process, which consists of 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 Risks), and Non-Financial Risk (including Operational & IT, Regulatory Compliance, Conduct, Strategic, Reputational, Volatility and Other Risks). The GRMF describes the Group-wide approach to the identification, assessment, mitigation, monitoring and reporting of risk across the outlined risk categories. The Group manages, mitigates, monitors and reports its risk exposure through a set of Risk Management Processes, activities and tools.

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

Risk Appetite and Strategy

The Board sets the overall policy in relation to the type and level of risk that the Group is willing to assume. To achieve this, the Board has established a formal Group RAS supported by a Risk Appetite Framework (RAF) which outlines the principles and processes underpinning the development of the RAS and its implementation, including its governance structure and relevant roles and responsibilities. The 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 Strategy. It includes qualitative statements as well as quantitative measures expressed relative to Viability, Capital, Liquidity and Funding and other relevant measures as appropriate.

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

Risk Governance

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

- 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; 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 Management

Risk Governance Structure

Key Risk Governance Roles and Responsibilities

Governance Forum/Role	Key Responsibilities
Board Ultimately responsible for the Group's business strategy, financial soundness, key personnel decisions, internal organisation, governance structure and practices, Risk Management and compliance obligations.	A key role of the Board is to ensure that risk and compliance are properly managed in the business. Key risk responsibilities of the Board include, but are not limited to: • Understanding the risks to which the Group is exposed and establishing a documented RAS for the Group; • Defining the strategy for the on-going management of material risks; and • Ensuring that there is a robust and effective internal control framework that includes well-functioning Risk Management, compliance and internal audit functions as well as an appropriate financial reporting and accounting framework.
Board Risk and Compliance Committee (BRCC) Oversees and provides advice to the Board on risk governance and the current and future risk exposures tolerance/appetite and strategy, and oversees the implementation of that strategy by Senior Management. This includes the strategy for capital and liquidity management, the setting of risk and compliance policies and the embedding and maintenance throughout the Group of a supportive culture in relation to the management of risk and compliance.	The Committee supports the Board in carrying out its responsibilities of ensuring that risks are properly identified, assessed, mitigated, monitored and reported, and that the Group is operating in line with its approved Risk Appetite. Key activities of the BRCC include, but are not limited to: • Reviewing and making recommendations to the Board on the Group's risk profile, both current and emerging, encompassing all relevant risk categories as described in the Risk Management Framework; • Reviewing and making recommendations to the Board in relation to the Group's RAF and RAS, and the Group Recovery Plan; • Monitoring and escalating positions outside the RAS to the Board, within agreed timeframes and approving and overseeing proposed Remediation Plans aimed at restoring the Group's risk profile to within the approved Risk Appetite; • Reviewing and approving the key components of the Group's Risk Management Architecture (GRMA) and relevant supporting documents; • Communicating all issues of material reputational risk directly to the Board; • To review and approve Credit Policy, Credit related strategy and any material amendments to Credit Policy; • Reviewing and making recommendations to the Board on the adequacy of capital and liquidity in the context of the Group's current and planned activities (via reviewing relevant outputs from Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP)), including in relation to proposed mergers, acquisitions or disposals; and • Promoting a sound risk culture across the Group.
Executive Committee (ExCo) ExCo is the Senior Management Executive Committee for the Group, and is the: • Custodian of the Group's collective Management	In the context of Risk Management, ExCo is primarily responsible for, but not limited to: • Implementing the GRMA and that all risks defined therein are managed effectively and efficiently, in a prudent manner within the Group's Risk Appetite; • Ensuring that robust operating frameworks exist (e.g. business continuity, site management, IT system capability and similar) within which the Group's activities

Risk Management

Governance Forum/Role	Key Responsibilities
Agenda, Financial Plans and Risk Management Architecture as developed through the annual Integrated Planning Process (IPP); • Accountable body for the Group's operations, compliance and performance; • Ultimate point of escalation for Group specific issues, save for those matters reserved for the Board or its Committees; • Gateway through which decisions required from the Board are reviewed prior to submission unless otherwise delegated by ExCo to one of its sub-committees (or to another forum/person); and • Forum for Group-wide functional issues.	are undertaken; and • Defining the Group's organisational structure.
Group Risk Committee (GRC) A forum for Group-wide Risk Management topics, this is a sub-committee of the ExCo with the Chair having unfettered access to the Chair of the BRCC.	The GRC monitors and enforces adherence to the Group's Risk Frameworks, Risk Policies and Risk Appetite. 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 GRC include, but are not limited to: • Measuring and monitoring the total risk profile of the Group and maintaining a Risk Register of top risks facing the Group, together with an assessment of the probability and severity of those risks; • Monitoring regulatory developments and upstream/horizon risk in relation to all relevant risk categories and ensuring that all material issues are communicated to the BRCC or the Board as appropriate; • Monitoring and assessing the Group's risk profile against the RAS and propose remediation plans to restore Risk Appetite for ultimate Board approval 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 for Board approval; • Agreeing the structure and content of the GRMA for recommendation to the BRCC; • Maintaining, monitoring and enforcing adherence to the Group's Risk Management Frameworks and policies, for all key risk categories excluding those which fall directly under the remit of Group Credit Committee (GCC), Group Assets and Liabilities Committee (ALCO), Customer Committee, Capital Adequacy Committee (CAC) and Growth Committee; • Recommending the ICAAP, ILAAP and Recovery Plan (RP) to BRCC for review and recommendation to the Group Board; and • Overseeing validation of key Risk Models for all risk categories.
Group Assets and Liabilities Committee (ALCO) ALCO reviews, and is responsible for overseeing, all activities relating to the management of Asset Liability Management (ALM), Treasury and Market Risks, including Liquidity Risk, Interest Rate Risk, Treasury Counterparty Risk and Foreign Exchange Risk. It is the body accountable for the evaluation of other potential drivers of earnings volatility, including, but not limited to, competitive and external market pressures, and for agreeing on optimisation and hedging strategies against those risks.	Key activities of ALCO include, but are not limited to: • Recommending the relevant ALM, Treasury and Market Risk elements of the Group's RAS for approval by the Board; • Refresh and recommend for onward approval a suite of policies; • Maintaining, monitoring and enforcing adherence to the Group's Risk Management Frameworks and policies for all ALM, Treasury and Market Risks; • Overseeing and monitoring the ALM, Treasury and Market risks to which the Group is exposed and to consider and approve strategies to mitigate such risks; • Maintaining and assessing the ALM, Treasury and Market Risk profiles against set limits and propose remediation plans to restore Risk Appetite where required; • Reporting any breaches of approved limits in accordance with agreed protocol; • Managing the capital requirements for the Group's ALM, Treasury and Market Risks in line with the capital adequacy directive; • Ensuring there is adequate and effective segregation of duties within Treasury and to approve any significant amendment to the responsibilities of Treasury; • Approving new products or material changes to existing products which have interest rate or capital implications; and • Approve Funds Transfer Pricing (FTP) methodology and metrics, and ensure such process is economically fair, transparent and incentivises appropriate behaviour in accordance with FTP Policy.

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, but are not limited to: • Recommending the relevant Portfolio Credit Risk elements of the Group's RAS for approval by the Board; • Setting and monitoring adherence to the Group's Credit Policy, including discretion limits and structure for underwriting, scoring, collections, recoveries and provisioning within the boundaries of the Group's RAS (as approved by the Board); • Monitoring the portfolio Credit Risks to which the Group is exposed; • Maintaining and assessing the portfolio Credit Risk profile against set limits and propose remediation plans to restore Risk Appetite where required; and • Reporting any breaches of approved limits in accordance with agreed protocol.
Group Capital Adequacy Committee (CAC) The CAC is responsible for the detailed execution and initial oversight responsibilities for Capital Adequacy. The CAC is responsible for monitoring the minimum capital requirements that the Group is required to hold and reviewing the adequacy of capital on an on-going basis.	The CAC is responsible for: • Overviewing and challenging of specific ICAAP-related activities in the relevant business lines and risk functions; • Reviewing and challenging the documentation of the ICAAP for the Joint Supervisory Team (JST) submission and recommending the same to BRCC for approval by the Board; • Overseeing and managing the on-going execution of capital-impacting stress testing exercises; • Monitoring the minimum capital requirements that the Group is required to hold; and • Considering both the quality and quantity of capital held by the Group including the composition of the Group's total capital resources while remaining within the parameters of the RAF.
Group Customer Committee The Group Customer Committee ensures that the Group monitors, controls and mitigates Conduct and Customer Outcome Risk by embedding a culture of achieving positive customer outcomes in order to generate sustainable long-term shareholder value which permeates the Group's approach and thinking. This covers new product development, product delivery and fulfilment, on-going product and customer management, and customer interaction.	The Group Customer Committee: • Provides guidance to Executive Management (including ExCo and other ExCo subcommittees) for business and commercial decisions which may have a material impact on customers and for the endorsement of such proposals; • Reviews "high impact" customer events, issues and complaints arising to provide both, guidance on significant individual issues/events and to analyse trends to inform future strategy and decision-making with regard to customers; • Reviews the Conduct Risk that exists within the Group against the Board-approved Conduct Risk Appetite and Principles; and • Serves as the central oversight body for all customer matters ensuring fair treatment of customers is at the heart of key decisions made by the business.
Group Growth Committee The Group's Growth Committee provides context and promotes understanding of the commercial agenda.	The Growth Committee: • 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 (MTP), in the context of the Group's Risk Appetite. • Monitors performance against key commercial targets. • Is responsible for identifying, initiating and executing on activities/projects to achieve those targets based on customer insight.

Risk Management

Role of the Chief Risk Officer

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

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

The CRO is accountable for the development and oversight of the Group's RAF and RAS, which the CRO endorses for Board 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 IPP (strategic and financial goal setting), capital and liquidity planning and the development and approval of new products.

The role of the CRO is to:

- Ensure that the Group has effective processes in place to identify and manage the risks to which the Group is or might be exposed;
- Maintain effective processes to monitor and report the risks to which the Group is or might be exposed;
- Promote sound and effective Risk Management both on an individual and consolidated basis and that the system of Risk Management shall promote an appropriate risk culture at all levels of the Group and shall be subject to regular internal review;
- Facilitate the setting of the Risk Appetites by the Board;
- Provide comprehensive and timely information on the Group's material risks which enables the Board to understand the overall risk profile of the institution; and
- Report to the BRCC on a regular basis.

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

2. Principal Risks and Uncertainties

The following section describes the risk factors that could have a material adverse effect on the Group's business, financial condition, results of operations and prospects for the next six months and also 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 next six months 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 European Union (EU) but also due to on-going political uncertainty and economic weakness within the Eurozone, the precise nature of all risks and uncertainties that the Group faces cannot be predicted as many of these risks are outside of the Group's control. Reference is also made to the disclaimer in respect of Forward Looking Statements set out on the inside front cover.

Brexit

The uncertainty around Brexit geopolitical developments remains at an elevated level, with the increasing probability of a 'No deal' output as observed by industry recognised sources. The elevation of this risk was also confirmed by the Irish Government, with the Minister for Foreign Affairs briefing the Cabinet on proposed contingency plans. A no deal Brexit will have a negative impact to the Irish economy which will in turn adversely impact the Group's results, financial condition, and prospects. The Group has been reassessing the financial impact through the IPP process on an on-going basis since 2016 to align the external developments with the evolution of the Group's balance sheet. On the operational side, the Group is addressing the third party supplier risk via the dedicated project execution to ensure readiness for end of October 2019.

Interest Rate Benchmarks

There are risks that certain benchmark rates may be administered differently or discontinued in the future, including the potential phasing-out of LIBOR after 2021, which may adversely affect the trading market for, value of and return on, financial instruments based on such benchmarks.

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

For PTSB this potentially may impact the payment and receipt of interest on PTSB's securitised transactions and interest rates swaps. The Group will monitor and address potential challenges from any transition to new reference rates.

Government Control and Intervention

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

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

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

Risk Management

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.

Economic Conditions

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

The Group is exposed to both positive and negative trends in Ireland. As a consequence, should negative trends begin to impact on the Group or Ireland, 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.

Notwithstanding the impact of Brexit, the Irish economy is expected to grow by 4% in 2019 and by 3.2% in 2020. 2019 growth estimates for the EU28 and the Euro Area are 1.5% and 1.2%, respectively, with Italian growth expected at a meagre 0.1%. The United States (US) is expected to grow by 3% in 2019.

The labour market is seen as the best metric of Irish economic performance. There are now more than 2.3 million people employed, the highest number ever. The seasonally-adjusted unemployment rate was 4.4% as of May-2019, down from 5.9% a year earlier. The economy is operating near capacity causing some to worry that it may be in danger of over-heating. Others point to the still-low labour participation rate of 62% compared to a rate of almost 67% a decade earlier and suggest that there's spare labour capacity on which to draw.
Irish consumer price inflation remains modest: the consumer price index rose just 1.0% in the year to May 2019, helped in part by Sterling weakness. Meanwhile, average earnings increased by 4.1%, adding significantly to consumer purchasing power. However, rising wages cause some to worry about a decline in Ireland's competitiveness.

The Government ran a modest current budget surplus in 2018, the first since 2007. The level of gross government debt (GGD) has stayed steady at €205bn over the past five years. While GGD/ Gross National Income (GNI) has fallen from 166% in 2012 to 107% in 2018, Ireland's net debt ratio remains the fifth-highest in the Organisation for Economic Co-operation and Development (OECD).
Private sector debt has also decreased. "After nearly a decade of deleveraging, household debt … now stands at 126% of disposable income, a level last seen in 2003, having peaked at 212% in 2009. However, Ireland's household debt ratio is still the fourth highest in the EU." Household debt-to-assets has declined to 15%, a level last seen in 2003 and half its 2011 peak.

New lending to Irish households grew by €1.8bn in the twelve months to May 2019. Net lending for house purchase was €1.3bn over this period, the largest annual increase in household lending since July 2009. This comprised €3.0bn of net new lending for primary dwelling house (PDH) purchases partially offset by a net reduction of €1.8bn in buy-to-let mortgages. Within the PDH category, a net €3.5bn of standard variable rate (SVR) and tracker mortgages were repaid while there was a net increase of €6.4bn of fixed-rate mortgages. Banking and Payments Federation Ireland (BPFI) report that €8.9bn of mortgages were drawn down in the year ending March 2019, 17% more than the €7.6bn in the corresponding period a year earlier.

Irish bank holdings of household deposits grew by €1.8bn over the first quarter of 2019, the eighteenth consecutive quarter of annual growth and the largest quarterly increase since Q4 2008. In annual terms, household deposits grew 6% from €101bn to €107bn in the twelve months to May 2019. Banks held €17.3bn more in household deposits than loans at end-May 2019. The loan-to-deposit ratio for the banking sector stands at an all-time low of 0.84.
While housing demand still substantially outstrips supply, there are signs of improvement. House price inflation has now fallen below wage inflation and housing supply has increased. 10,300 more new homes were sold in 2018, 16% more than in 2017. In the second quarter of 2019, national house price inflation was 3.7% while prices in many Dublin postcodes declined. The number of properties listed for sale on daft.ie was 8,200 in May 2019, the highest since early 2008. The very high level of construction costs relative to average household income is still seen as a major issue. The Central Bank's mortgage measures ensure that credit is no longer considered a cause of house price inflation.

Rents nationally continued to rise in Q1 2019, as they have done for the previous 26 quarters. This is primarily due to lack of supply: there were just 2,700 properties to rent nationwide on daft.ie on 1 May 2019, "the lowest ever figure for stock on the market in a series that goes back to the start of 2006." It is estimated that Dublin alone needs 80,000 rental homes.

The market expects Christine Lagarde to continue Mario Draghi's 'lower-for-longer' policy keeping the ECB repo rate at 0% for the next year at least. It also expects the Federal Reserve to reduce rates more than once in the second half of 2019 in response to weaker jobs growth and concerns about unresolved trade tensions between the United States (US) and China.

Consumer and producer sentiment indices have all reported significant declines in investor confidence about the country's future prospects. The potential for a hard Brexit still casts a pall over the economy; output is expected to be 4% less over a two-year period and 7% less over a ten-year compared to a 'no Brexit' scenario. Trade tensions with the US and international tax policy uncertainty continue to present risks for Ireland while Italy's economic difficulties are a concern for the EU as a whole.

Capital Adequacy Risk

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

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

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

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

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

Risk Management

While the key elements of the Basel III requirements commenced in January 2014 and further rollout is expected to continue on a phased basis until 2023, the Group closely monitors other potentially significant changes to the requirements including measures which may culminate in Basel IV regulations replacing or supplementing Basel III. The Group also monitors the potential impact on its capital and liquidity arising from the EU's Risk Reduction Measures (RRM) package formally ratified by the European Parliament on 16th of April 2019.

The RRM is a combination of the EU's fifth Capital Requirements Directive (CRD5), the second Capital Requirements Regulation (CRR2), and the second Bank Recovery and Resolution Directive (BRRD2).

Furthermore, the Group's plan is to further reduce the level of NPLs over the course of the medium term which may result in a reduction to the Group's capital resources.

Credit Risk

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

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

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

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

Funding and Liquidity Risk

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

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

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

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

Market Risk

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

From the Group's perspective, Market Risk consists of three components being Interest Rate Risk, Credit Spread Risk and Foreign Exchange Risk. These risks are covered in detail in section 3.3.

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

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

Conduct Risk

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

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

The Group has a separate team within its Regulatory Compliance function responsible for Conduct Risk oversight. This team is guided by a Conduct Risk Management Framework, including a Board-approved Risk Appetite and twelve Conduct Risk Principles for the Group. Its purpose is to help ensure that the Group achieves its strategic objectives by acting honestly, fairly and professionally in the best interests of its customers and the integrity of the market, and acts with due skill, care and diligence. In doing so, the Group is placing the achievement of fair outcomes for its customers at the heart of its strategy, governance and operations. The role of the Conduct Risk function to provide oversight and support for the delivery of fair outcomes throughout all stages of the customer relationship with the Group.

The Group delivers a dedicated training and communications programme to ensure that achieving fair outcomes for our customers is embedded throughout all of the Group's activities.

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

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.

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

Reputational Risk

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

Mortgage Redress

The CBI announced on 30 May 2019 that it has concluded its Enforcement Investigation in respect of Tracker Mortgages at PTSB. The Bank agreed to pay a fine of €21m. This agreed settlement now brings the CBI's investigation into Tracker Mortgages at PTSB to a close.

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

Operational and IT Risk

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

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

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

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

The Group's Operational and IT Risk Management Framework outlines the Group's approach to managing Operational and IT risks and are applicable Group-wide, including any subsidiaries within the Group. They define the roles and responsibilities for the oversight of Operational and IT risks, along with the ownership and processes in place for the identification, assessment, mitigation, monitoring and reporting of Operational and IT risks in the Group. A Risk and Control Self-Assessment (RCSA) process is in place for the identification of operational risk throughout the Group. It provides a mechanism for consistently capturing, measuring, monitoring and reporting operational risks. This includes risk controls and loss mitigation actions designed to minimise and mitigate potential risks found in existing procedures. This system of internal control is designed to provide reasonable, but not absolute, assurance against the risk of material errors, fraud or losses occurring.

Weakness in the Group's internal control system or breaches/alleged breaches of laws or regulations could result in increased regulatory supervision, enforcement actions and other disciplinary 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 Policy, which is aligned to applicable EBA Guidelines on Outsourcing, outlines the processes and controls in place for identifying, assessing, mitigating and managing third party risks.

Regulatory Risk
As a financial services firm, the Group is subject to extensive and comprehensive legislation and regulation. The Group is regulated by a number of regulatory authorities.

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 deemed the Group to be a significant institution when the Single Supervisory Mechanism (SSM) was introduced on 4 November 2014.

However, as the Group has not met any of the significant institution criteria for three consecutive years, the ECB decided to categorise the Group as a LSI (Less Significant Institution) from 1 January 2019. From this date the Group became subject to direct supervision of the CBI, as the National Competent Authority.

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

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

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

The following risks to which the Group is exposed to are discussed in detail below:
- Credit Risk;
- Liquidity Risk; and
- Market Risk (including foreign currency exchange risk, credit spread risk and interest rate risk).

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

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

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

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

Risk Management

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

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

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

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

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

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

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

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

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

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

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

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

The Group currently offers the following forbearance strategies:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The mapping of risk categories to the IFRS 9 three stage process is as follows:

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

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

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

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

Fair can be expected to align Stage 2

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

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

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

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

Non-performing will be expected to align to Stage 3

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

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

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

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

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

	Notes	**30 June 2019 €m**	31 December 2018 €m
Cash and balances with central banks	8	**46**	65
Items in course of collection	8	**28**	17
Debt securities	9	**2,136**	2,647
Derivative assets	11	**1**	1
Loans and advances to banks	12	**1,698**	1,159
Loans and advances to customers	13	**15,806**	15,888
Other assets (Loans sale receivable)	16	**-**	1,220
		19,715	20,997
Commitments and contingencies	27	**942**	912
		20,657	21,909

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

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

Various types of collateral are accepted, including property, securities, cash and guarantees etc., grouped broadly as follows:
- real estate;
- financial collateral (lien over deposits, shares, etc.); and
- other collateral (guarantees etc.).

Valuation Methodologies
The valuation methodologies for the Group's key portfolios of collateral held are adjusted for costs to sell, as appropriate:
- Residential property valuations are based on the Central Statistics Office (CSO) Residential Property Price Index (RPPI) or on a recent valuation from a professional valuer. In respect of residential property securing performing loan exposures of greater than €0.5m, the Group policy is to ensure an independent valuation is updated within the last 3 years. For residential property securing non-performing loan exposures of greater than €0.3m, the Group policy is to ensure an independent valuation is updated within the last year.

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

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

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

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

Residential Mortgage Exposures by Indexed LTV

30 June 2019	**Home loans**	**Buy-to-let**	**Total**
	€m	**€m**	**€m**
Less than 70%	**7,114**	**1,057**	**8,171**
71% to 90%	**3,374**	**727**	**4,101**
91% to 100%	**909**	**516**	**1,425**
Subtotal	**11,397**	**2,300**	**13,697**
Greater than 100%	**1,006**	**1,604**	**2610**
Subtotal	**1,006**	**1,604**	**2,610**
Total Residential Mortgages	**12,403**	**3,904**	**16,307**
Commercial			**171**
Consumer Finance			**349**
Total loans and advances to customers			**16,827**
Deferred fees, discounts and hedging adjustments			**60**
Gross loans and advances to customers			**16,887**

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

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

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

The following table gives an indication of the level of creditworthiness of the Group's debt securities and is based on an internally set rating that is equivalent to Moody's rating. There are no impaired debt securities as at 30 June 2019 or at 31 December 2018.

Debt securities credit ratings

	30 June 2019	31 December 2018
	€m	€m
Rating		
A	**1,880**	2,391
Baa	**213**	212
Unrated	**43**	44
Total	**2,136**	2,647

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

	30 June 2019	31 December 2018
	€m	€m
Country		
Ireland	**1,923**	2,435
Spain	**213**	212
Total	**2,136**	2,647

The Irish debt securities held by the Group carry a guarantee from the Minister for Finance on behalf of the Irish State, with the exception of Glenbeigh securities. See note 43 in the 2018 Annual Report for further details on the securities.

Derivative assets

	30 June 2019	31 December 2018
	€m	€m
Covered by netting agreements	**1**	1
Total	**1**	1

The Group has executed standard International Swaps and Derivatives Association (ISDA) agreements with all of its counterparties. The Group has also executed Credit Support Annexes (CSAs) with its counterparties in respect of the majority of derivative instruments to mitigate its credit risk. As part of these agreements, the Group exchanges collateral in line with movements in the market values of derivative positions daily. The cumulative positive market value of derivative assets at 30 June 2019 was €1m (31 December 2018: €1m). In the majority of cases the Group manages its collateral derivative positions with counterparties on a net basis. The uncollateralised derivative position as at 30 June 2019 is €nil (31 December 2018: €nil). The level of collateral placed and received by the Group is outlined in Loans and advances to banks (note 12) and Deposits by banks (note 17).

Loans and advances to banks
The Group has a policy to ensure that loans and advances to banks are held with investment grade counterparties, with any exceptions subject to prior approval by the BRCC. The following table gives an indication of the level of creditworthiness of the Group's loans and advances to banks and is based on the internally set rating that is equivalent to the rating prescribed by Moody's Investor Services Limited.

	30 June 2019	31 December 2018
	€m	€m
Rating		
Aaa	**888**	562
Aa	**674**	368
A	**127**	212
Baa	**9**	4
Ba	**-**	13
Total	**1,698**	1,159

ECL Provisioning under IFRS 9

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

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

- Stage 2 – includes financial instruments that have had a significant increase in credit risk since initial recognition but that does not have objective evidence of impairment. For these assets, lifetime ECL is recognised, being the expected credit losses that result from all possible default events over the expected life of the financial instrument.

- Stage 3 – includes financial assets that have objective evidence of impairment at the reporting date, i.e. are credit impaired. For these assets, lifetime ECL is recognised.

Exception to the general 3 stage impairment model:

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

ECL Framework

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

Measurement

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

Definition of default

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

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

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

Key indicators of unlikely to pay include:

- Accounts that have, as a result of financial distress, received a concession from the Group with respect to terms or conditions. Such exposures will remain in Stage 3 until certain exit conditions are met and for a minimum probationary period of 12 months before moving to a performing classification. Accounts that have, as a result of financial distress, received a concession from the Group which result in a significant terminal payment obligation must fulfil additional conditions in relation to that terminal payment before moving to a performing classification; and

- Accounts where the customer is assessed as otherwise unlikely to pay, including bankruptcy, personal insolvency, assisted voluntary sale, disposal etc.

Assessment of significant increases in credit risk

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

1) Delinquency – greater than 30 days past due;

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

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

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

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

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

Forward looking information (FLI)

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

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

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

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

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

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

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

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

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

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

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

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

At 30 June 2019, the impairment provisions included €84m of management's adjustments to modelled outcomes.

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

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

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

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

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

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

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

Presentation of ECL allowance in the statement of financial position

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the financial assets;
- The ECL on debt instruments measured at fair value through other comprehensive income (FVOCI) does not reduce the carrying amount of the asset in the statement of financial position, which remains at fair value. Instead an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income (OCI) with a corresponding charge to provision for credit losses in the income statement; and

- Off-balance sheet credit risks include certain undrawn lending commitments, letters of credit and letters of guarantee as a provision in the statement of financial position.

For further details on credit risk see note 26.

3.2 Funding and Liquidity Risk

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

Liquidity risk is the risk that the Group has insufficient funds to meet its financial obligations as and when they fall due, resulting in an inability to support normal business activity and/or failing to meet regulatory liquidity requirements. These risks are inherent in banking operations and can be heightened by a number of factors, including over reliance on a particular funding source, changes in credit ratings or market dislocation. It is likely that these risks would be further exacerbated in times of stress. Given the nature of the Group's retail focus which stems from its business model, liquidity and funding risk will arise naturally due to the maturity transformation of primarily short term contractual deposits, albeit recognising behavioural stickiness, into longer term loans.

(i) Regulation and Ratios

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

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

Under the BRRD the Group, alongside other Banks within the EU, is required to adhere to the MREL. The Group has proactively engaged with the Single Resolution Board and the CBI (the 'Resolution Authorities') to determine the Group's MREL requirement which represents a quantification of the eligible liabilities required to act as a buffer in the event of a bail-in scenario. MREL targets have been finalised and compliance becomes binding from 2021. The Group has formulated a senior unsecured issuance strategy to meet the MREL target. MREL debt is relatively more expensive than other sources of available funding and as such there will be an increase in the Group's funding costs.

(ii) Risk Measurement and Monitoring

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

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

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

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

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

Stress testing forms a key pillar of the overall liquidity risk framework. The Group performs weekly stress testing and scenario analysis through the Maximum Cumulative Outflow (MCO) model to evaluate the impact of differing stresses on its liquidity position. Overall, the Group takes a prudent approach in setting the inflow and outflow parameters at a level which is appropriate for each stress scenario with due consideration of the bank's business model, liquidity and funding risk exposures and the liquidity risk drivers, as outlined in the EBA SREP Guidelines. The stress testing framework is designed to reflect the liquidity position impact under idiosyncratic, systemic and combined stresses.

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

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

(iii) Liquidity Risk Management Framework

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

The Liquidity Risk Management framework provides the mechanisms to manage Liquidity risk within the Board-approved Risk Appetite and is in line with the overarching liquidity and funding risk principles as follows:

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

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

(iv) Minimum Liquidity Levels

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

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 and will become binding from a regulatory perspective in 2021. The Group's asset encumbrance level and loan to deposit ratios are also monitored and tracked against the internally prescribed limit on an on-going basis. In addition as a domestically focused retail bank, retail deposit funding is the primary funding channel and as such the Group has set a minimum funding level for this channel.

(v) Liquidity Risk Factors

Over reliance and concentration on any one particular funding source can potentially lead to a heightened liquidity impact during a period of stress. The Group relies on customer deposits to fund a considerable portion of its loan portfolio. The on-going availability of these deposits may be subject to fluctuations due to factors such as the confidence of depositors in the Group, and other certain factors outside the Group's control including, for example, macroeconomic conditions in Ireland, confidence of depositors in the economy in general and the financial services industry, specifically the availability and extent of deposit guarantees and competition for deposits from other financial institutions. Unexpectedly high levels of corporate or retail deposit withdrawals would adversely affect the Group's business and financial condition. In order to mitigate this risk a series of Liquidity and Funding KRI and EWI metrics are in place in order to alert the Group to any potential liquidity trigger event therefore allowing sufficient time for appropriate actions to be taken.

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

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

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

Significant progress has been made in reducing the encumbrance level over the last few years, a period in which the Group was implementing its recovery plan. Following the successful deleveraging of two Irish mortgage portfolios and the execution of the Treasury funding plan, encumbrance is now well within its target level. A clear and defined strategy has been developed, comprising two component routes of securitisation collateral efficiency alongside full and price efficient capital markets access, to ensure an encumbrance level consistent with its economic plan is maintained by the Group. Disruption to any of these avenues could potentially pose a threat. A series of Liquidity and Funding EWIs are in place in order to alert the Group to any potential liquidity trigger event therefore allowing sufficient time for mitigating actions to be taken.

(vi) Credit Ratings

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

The Group has recently received upgrades from Moody's, Standard and Poor's (S&P) and DBRS following the announcement of Projects Glas and Glenbeigh (non-performing loan sales) and the Group's 2018 Annual Results.

The ratings for PTSB plc are as follows:

- S&P's long-term "BB+"
- Moody's long term "Baa3" for senior unsecured debt (returning the Bank to Investment Grade level for Moody's)
- DBRS long term at BB(H)

The long term ratings for PTSB Group Holdings are "BB-" from S&P, "Ba3" from Moody's and B2 from DBRS.

3.3 Market Risk

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

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

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

(i) Interest Rate Risk

Risk Management

Interest rate risk is the risk to earnings or capital arising from movement in the absolute level of interest rates, spread between rates, the shape of the yield curve or in any other interest rate relationship. This risk may be sub divided into gap, option and basis risk. In line with regulatory standards, the approved Interest Rate Risk in the Banking Book (IRRBB) framework has determined that the Group's interest rate risk exposure must be derived from both an earnings (accrual) and economic value perspective.
Interest rate gap analysis is used to capture re-price risk, the Economic Valuation (EV) approach measures yield curve risk while Earnings at Risk (EAR) is utilised to calculate the risk to earnings.

In defining the level of interest rate risk the Group applies the most severe of the 11 core stress scenarios inclusive of the 6 scenarios prescribed by the Basel document 'Interest Rate Risk in the Banking Book' of April 2016, under both EV and EAR models and subject to interest rate flooring assumptions. The results are measured and reported against the Board approved risk limits.

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

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

The 30 June 2019 interest rate level based on the EV calculated as €43m (31 December 2018: €38m). The increase in the risk position is driven by the implementation of the maturity dependent floor per the EBA document 'Guidelines on the management of interest rate risk arising from non-trading book activities' of July 2018, partially offset by declining Euro swap rates.

Based on the internally derived Basis Risk calculation methodology the 30 June 2019 risk level stands at €0.0m (31 December 2018: €3.3m). The risk level is 0 as the Bank has a net asset position in Euribor linked products. The position was net liability as at 31 December 2018.

(ii) Foreign Exchange Risk
Foreign currency exchange risk is the volatility in earnings resulting from the retranslation of foreign currency denominated assets and liabilities. Consistent with its business model as a domestically focused Retail bank, the Group is predominantly exposed to GBP and USD positions arising from customer deposits denominated in these currencies or branch bureau activities.
Derivatives (FX swaps and forwards) are executed to minimise the FX exposure. Overnight FX positions are monitored against approved notional limits. It is the responsibility of both Group Treasury and Group Risk to measure and monitor exchange rate risk and maintain the exposure within approved limits.
Foreign Exchange exposures also may arise as a result of non-Euro contractual payment obligations to third parties. Group Treasury manage these exposures in line with the underlying policy framework. The aggregate euro denominated 30 June 2019 FX position was €0.8m (31 December 2018 €2.7m).

(iii) Credit Spread Risk
Credit Spread Risk is the risk of a decline in the value of an asset due to changes in the market perception of its creditworthiness over its life to maturity. This risk applies to the Banks bond portfolio classified as Hold to Collect and Sell (HTC&S) under IFRS 9 classifications.

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

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

Directors' Responsibility Statement

The Directors are responsible for preparing the Interim Financial Report in accordance with International Accounting Standard 34 on Interim Financial Reporting (IAS 34) as adopted by the European Union, the Transparency (Directive 2004 / 109 / EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

Each of the Directors, whose names and functions are listed in the Board of Directors section, pages 71, 72, 73 and 74 of the 2018 Annual Report, confirms that to the best of each person's knowledge and belief:

- the condensed consolidated financial statements, prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Group at 30 June 2019, and its profit for the period then ended; and

- that as required by the Transparency (Directive 2004 / 109 / EC) Regulations 2007, the Interim Financial Report includes a fair review of:
  (a) important events that have occurred during the first six months of the year, and their impact on the condensed consolidated financial statements;
  (b) a description of the principal risks and uncertainties for the next six months of the financial year; and
  (c) details of any related party transactions that have materially affected the Group's financial position or performance in the six months ended 30 June 2019, and material changes to related party transactions described in the Annual Report for the year ended 31 December 2018.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

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

On behalf of the Board

Robert Elliott
Chairman

Jeremy Masding
Chief Executive

Eamonn Crowley
Chief Financial Officer

Conor Ryan
Company Secretary

24 July 2019

Report on the condensed interim consolidated financial statements

Our conclusion

We have reviewed Permanent TSB plc's condensed interim consolidated financial statements (the "interim financial statements") in the "Interim Report" of Permanent TSB plc for the six month period ended 30 June 2019. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

What we have reviewed

The interim financial statements, comprising:

- the condensed consolidated statement of financial position as at 30 June 2019;
- the condensed consolidated income statement and condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended;
- the condensed consolidated statement of cash flows for the period then ended; and
- the notes to the condensed interim consolidated financial statements.

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

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

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

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

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

What a review of interim financial statements involves

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

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

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

PricewaterhouseCoopers
Chartered Accountants
Dublin
24 July 2019

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Condensed Consolidated Income Statement (Unaudited)

For the half year ended 30 June 2019

	Notes	**Half year ended 30 June 2019**	Half year ended 30 June 2018
		€m	€m
Interest income	3	**211**	235
Interest expense	3	**(30)**	(42)
Net interest income		**181**	193
Fees and commission income		**29**	31
Fees and commission expense		**(12)**	(12)
Net trading income		**3**	9
Net other operating income		**9**	13
Total operating income		**210**	234
Administrative, staff and other expenses (excluding exceptional and non-recurring items)	4	**(131)**	(146)
Regulatory charges	5	**(18)**	(18)
Depreciation of property and equipment		**(11)**	(6)
Amortisation of intangible assets		**(6)**	(6)
Exceptional restructuring and other charges	6	**(12)**	(1)
Total operating expenses		**(178)**	(177)
Operating profit before charge for impairment		**32**	57
Credit impairment losses			
Loans and advances to customers	14	**(5)**	-
Exceptional impairment arising from deleveraging of non-performing loans	6	**1**	-
Total credit impairment losses		**(4)**	-
Operating profit/profit before taxation		**28**	57
Taxation	7	**(7)**	(1)
Profit for the period		**21**	56
Attributable to:			
Owners of the holding company		**21**	56

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the half year ended 30 June 2019

	Notes	**Half year ended 30 June 2019**	Half year ended 30 June 2018
		€m	€m
Profit for the period		**21**	56
Items that will not be reclassified to the income statement in subsequent periods			
Revaluation of property	24	**-**	(5)
Fair value reserve (equity instruments)			
Change in fair value of equity instruments	24	**4**	1
Tax relating to items that will not be reclassified to income statement	24	**(1)**	-
Items that may be reclassified to the income statement in subsequent periods			
Fair value reserve (debt instruments)			
Change in fair value of debt instruments	24	**(10)**	(11)
Disposal of debt instruments	24	**4**	(11)
Tax relating to items that will be reclassified to income statement	24	**1**	2
Other comprehensive expense, net of tax		**(2)**	(24)
Total comprehensive income for the period, net of tax		**19**	32
Attributable to:			
Owners of the holding company		**19**	32
		19	32

Condensed Consolidated Statement of Financial Position (Unaudited)

As at 30 June 2019

	Notes	30 June 2019	31 December 2018
		€m	€m
Assets			
Cash and balances with central banks	8	**46**	65
Items in the course of collection	8	**28**	17
Loans and advances to banks	12	**1,698**	1,159
Debt securities	9	**2,136**	2,647
Equity securities	10	**17**	13
Derivative assets	11	**1**	1
Loans and advances to customers	13,14	**15,806**	15,888
Property and equipment		**196**	154
Intangible assets		**43**	41
Deferred taxation	15	**349**	355
Other assets	16	**5**	1,227
Prepayments and accrued income		**48**	93
Assets classified as held for sale	29	**103**	150
Total assets		**20,476**	21,810
Liabilities			
Deposits by banks (including central banks)	17	**206**	1,552
Customer accounts	18	**17,371**	17,020
Debt securities in issue	19	**729**	1,095
Derivative liabilities	11	**11**	14
Accruals		**6**	5
Current tax liability		**1**	1
Other liabilities	20	**114**	69
Provisions	21	**50**	74
Total liabilities		**18,488**	19,830
Equity			
Share capital	23	**89**	89
Share premium	23	**533**	533
Other reserves	23	**2,699**	2,701
Retained earnings	23	**(1,455)**	(1,407)
Shareholders' equity		**1,866**	1,858
Other equity instruments	23	**122**	122
Total equity		**1,988**	1,980
Total liabilities and equity		**20,476**	21,810

Following the adoption of IFRS 16, the Group has not presented any additional line items above but the relevant disaggregated information has been included in note 22.

Condensed Consolidated Interim Statement of Changes in Equity (Unaudited)

For the half year ended 30 June 2019

	Attributable to owners of the holding company										
	Share capital	**Share premium**	**Capital contribution reserve**	**Revaluation reserve***	**AFS reserve***	**Fair value reserve***	**Currency translation adjustment reserve***	**Other capital reserve***	**Retained earnings**	**Other equity instruments**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Balance as at 31 December 2018	**89**	**533**	**2,631**	**51**	**-**	**12**	**-**	**7**	**(1,465)**	**122**	**1,980**
Impact of adopting IFRS 16 at 1 January 2019	-	-		-	-	-	-	-	-	-	-
Restated balance at 1 January 2019	**89**	**533**	**2,631**	**51**	**-**	**12**	**-**	**7**	**(1,465)**	**122**	**1,980**
Profit for the period ended 30 June 2019	-	-	-	-	-	-	-	-	**21**	-	**21**
Other comprehensive expense, net of tax (note 24)	-	-	-	-	-	**(2)**	-	-	-	-	**(2)**
Total comprehensive (expense)/income for the period	**-**	**-**	**-**	**-**	**-**	**(2)**	**-**	**-**	**21**	**-**	**19**
Transactions with owners, recorded directly in equity:											
Contributions by and distributions to owners.											
AT1 coupon paid (note 23)	-	-	-	-	-	-	-	-	**(11)**	-	**(11)**
Total contributions by and distributions to owners	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**(11)**	**-**	**(11)**
Balance as at 30 June 2019	**89**	**533**	**2,631**	**51**	**-**	**10**	**-**	**7**	**(1,455)**	**122**	**1,988**

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

Condensed Consolidated Interim Statement of Changes in Equity (Unaudited)

For the half year ended 30 June 2018

	Attributable to owners of the holding company										
	Share capital	Share premium	Capital contribution reserve	Revaluation reserve*	AFS reserve*	Fair value reserve*	Currency translation adjustment reserve*	Other capital reserve*	Retained earnings	Other equity instruments	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Balance as at 31 December 2017	89	533	2,631	51	35	-	1	7	(1,355)	122	2,114
Impact of adopting IFRS 16 at 1 January 2018	-	-		-	(35)	35	-	-	(97)	-	(97)
Restated balance at 1 January 2018	89	533	2,631	51	-	35	1	7	(1,452)	122	2,017
Profit for the period ended 30 June 2018	-	-	-	-	-	-	-	-	56	-	56
Other comprehensive expense, net of tax (note 24)	-	-	-	(5)	-	(19)	-	-	-	-	(24)
Total comprehensive (expense)/income for the period	-	-	-	(5)	-	(19)	-	-	56	-	32
Transactions with owners, recorded directly in equity:											
Contributions by and distributions to owners.											
AT1 coupon paid (note 23)	-	-	-	-	-	-	-	-	(11)	-	(11)
Total contributions by and distributions to owners	-	-		-	-	-	-	-	(11)	-	(11)
Balance as at 30 June 2018	89	533	2,631	46	-	16	1	7	(1,407)	122	2,038

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

Condensed Consolidated Interim Statement of Changes in Equity (Unaudited)

For the year ended 31 December 2018

	Attributable to owners of the company										
	Share capital	Share premium	Capital contribution reserve*	Revaluation reserve*	Available for sale reserve	Fair value reserve*	Currency translation adjustment reserve*	Other capital reserves	Other equity instrument	Retained earnings	Total
	€m	€m	€m	€m	€m			€m		€m	€m
As at 01 January 2017	89	533	2,631	30	62	-	-	7	122	(1,371)	2,103
Profit for the year ended 31 December 2017	-	-	-	-	-	-	-	-	-	40	40
Other comprehensive income relating to prior years, net of tax	-	-	-	13	-	-	-	-	-	(13)	-
Other comprehensive expense, net of tax	-	-	-	8	(26)	-	-	-	-	-	(18)
Total comprehensive income for the year	89	533	2,631	21	35	-	-	7	122	(1,344)	2,125
ATI coupon paid	-	-	-	-	-	-	-	-	-	(11)	(11)
Total contributions by and distributions to owners	-	-	-	-	-	-	-	-	-	(11)	(11)
Balance as at 31 December 2017	89	533	2,631	51	35	-	1	7	122	(1,355)	2,114
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	-	(35)	35	-	-	-	(97)	(97)
Restated balance at 1 January 2018	89	533	2,631	51	-	35	1	7	122	(1,452)	2,017
Loss for the year ended 31 December 2018	-	-	-	-	-	-	-	-	-	(2)	(2)
Other comprehensive income, net of tax	-	-	-	-	-	(23)	(1)	-	-	-	(24)
Total comprehensive income for the year	89	533	2,631	51	-	(23)	-	7	122	(1,454)	1,991
Transactions with owners, recorded directly in equity:											
Contributions by and distributions to owners											
ATI coupon paid	-	-	-	-	-	-	-	-	-	(11)	(11)
Total contributions by and distributions to owners	-	-	-	-	-	-		-	-	(11)	(11)
Balance as at 31 December 2018	89	533	2,631	51	-	12	-	7	122	(1,465)	1,980

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the half year ended 30 June 2019

	Half year ended 30 June 2019 €m	Half year ended 30 June 2018 €m
Cash flows from operating activities:		
Operating profit before taxation	**28**	57
Adjusted for non-cash items and other adjustments:		
Depreciation of property and equipment and amortisation of intangible assets	**16**	12
Impairment charge in period:		
- Loans and advances to customers	**5**	-
- Assets classified as held for sale	**(1)**	-
Unrealised gains on financial assets	**(3)**	(9)
Other mortgage related adjustments	**8**	7
Net movement in loans and advances to customers	**82**	134
Net movement in debt securities	**1**	2
Net movement in prepayments and accrued income	**45**	(5)
Net movement in other assets (including assets held for sale)	**1,276**	71
Net movement in deposits by banks (including central banks)	**(1,346)**	540
Net movement in customer accounts	**351**	120
Net movement in debt securities in issue	**(366)**	(422)
Net movement in other liabilities and accruals	**8**	11
Net movement in provisions	**(38)**	(2)
Net other movements	**(10)**	(8)
Net cash inflow from operating activities before tax	**76**	508
Tax paid	**(1)**	-
Net cash inflow from operating activities	**75**	508
Cash flows from investing activities:		
Purchase of property and equipment	**(6)**	(4)
Purchase of intangible assets	**(1)**	(3)
Maturities of debt securities - HTC&S	**126**	145
Maturities of debt securities - HTC	**350**	-
Purchase of debt securities - HTC	**-**	(788)
Movement in restricted cash holdings	**(10)**	87
Movement in reverse repurchase agreements	**(200)**	-
Deferred consideration received on equity securities	**2**	-
Net cash inflow/(outflow) from investing activities	**261**	(563)
Cash flows from financing activities:		
Payment of lease liabilities	**(4)**	-
AT1 coupon payment	**(11)**	(11)
Payment on cancellation on deferred shares	**-**	(2)
Net cash outflow from financing activities	**(15)**	(13)
Increase/(decrease) in cash and cash equivalents	**321**	(68)
Analysis of changes in cash and cash equivalents		
Cash and cash equivalents at the beginning of the period	**796**	1,030
Increase/(decrease) in cash and cash equivalents	**321**	(68)
Effect of exchange translation adjustments	**-**	2
Cash and cash equivalents as at period end*	**1,117**	964

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

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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

1.1 Corporate information

Permanent TSB plc is a company domiciled in Ireland (registration number 222332). Its registered office is situated at 56 - 59, St. Stephen's Green, Dublin 2, Ireland.

The condensed consolidated interim financial statements (interim financial statements) include the financial statements of Permanent TSB plc ('the Company' or 'PTSB') and its subsidiary undertakings, and are prepared for the period up to the end of the half year, 30 June 2019. The interim financial statements for the half year ended 30 June 2019 are unaudited but have been reviewed by the independent auditor whose report is set out earlier in this report.

PTSB, a 100% owned subsidiary of Permanent TSB Group Holdings plc (PTSBGH), is the main trading entity of PTSBGH which is primarily involved in retail banking. The shares of the holding company, PTSBGH, are listed on the main market of the Irish and London Stock Exchanges.

These interim financial statements were approved by the Board and authorised for issue by the Directors on 24 July 2019.

The accounting policies applied in the preparation of the interim financial statements for the half year ended 30 June 2019 are set out below.

1.2 Basis of preparation

Statement of compliance
These interim consolidated financial statements comprise the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and the related notes and have been prepared in accordance with the Transparency Directive (2004/109/EC) Regulations 2007, the related Transparency Rules of the Central Bank of Ireland and IAS 34, 'Interim Financial Reporting' as published by the International Accounting Standards Board (IASB) and adopted by the EU.

This report should be read in conjunction with the 2018 Annual Report, which was prepared in accordance with International Financial Reporting Standards (IFRS) and the IFR Interpretations Committee (IFRIC) interpretations as adopted by the EU and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS and European Union (Credit Institutions: Financial Statements) Regulations 2015.

Basis of measurement
The interim financial statements have been prepared on the historical cost basis as modified to include fair valuation of certain financial instruments, financial assets classified as hold to collect and sell (HTC&S) and land and buildings.

The accounting policies applied in the preparation of the interim financial statements for the half year ended 30 June 2019 are consistent with those used by the Group as described in note 1 of the Group's 2018 Annual Report, except for changes relating to IFRS 16 discussed further below.

On 1 January 2019, the Group adopted IFRS 16 Leases, endorsed by the EU on 31 October 2017. IFRS 16 is mandatorily applicable for financial years commencing on or after 1 January, 2019 and introduces a single lessee accounting model where there will no longer be a distinction between operating and finance leases. The new accounting model requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. At the date of initial application, the Group recognised right-of-use assets of €45m, included in property and equipment and corresponding lease liabilities, discounted using incremental borrowing rate, of €46m included in other liabilities.

IFRS 16 carries forward the lessor accounting requirement in IAS 17 Leases, except in the case of sub-leases.

Since interim financial statements do not include all of the annual financial statement disclosures required under IFRS, this report should be read in conjunction with the audited annual consolidated financial statements and accompanying notes for the year ended 31 December 2018.

Statutory accounts
These interim financial statements do not comprise statutory accounts within the meaning of the Companies Act 2014. The statutory accounts for the year ended 31 December 2018 were approved by the Directors on 26 February 2019, contained an unqualified audit report and will be filed with the Companies Registration Office on or before 30 September 2019.

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

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

In preparing the 2019 interim financial statements, Management made significant judgements in applying the Group's accounting policies. The key sources of estimation and uncertainty were the same as those that applied in note 2 in the 2018 Annual Report except for the investigation in respect of Tracker Mortgages at PTSB by the CBI that concluded on 30 May 2019. This agreed settlement now brings the CBI's investigation into Tracker Mortgages at PTSB to a close. However, a provision is still required for other residual compliance issues including customer-initiated litigation, appeals to the Financial Services and Pensions Ombudsman Bureau of Ireland (FSPO) and the Appeals Panels, residual customer redress and residual tax liabilities associated with redress.

The critical accounting estimates are consistent with those described in the 2018 Annual Report.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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

1.3 Going Concern

In considering Management's assessment of the Group's ability to continue as a Going Concern, Management considered principal risks and uncertainties as they might pertain to the Going Concern assumption, particularly the liquidity position, profitability and the capital position. Management considered these items over the course of the period to date and into July 2020, 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 Interim Report for the six month period ended 30 June 2019. Management considered realistic alternatives, including downside scenarios applied by the Group so as to appropriately test assumptions and potential outcomes.

Assessment basis

The time period that the Directors and Management have considered in evaluating the appropriateness of the Going Concern basis in preparing the interim consolidated financial statements for the six month period ended 30 June 2019 is a period of 12 months from the date of approval of these financial statements ("the period of assessment").

In making this assessment, the Directors and Management have considered the Group's 2019-2022 Medium Term Plan (MTP), 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, including the potential impact of a no-deal Brexit, 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 EU policies in relation to the Irish economy and the financial services sector. At a macroeconomic level, property prices and unemployment levels continue to improve in 2019.

Heightened uncertainty remains with regard to the final outcome of 'Brexit' and the nature of the UK's revised trading relationship with the EU and the consequent impact on both the UK and the wider EU's economic outlook. The Group believes it is reasonably well positioned to withstand any near term volatility caused by Brexit, particularly given the Group's progress in reducing NPLs and continuing to be profitable as in the first six months of the financial year 2019. However, the risk of a no-deal Brexit has increased in recent months, which would likely have a negative impact on the Irish economy and would, in turn, have an adverse impact on the Group's results, financial condition and prospects.

Directors and Management have considered these factors and are satisfied that over the period of assessment the Group has sufficient resources to ensure it is adequately capitalised.

Funding & liquidity

The Group continues to have sufficient liquidity throughout 2019, and continues to undertake initiatives to further improve its liquidity position in the areas of deposits, collateral optimisation and wholesale markets activity. The Directors and Management have also considered forecasts of the liquidity position over the Going Concern period, under a range of stress scenarios.

The Group continues to hold a significant liquidity buffer at 30 June 2019. The Group also continues to have access to 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 before tax of €28m for the six month period ended 30 June 2019.

Directors and Management have reviewed the MTP and based on this, the macroeconomic conditions of the country and the planned resolution of legacy issues, the Directors and Management are satisfied that the Group is on track to continued profitability in future years, excluding the impact of deleveraging and exceptional items.

Directors and Management have also considered the Group's forecasted capital base, including the potential impact of deleveraging NPLs, its ability to withstand additional Group applied stress scenarios such as the economic environment in Ireland declining in the context of a no-deal Brexit scenario. On the basis of the above considerations, the Directors and Management have assessed and concluded that this does not give rise to a material uncertainty which would cast significant doubt on the ability of the Group to continue on a Going Concern basis for the period of assessment.

Conclusion

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

1.4 Comparative information

The comparative information for 2018 has been prepared on a consistent basis, except for changes in significant accounting policies set out below.

1.5 Changes in significant accounting policies

The 2019 interim financial statements should be read in conjunction with the Group's 2018 Annual Report. The significant accounting policies used in the preparation of these interim financial statements are consistent with those used in the Group's 2018 Annual Report (note 1), except for changes to the accounting policy for leases resulting from the adoption of IFRS 16.

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

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

The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16. This change in accounting policy will also be reflected in the Group's consolidated financial statements for the year ending 31 December 2019. A number of other new accounting standards are effective from 1 January 2019 but do not have a material effect on the Group's financial statements.

Related changes to new or revised accounting standards

The new or revised standards that become effective for periods beginning on 1 January 2019 did not amend any of the existing IAS 34 requirements.

a) Classification of Leases - Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. 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. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset, this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
    - the Group has the right to operate the asset; or
    - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

Unless the lease is of short-term and of low-value assets, where the Group has the right to obtain substantially all of the economic benefits from use of identified assets and has the right to direct the use of the identified asset, a right-of-use the asset is recognised in property and equipment and a lease liability in other liabilities.

As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful life of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortised cost using the incremental borrowing rate. Incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment. For its incremental borrowing rate, the Group uses its FTP which comprises its base cost of funds with add-ons related to regulatory requirements, and term liquidity premium. For Retail Properties, property yield is added as lease specific adjustment.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is remeasured, if there is a change in future lease payments arising from a change in index-linked considerations, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of vehicles that have a lease term of 12 months or less and leases of low-value assets, including office equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

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

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as, whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies IFRS 15 to allocate the consideration in the contract.

The Group recognises lease payments received under operating leases as income, on a straight-line basis, over the lease term, as part of other income.

The accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16. However, when the Group was an intermediate lessor the sub-leases were classified with reference to the underlying asset.

The Group presents right-of-use assets in property and equipment and lease liabilities in other liabilities in the statement of financial position.

b) Classification of Leases - Policy applicable before 1 January 2019

As a lessee
In the comparative period, as a lessee the Group classified leases that transferred to the Group substantially all of the risks and rewards of ownership were classified as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of the fair value and the present value of the minimum lease payments. Minimum lease payments were payments over the lease terms that the lessee were required to make, excluding any contingent rent.

Assets held by the Group other than finance leases were classified as operating leases. Payments made under operating leases were recognised in the income statement on a straight-line basis over the term of the lease. When an operating lease was terminated before the lease period expired, any payment required to be made to the lessor by way of penalty was recognised as an expense in the period in which termination takes place.

As a lessor
When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risk and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as ether the lease is for the major part of the economic life of the assets.

The Group recognises lease payments received under operating leases as income on a straight-line basis base over the lease terms as part of other income.

As at 30 June 2019, the Group did not have any material finance leases.

1.6 Transition to IFRS 16

IFRS 16 replaced IAS 17 and necessitated changes to the existing accounting policies, as discussed above.

The Group has applied IFRS 16 in accordance with the modified retrospective approach with a date of initial application of 1 January 2019. Prior periods have not been restated. During the first-time application of IFRS 16, the right-of-use assets were measured at the amount equal to the lease liabilities adjusted by the amount of any prepaid or accrued leases payments relating to those leases discounted using incremental borrowing rate at the date of initial application.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

On transition to IFRS 16, the Group recognised an additional €45m of right-of-use assets, €46m lease liabilities, and €1m of finance lease assets arising from sub-leasing of surplus properties. There was an immaterial impact on retained earnings at the date on initial application of IFRS 16.

When measuring liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019.

Reconciliation of Lease liabilities	**€m**
Operating lease commitments at 31 December 2018	**46**
Others*	**2**
Total operating leases (gross, without discounting at 1 January 2019)	**48**
Discounting using the lessee's incremental borrowing rate at 1 January 2019	**(2)**
Recognised exemption for:	
- Short-term leases	**-**
- Leases of low value assets	**-**
Lease liabilities recognised at 1 January 2019	**46**

*Include leases that were under renewals at 31 December 2018 with payments for right-of-use made on or before 1 January 2019.

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

1.7 Impact of other accounting standards effective periods beginning on 1 January 2019

Topic	Description of change	Impact
Amendments to IFRS 9: Prepayment Features with Negative Compensation	On 12 October, 2017, the IASB issued an amendment to IFRS 9 Financial Instruments, relating to prepayment features with negative compensation. The narrow-scope amendment covers: • The amendment permits more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets.	The Group, based on its assessment of the amended accounting standard, concluded that these requirements do not have a significant impact on the Group's condensed consolidated financial statements.
Interpretation 23 Uncertainty over Income Tax Treatments	The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses: • How to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty; • That the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored; • That the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment; • That the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty; and • That the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements. While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial statements.	The Group, based on its assessment of the amendment, concluded that these requirements do not have a significant impact on the Group's condensed consolidated financial statements.
Amendments to IAS 28, 'Investments in associates', on long term interests in associates and joint ventures disclosure initiative	These amendments to IAS 28 clarify the accounting for long term interests in an associate or joint venture to which the equity method is not applied using IFRS 9.	The Group, based on its assessment of the amended accounting standard, concluded that these requirements do not have a significant impact on the Group's condensed consolidated financial statements.
Plan Amendment, Curtailment or Settlement – Amendments to IAS 19	The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must : • Calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change; • Any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling; and • Separately recognise any changes in the	The Group, based on its assessment of the amended accounting standard, concluded that these requirements do not have a significant impact on the Group's condensed consolidated financial statements.

Topic	Description of change	Impact
	asset ceiling through other comprehensive income.	
Annual Improvements to IFRS Standards 2015-2017 Cycle	The following improvements were finalised in December 2017: • IFRS 3 - clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages; • IFRS 11 - clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation; • IAS 12 - clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised; • IAS 23 - clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.	The Group, based on its assessment of the amendment, concluded that these requirements do not have a significant impact on the Group's condensed consolidated financial statements.

2. Operating segments

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

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

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

2.1 Revenue from external customers split by products and services

The main products from which the Group earns external revenue include: mortgages; consumer finance; treasury assets; deposits and current accounts and; wholesale funding. The net interest income from these products is set out in the table below.

Net interest income from external customers split by product:

	30 June 2019	30 June 2018
	€m	€m
Mortgages	**173**	199
Consumer finance*	**17**	15
Treasury assets	**17**	21
Deposits and current accounts	**(21)**	(28)
Wholesale funding	**(5)**	(14)
Total	**181**	193

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

2. Operating segments (continued)

2.2 Profit for the period based on geographical location

30 June 2019

	Ireland	IOM*	Total
	€m	€m	€m
Net interest income			
From external customers	181	-	181
From internal customers	-	-	-
Total net interest income	181	-	181
Other banking income	20	-	20
Net other operating income	9	-	9
Total operating income	210	-	210
Total operating expenses including regulatory charges excluding, exceptional items, depreciation and amortisation	(149)	-	(149)
Depreciation of property and equipment	(11)	-	(11)
Amortisation of intangible assets	(6)	-	(6)
Total operating expenses excluding exceptional items	(166)	-	(166)
Operating profit before charge for impairments, exceptional items and taxation	44	-	44
Charge for impairment of loans and advances and collateral in possession	(4)	-	(4)
Operating profit before exceptional items and taxation	40	-	40
Exceptional items (excluding impairment)			(12)
Profit before taxation			28
Taxation			(7)
Profit for the period			21

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

30 June 2018

	Ireland	IOM*	Total
	€m	€m	€m
Net interest income		-	
From external customers	193	-	193
From internal customers	-	-	-
Total net interest income	193	-	193
Other banking income	28	-	28
Net other operating income	13	-	13
Total operating income	234	-	234
Total operating expenses including regulatory charges excluding, exceptional items, depreciation and amortisation	(164)	-	(164)
Depreciation of property and equipment	(6)	-	(6)
Amortisation of intangible assets	(6)	-	(6)
Total operating expense excluding exceptional items	(176)	-	(176)
Operating profit before charge for impairments, exceptional items and taxation	58	-	58
Charge for impairment of loans and advances and collateral in possession	-	-	-
Operating profit before exceptional items and taxation	58	-	58
Exceptional items (excluding impairment)			(1)
Profit before taxation			57
Taxation			(1)
Profit for the period			56

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

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

2. Operating segments (continued)

2.3 Assets and liabilities based on geographical location

30 June 2019

	Ireland	**IOM***	**Of which inter-group balances**	**Total**
	€m	**€m**	**€m**	**€m**
Assets				
Held for sale	**103**	**-**	**-**	**103**
Other assets	**20,370**	**3**	**(108)**	**20,373**
Total segment assets	**20,473**	**3**	**(108)**	**20,476**
Total segment liabilities	**18,485**	**3**	**(108)**	**18,488**
Capital expenditure for the half year ended 30 June 2019	**15**	**-**	**-**	**15**

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

31 December 2018**	Ireland	IOM*	Of which inter-group balances	Total
	€m	€m	€m	€m
Assets				
Held for sale	150	-	-	150
Other assets	21,657	3	(109)	21,660
Total segment assets	21,807	3	(109)	21,810
Total segment liabilities	19,827	3	(109)	19,830
Capital expenditure for the financial year ended 31 December 2018	35	-	-	35

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

**As outlined in note 1, the Group has applied IFRS 16 at 1 January 2019 which requires the recognition of right-of-use assets and lease liabilities for lease contracts previously classified as operating leases. As the Group has adopted modified retrospective approach allowed by IFRS, the comparative information is not restated.
There was an immaterial impact on retained earnings at the date on initial application of IFRS 16.

3. Net interest income

	Half year ended 30 June 2019	Half year ended 30 June 2018
	€m	€m
Interest income		
Loans and advances to customers	**190**	214
Loans and advances to banks	**1**	-
Debt securities and other fixed-income securities		
- Hold to collect (HTC)	**12**	12
- Hold to collect and sell (HTC&S)	**8**	9
	211	235
Interest expense		
Deposits from banks (including central banks)	**(1)**	(2)
Due to customers	**(21)**	(28)
Interest on debt securities in issue	**(2)**	(7)
Amortisation of discontinued hedges on financial assets	**(4)**	(3)
Loans and advances to banks	**(2)**	(2)
	(30)	(42)
Net interest income	**181**	193

Included in net interest income are interest rate fair value hedges which include gains on hedging instruments of €3m (30 June 2018: €4m) and losses on hedged items attributable to hedged risk of €3m (30 June 2018: €4m). Also included in net interest income is €4m relating to the amortisation discontinued hedges in respect to a portion of the Group's HTC&S debt securities portfolio.

Net interest income includes a charge in respect of deferred acquisition costs on loans and advances to customers of €8m (30 June 2018: €8m).

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

	Half year ended 30 June 2019 €m	Half year ended 30 June 2018 €m
Staff costs (as detailed below)	**77**	75
Other general and administrative expenses	**51**	56
Other expenses	**3**	15
Administrative, staff and other expenses (excluding exceptional items)	**131**	146

Other general and administrative expenses included operating lease rentals on land and buildings and vehicles of €4m at 30 June 2018. See note 22 in respect of changes to the accounting treatment of leases.

Other expenses relate to legal, compliance and other costs in relation to the Group's legacy legal compliance investigations with the CBI.

Staff costs

	Half year ended 30 June 2019 €m	Half year ended 30 June 2018 €m
Wages and salaries (including commission payable to sales staff)	**64**	62
Social insurance	**7**	7
Pension costs (payments to defined contribution pension schemes)	**6**	6
Total staff costs	**77**	75

Staff numbers

The number of staff employed is broken down by geographical location for 30 June 2019 and 30 June 2018 in the table below.

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

	Closing staff numbers*		Average staff numbers	
	Half year ended 30 June 2019	Half year ended 30 June 2018	Half year ended 30 June 2019	Half year ended 30 June 2018
Ireland	**2,414**	2,485	**2,376**	2,397
UK**	**-**	1	**-**	4
Total number of staff	**2,414**	2,486	**2,376**	2,401

*Closing staff numbers are calculated on a full time equivalent (FTE) basis.

**This relates to employees working in the IOM (specifically PBI).

5. Regulatory charges

	Half year ended 30 June 2019 €m	Half year ended 30 June 2018 €m
Bank Recovery and Resolution Directive (BRRD) levy	**5**	6
Deposit guarantee scheme (DGS)	**12**	12
Other regulatory charges	**1**	-
Regulatory charges	**18**	18

Other regulatory charges include payments to the FSPO and the Irish Banking Culture Board.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

6. Exceptional items

	Half Year Ended 30 June 2019	Half Year Ended 30 June 2018
	€m	€m
Restructuring and other charges (a)	**12**	1
Impairment arising from deleveraging of loans (b)	**(1)**	-
Exceptional items	**11**	1

(a) These comprise of €12m relating to phase 2 of the Group's voluntary severance scheme which was announced during 2018. At 30 June 2018 this comprised a €1m charge relating to the restructure of the Group's distribution model.

(b) Under the Group's accounting policy, exceptional items include profits/losses arising on deleveraging of non-performing loans. Prior to IFRS 9, these were included in the other exceptional items. Any incurred loss under IAS 39 was measured using expected cash flows arising from the loan contract or on disposal of collateral, but did not include expected cash flows from loan sales. Any difference between the carrying value (net of impairment) and loan sale proceeds (including costs) was recorded as an other exceptional loss. However, under IFRS 9 when the sale of a loan becomes part of the Group's recovery strategy and meets the other conditions as set out in our accounting policy, the expected cash flows from the loan sale (including costs of sale) are included in the IFRS 9 impairment calculation. The Glas and Glenbeigh portfolios met these conditions in 2018 and, at that point, the expected net sale proceeds were included in the ECL calculation and, as a direct result, the impairment provisions increased by €66m, in the second half of 2018, mainly due to the costs associated with the sale. At 31 December 2018, the Group considered this additional impairment as exceptional because the sale of loans is not part of the Group's normal recovery strategy. During 2019, an impairment provision of €1m was released relating to the costs associated with the loan sale in 2018. The Group also considers the impairment release as exceptional. This treatment is consistent with the treatment of losses on deleveraging of non-performing loans in the prior year.

7. Taxation

(a) Analysis of taxation charge

	Half year ended 30 June 2019	Half year ended 30 June 2018
	€m	€m
Current taxation		
Charge for current period	**1**	1
	1	1
Deferred taxation		
Origination and reversal of temporary differences	**6**	-
Taxation charged to income statement	**7**	1
Effective tax rate	**25%**	2%

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

The Group taxation charge for the half year ended 30 June 2019 was €7m (30 June 2018: €1m). This is made up of a current tax charge of €1m and a deferred tax charge of €6m. The deferred tax charge arises primarily due to the utilisation of tax losses carried forward to shelter current year taxable profits (€4m) and the continued unwind of a deferred tax asset created on the introduction of IFRS 9 (€1m).

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

Half year ended 30 June 2019

	Gross	**Tax**	**Net**
	€m	**€m**	**€m**
Revaluation reserve:			
- Revaluation of property	-	-	-
Fair value reserve:			
- Change in fair value reserve	**(2)**	**-**	**(2)**
Balance as at 30 June 2019	**(2)**	**-**	**(2)**

Half year ended 30 June 2018

	Gross	Tax	Net
	€m	€m	€m
Revaluation reserve:			
- Revaluation of property	-	(5)	(5)
Fair value reserve:			
- Change in fair value reserve	(21)	2	(19)
Balance as at 30 June 2018	(21)	(3)	(24)

* When calculating the earnings per share the weighted average number of ordinary shares outstanding during the period and all periods presented shall be adjusted for events other than the conversion of potential ordinary shares that have changed the number of ordinary shares without a corresponding change in reserves.

8. Cash and cash equivalents

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

	30 June 2019	31 December 2018
	€m	€m
Cash and balances with central banks	**46**	65
Items in the course of collection	**28**	17
Loans and advances to banks repayable on demand (maturity of less than 3 months) (note 12)	**1,698**	1,159
	1,772	1,241
Restricted cash included in loans and advances to banks repayable on demand	**(455)**	(445)
Reverse repurchase agreements	**(200)**	-
Cash and cash equivalents per statement of cash flows	**1,117**	796

As at 30 June 2019, restricted cash of €455m (31 December 2018: €445m) comprised cash of €445m (31 December 2018: €432m) held by the Group's securitisation entities and €10m (31 December 2018: €13m) which related to cash collateral placed with counterparties in relation to derivative positions and repurchase agreements.

Reverse repurchase agreements of €200m have been excluded from cash and cash equivalents because while they have an original maturity of three months or less, they are held for investment purposes rather than to meet cash commitments.

9. Debt securities

	30 June 2019			31 December 2018		
	HTC	**HTC&S**	**Total**	HTC	HTC&S	Total
	€m	**€m**	**€m**	€m	€m	€m
Government bonds	**1,671**	**422**	**2,093**	2,046	557	2,603
Corporate bonds	**43**	**-**	**43**	44	-	44
Gross debt securities	**1,714**	**422**	**2,136**	2,090	557	2,647

As at 30 June 2019, all debt securities are available to be used and are eligible as collateral (though eligibility will depend on the criteria of the counterparty) in sale and repurchase agreements.

HTC securities of €1,671mcomprise Irish and Spanish bonds.

Corporate bonds comprise a retained note in the Glenbeigh securitisation which is POCI. See note 43 in the 2018 Annual Report for further details on the securities.

HTC&S securities of €422m primarily comprise Irish Government bonds.

(a) HTC and HTC&S

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

	30 June 2019		31 December 2018	
	HTC	**HTC&S**	HTC	HTC&S
	€m	**€m**	€m	€m
As at 1 January	**2,090**	**557**	1,193	784
Change in fair value	**-**	**(11)**	-	(28)
Additions	**-**	**-**	916	-
Maturities/disposals	**(351)**	**(126)**	(13)	(198)
Interest net of cash receipts	**(25)**	**2**	(6)	(1)
At 30 June 2019/31 December 2018	**1,714**	**422**	2,090	557

Debt securities that are managed on a HTC&S basis are accounted for at FVOCI. Debt securities that are managed on a HTC business model basis are accounted for at amortised cost. All debt securities at 30 June 2019 are stage 1 apart from the corporate bond which is POCI.

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

(i) Held at amortised cost
As at 30 June 2019, the amount arising from ECL on debt securities measured at amortised cost is €0.3m (31 December 2018: €0.4m). The ECL on debt instruments measured at amortised cost is offset against the carrying amount of the assets in the statement of financial position.

(ii) Held at FVOCI
As at 30 June 2019, the amount arising from ECL on debt securities measured at FVOCI is €0.1m (31 December 2018: €0.1m). The ECL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the statement of financial position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to provision for credit losses in the income statement. The accumulated allowance recognised in OCI is recycled to the income statement on derecognition of the debt instrument

10. Equity securities

	30 June 2019	31 December 2018
	€m	€m
As at 1 January	**13**	12
Revaluation	**4**	1
Total equity investments	**17**	13

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

	30 June 2019	31 December 2018
	€m	€m
Unlisted	**17**	13
Gross equity securities	**17**	13

PTSB was a Principal Member of Visa Europe Ltd. (Visa Europe) and as such owned one share in Visa Europe with a fair value of €23m at 31 December 2015. In June 2016, all shares in Visa Europe were sold with Principal Members receiving consideration in the form of upfront cash consideration, deferred cash and preferred stock in Visa Inc.

PTSB continues to hold the preferred stock in Visa Inc. at 30 June 2019. This was fair valued at €17m at 30 June 2019 and is recognised in the statement of financial position (31 December 2018: €13m).

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 25 for further details).

11. Derivative assets/liabilities

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

Certain derivative instruments do not fulfil the hedge accounting criteria under IFRS 9 and are consequently classified as held for trading. All derivatives are carried at fair value.

The derivative instruments used by the Group include:
- Currency forward rate contracts, which are commitments to purchase and sell currencies, including undelivered spot transactions;
- Interest rate swaps which are commitments to exchange one set of cash flows for another; and
- Call options embedded within certain medium term note issuances.

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

Derivatives, which are not in qualifying hedge accounting relationships, are treated as trading for accounting purposes in accordance with IFRS 9.

Derivatives held by the Group are analysed as follows:

	30 June 2019			31 December 2018		
	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	**238**	**1**	**9**	286	1	12
	238	**1**	**9**	286	1	12
Held for trading						
Forwards	**70**	**-**	**-**	100	-	1
Interest rate swaps	**61**	**-**	**2**	60	-	1
	131	**-**	**2**	160	-	2
Embedded derivatives	**10**	**-**	**-**	10	-	-
	10	**-**	**-**	10	-	-
Derivative financial instruments as per the statement of financial position	**379**	**1**	**11**	456	1	14

*The presentation of the embedded derivatives has been updated to include €10m contract/ notional amount with an immaterial impact on fair value assets or liabilities for those derivatives at 31 December 2018.

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

11. Derivative assets/liabilities (continued)

The gains/(losses) recognised on the hedging instruments are analysed below:

	30 June 2019	31 December 2018
	€m	€m
Gains on hedging instruments	3	10
Losses on hedged items attributable to hedged risk	(3)	(10)
Net gains	-	-

12. Loans and advances to banks

	30 June 2019	31 December 2018
	€m	€m
Held at amortised cost		
Placed with central banks	888	562
Placed with other banks	810	597
Total loans and advances to banks	1,698	1,159

Placements with other banks includes restricted cash of €455m (31 December 2018: €445m) of which €445m (31 December 2018: €432m) is held by the Group's securitisation entities and €10m (31 December 2018: €13m) which relates to cash collateral placed with counterparties in relation to derivative positions and repurchase agreements.

Loans and advances to banks amounting to €1,698m as t 30 June 2019 (31 December 2018: €1,159m) have a maturity of three months or less and therefore have been treated as cash and cash equivalents with the exception of restricted cash as detailed above and reverse repurchase agreements of €200m.

13. Loans and advances to customers

Loans and advances by category are set out below:

	30 June 2019	31 December 2018
	€m	€m
Residential mortgages		
Held through special purpose entities	8,291	9,464
Held directly	8,016	6,952
	16,307	16,416
Commercial mortgage loans	171	165
Consumer finance (term loans/other)	349	335
Gross loans and advances to customers	16,827	16,916
Less: provision for impairment (note 14)	(1,081)	(1,083)
Net loans and advances to customers	15,746	15,833
Deferred fees, discounts and hedging adjustments	60	55
Net loans and advances to customers	15,806	15,888

Loans and advances can be analysed into tracker, fixed and variable rate loans as follows:

	Gross loans and advances to customers		Net loans and advances to customers	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
	€m	€m	€m	€m
Tracker rate	9,638	9,957	8,820	9,136
Variable rate	4,537	4,972	4,295	4,722
Fixed rate	2,652	1,987	2,631	1,975
	16,827	16,916	15,746	15,833
Deferred fees, discounts and hedging adjustments	60	55	60	55
Total	16,887	16,971	15,806	15,888

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

At 30 June 2019, €712m (31 December 2018: €1,077m) of the notes are held by third parties and the rest of the notes are held by the Group (see table on the following page). The residential mortgages have not been derecognised and are included in loans and advances above.

13. Loans and advances to customers (continued)

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

	30 June 2019	31 December 2018
	€m	€m
Residential mortgages held through special purpose entities	8,291	9,463
Notes issued by special purpose entities		
- rated	5,573	6,362
- unrated	2,809	3,146
	8,382	9,508

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

	30 June 2019	31 December 2018
	€m	€m
- Sold to third parties and included within debt securities in issue (non-recourse) on the statement of financial position (note 19)	712	1,077
- Held by other banks and institutions as part of collateralised lending or sale and repurchase agreements (note 17)	222	1,688
- Other		
Available collateral*	4,639	3,597
Unrated notes	2,809	3,146
	8,382	9,508

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

14. Impairment provisions

Loans and advances to customers

The following table reflects non-performing loans for which ECL provisions are held and an analysis of stage 1, stage 2 and stage 3 ECL provisions across the loans and advances to customers portfolio.

The IFRS 9 impairment model looks at the movement in the credit risk of an asset since its origination and requires recognition of lifetime expected loan losses when there is a significant increase in credit risk (12 month expected credit loss where credit risk has not increased significantly), regardless of whether there has been an actual loss event.

The non-performing loan balance as at 30 June 2019 was €1,685m (31 December 2018: €1,696m). Refer to note 26 for further details.

30 June 2019	Loans and advances to customers	NPLs	NPL % of total loans	ECL provisions				Total ECL provisions as % of total loans
				Stage 1	Stage 2	Stage 3	Total	
	€m	€m	%	€m	€m	€m	€m	%
Residential:								
- Home loans	12,403	1,068	9%	25	39	360	424	3%
- Buy-to-let	3,904	546	14%	5	338	245	588	15%
Commercial	171	48	28%	3	7	32	42	25%
Consumer finance:								
- Term loans / other	349	23	7%	3	6	18	27	8%
Total gross loans	16,827	1,685	10%	36	390	655	1,081	6%
Impairment provision	(1,081)							
Deferred fees, discounts and hedging adjustments	60							
Balance as at 30 June	**15,806**							

14. Impairment provisions (continued)

31 December 2018	Loans and advances to customers	NPLs	NPL % of total loans	ECL provisions Stage 1	Stage 2	Stage 3	Total	Total ECL provisions as % of total loans
	€m	€m	%	€m	€m	€m	€m	%
Residential:								
- Home loans	12,413	1,100	9%	25	40	363	428	3%
- Buy-to-let	4,003	516	13%	5	358	222	585	15%
Commercial	165	55	33%	2	7	33	42	25%
Consumer finance:								
- Term loans / other	335	25	7%	3	6	19	28	8%
Total gross loans	16,916	1,696	10%	35	411	637	1,083	6%
Impairment provision	(1,083)							
Deferred fees, discounts and hedging adjustments	55							
Balance as at 31 December	15,888							

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

2019

Total by portfolio	**Residential mortgages €m**	**Commercial €m**	**Consumer finance €m**	**Total €m**
At 1 January 2019	**1,013**	**42**	**28**	**1,083**
Redemptions & maturities	**(7)**	**(1)**	**(1)**	**(9)**
Net remeasurement of loss allowance	**11**	**1**	**2**	**14**
Loan originations	**3**	**2**	**1**	**6**
Net movement excluding derecognition	**7**	**2**	**2**	**11**
Derecognition-disposals	-	-	-	-
Derecognition-repossessions	-	-	-	-
Derecognition-write offs*	**(8)**	**(2)**	**(3)**	**(13)**
Derecognition	**(8)**	**(2)**	**(3)**	**(13)**
ECL as at 30 June 2019	**1,012**	**42**	**27**	**1,081**

14. Impairment provisions (continued)

Total by Stage	Stage 1	Stage 2	Stage 3	Total
	€m	€m	€m	€m
ECL as at 1 January 2019	**35**	**411**	**637**	**1,083**
Transfer to Stage 1	**3**	**(3)**	**-**	**-**
Transfer to Stage 2	**(8)**	**20**	**(12)**	**-**
Transfer to Stage 3	**-**	**(11)**	**11**	**-**
Stage transfers	**(5)**	**6**	**(1)**	**-**
Redemptions & maturities	**(1)**	**(2)**	**(6)**	**(9)**
Net remeasurement of loss allowance	**2**	**(26)**	**38**	**14**
Loan originations	**5**	**1**	**-**	**6**
Net movement excluding derecognition	**6**	**(27)**	**32**	**11**
Derecognition-disposals	**-**	**-**	**-**	**-**
Derecognition-repossessions	**-**	**-**	**-**	**-**
Derecognition-write offs	**-**	**-**	**(13)**	**(13)**
Derecognition	**-**	**-**	**(13)**	**(13)**
ECL as at 30 June 2019	**36**	**390**	**655**	**1,081**

2018

Total by portfolio	Residential mortgages	Commercial	Consumer finance	Total
	€m	€m	€m	€m
At 31 December 2017 (IAS 39)	2,126	71	49	2,246
Impact of adopting IFRS 9 at 1 January 2018				
Increase/(decrease) in ECL allowances	115	(17)	10	108
Application of Purchased Originated Credit Impaired accounting	-	-	(31)	(31)
At 1 January 2018 (IFRS 9)	2,241	54	28	2,323
Portfolio reclassification	13	(13)	-	-
Redemptions & maturities	(18)	-	(1)	(19)
Net remeasurement of loss allowance	24	30	3	57
Loan originations	6	1	1	8
Net movement excluding derecognition	25	18	3	46
Derecognition-disposals	(1,188)	(20)	-	(1,208)
Derecognition-repossessions	(37)	-	-	(37)
Derecognition-write offs*	(28)	(10)	(3)	(41)
Derecognition	(1,253)	(30)	(3)	(1,286)
ECL as at 31 December 2018	1,013	42	28	1,083
Net movement excluding derecognition (half year ended 30 June 2018)				22
Write offs net of recoveries				(3)
Income booked but not recognised				(19)
Impairment charge for the half year ended 30 June 2018				-

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

14. Impairment provisions (continued)

Total by Stage	Stage 1	Stage 2	Stage 3	Total
	€m	€m	€m	€m
ECL as at 1 January 2018	54	333	1,936	2,323
Transfer to Stage 1	11	(11)	-	-
Transfer to Stage 2	(32)	88	(56)	-
Transfer to Stage 3	(1)	(12)	13	-
Stage transfers	(22)	65	(43)	-
Redemptions & maturities	(3)	(2)	(14)	(19)
Net remeasurement of loss allowance	(1)	19	39	57
Loan originations	7	1	-	8
Net movement excluding derecognition	3	18	25	46
Derecognition-disposals	-	(5)	(1,203)	(1,208)
Derecognition-repossessions	-	-	(37)	(37)
Derecognition-write offs	-	-	(41)	(41)
Derecognition	-	(5)	(1,281)	(1,286)
ECL as at 31 December 2018	35	411	637	1,083

15. Deferred taxation

	30 June 2019	31 December 2018
	€m	€m
Deferred tax liabilities	**(23)**	(22)
Deferred tax assets	**372**	377
Net deferred tax assets	**349**	355

	30 June 2019	31 December 2018
	€m	€m
At 1 January	**355**	343
Recognised through Income statement (note 7)	**(6)**	2
Recognised in equity	**-**	17
Recognised in other comprehensive income	**-**	(7)
30 June 2019/31 December 2018	**349**	355

DTAs 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 €362m at 30 June 2019. It should be noted that the full deferred tax asset on tax losses relates to tax losses generated in the PTSB legal entity (i.e. no deferred tax asset is being recognised on tax losses carried forward in any other Group company). The assessment of recoverability of this asset requires significant judgements to be made about the projection of long-term profitability because of the period over which recovery extends. In addition, given the Company's history of recent losses, in accordance with IAS 12, there must be convincing other evidence to underpin this assessment.

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

- The improving macroeconomic environment including the continued growth in GDP, the continued decline in unemployment and the continued increase in house prices;
- External forecasts for the Irish economy which indicate continued and increasing economic recovery in the medium term;
- The significant progress made on the Group's NPL strategy during 2018 together with the deleveraging of the Group's Non-Core portfolios in recent years;
- The current expected trajectory of the Group's financial performance;
- The impairment performance;
- The Group's projected liquidity and capital position; and
- The capability demonstrated by the Group in recent years to raise additional capital, when required, in challenging circumstances.

The above positive factors have been balanced with consideration of continued uncertainty brought about by Brexit.

15. Deferred taxation (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 DTAs on tax losses compared to the Group's equity;
- The quantum of profits required to be generated to utilise the tax losses and the extended period of time over which these profits are projected to be generated;
- The challenge of forecasting over an extended period and in particular taking account of external factors such as the level of competition and disruptors to the market and market size;
- Consideration of the assumptions underpinning the Group's financial projections (on which analysis of the recoverability of the deferred tax asset on tax losses are based). The key relevant assumptions considered being:
  - No material change to the Group's business activities in the medium term;
  - Further progress in addressing the Group's legacy, non-performing assets;
  - NIM is expected to be positively impacted by the evolution of the Group's lending book as new lending volumes are added and lower yielding tracker mortgages pay down; however, further material reductions in cost of funds are considered unlikely;
  - An expectation that mortgage market size will continue to return to normalised levels of activities; together with further anticipated growth in the Group's market share;
  - Continued focus on cost management; and
  - The cost of risk will continue its return to normalised levels reflecting the Group's assessment of the medium to long term average.
- Consideration of forecasting risks, including sensitivity analysis on the financial projections, such sensitivity analysis including the effect of higher than expected impairments, cost of funds or operating expenditure, and lower than expected asset yields, new lending or ECB rates; and
- Potential implications for the Irish economy resulting from global political uncertainty and, in particular, a no deal Brexit.

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 €362m of a deferred tax asset on tax losses on the statement of financial position as at 30 June 2019.

In this regard, the Group has carried out an exercise to determine the likely number of years required to utilise the deferred tax asset arising on tax losses carried forward. Based on the Group's latest forecast plans to 2022 and thereafter assuming a level of profitability growth consistent with GDP growth of approximately 2.5%, it will take 17 years for the deferred tax asset on tax losses of €362m 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. Notwithstanding the impact of hard Brexit, an assumed growth rate of 2.5% has been used in line with the prior period reflecting medium and long-term external forecasts for the Irish economy (with a number of external organisations forecasting medium and long-term growth at rates higher than 2.5%). 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 recognition of this deferred tax 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 global political uncertainty including Brexit, interest rate environment, loan loss provisions, operating costs, the regulatory environment and implementation of the Group's NPL strategy, Management expect that, notwithstanding these, the Group will be profitable over the medium term. Consequently, any change to these factors, which would ultimately impact on profitability, are highly subjective, but will only impact on the time period over which this asset is recovered.

16. Other assets

	30 June 2019	31 December 2018
	€m	€m
Loan sale receivable	**-**	1,220
Other	**5**	7
	5	1,227

Loan sale receivable of €1,220m as at 31 December 2018 related to the amount due from the purchaser of the Glas portfolio which was paid during the first half of 2019.

17. Deposits by banks (including central banks)

	30 June 2019	31 December 2018
	€m	€m
Placed by other banks and institutions on repurchase agreements	**205**	1,551
Other deposits	**1**	1
Deposits by banks	**206**	1,552
Balances placed by the ECB		
Maximum	**-**	230
Average	**-**	221

Of the deposits received on repurchase agreements, €223m (31 December 2018: €1,550m) are collateralised on €224m (31 December 2018: €1,688m) 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 13).

Other deposits include €1m (31 December 2018: €1m) of cash collateral placed in relation to derivative instruments.

18. Customer accounts

	30 June 2019	31 December 2018
	€m	€m
Term deposits	**7,276**	7,320
Demand deposits	**3,742**	3,724
Current accounts	**4,456**	4,147
Notice and other accounts	**1,897**	1,829
Customer accounts	**17,371**	17,020

€0.1bn of deposits are placed by a Government institution (31 December 2018: €0.1bn) which are included within term deposits.

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

19. Debt securities in issue

	30 June 2019	31 December 2018
	€m	€m
At amortised cost		
Bonds and medium-term notes	**17**	18
Non-recourse funding	**712**	1,077
	729	1,095
Maturity analysis		
Repayable in greater than 1 year but less than 2 years	**7**	-
Repayable in greater than 2 years but less than 5 years	**-**	7
Repayable in greater than 5 years	**722**	1,088
	729	1,095

Non-recourse funding
As at 30 June 2019, the Group had advances of €0.7bn (31 December 2018: €1.1bn) collateralised on residential property loans of €0.7bn (31 December 2018: €1.0bn) subject to non-recourse funding by way of residential mortgage securitisations. Residential mortgage securitisations involve transferring the interest in pools of mortgages to special purpose entities which issue mortgage-backed floating-rate notes to fund the purchase of the interest in mortgage pools. These loans, which have not been de-recognised, are shown within loans and advances to customers while the non-recourse funding is shown as a separate liability.

Non-recourse funding reduced by €0.4bn between 31 December 2018 and 30 June 2019 to €0.7bn, primarily due to the accelerated redemption of a securitisation during the year. The Group did not have any defaults of principle and interest or other breaches with respect to non-recourse funding during the interim period ended 30 June 2019.

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

20. Other liabilities

	30 June 2019	31 December 2018
	€m	€m
Amounts falling due within one year		
PAYE and social insurance	**4**	4
Other taxation including deposit interest retention tax (DIRT)	**2**	2
Lease liabilities	**45**	-
Other	**63**	63
	114	69

See note 22 for further information on lease liabilities.

21. Provisions

	2019				2018			
	Restructuring costs	**Provision for legacy legal and compliance issues**	**Other**	**Total**	Restructuring costs	Provision for legacy legal and compliance issues	Other	Total
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
As at 1 January	**5**	**55**	**14**	**74**	12	45	6	63
Provisions made during the period	**12**	**4**	**-**	**16**	3	33	14	50
Write-back of provisions during the year	**(2)**	**-**	**-**	**(2)**	-	(2)	(3)	(5)
Provisions used during the period	**(9)**	**(29)**	**-**	**(38)**	(10)	(21)	(3)	(34)
As at 30 June/31 December	**6**	**30**	**14**	**50**	5	55	14	74

The provision at 30 June 2019 is €50m (31 December 2018: €74m) which is comprised of the following:

Restructuring costs
During 2018 the Group announced a voluntary severance scheme. At June 2019, provisions of €9m were utilised, the remaining provision of €4m (31 December 2018: €2m) is based on an estimate of the remaining costs to bring phase 2 to its conclusion.

The Group remains a lessee on a number of non-cancellable leases over properties that it no longer occupies following a restructure in 2013. At June 2019, provisions of €2m were written back in line with IFRS 16 (note 23). The remaining provision of €1m relates to dilapidation costs associated with the remaining properties. The majority of this provision will be utilised in the next 12 months.

Provision for legacy, legal and compliance issues
The Bank has recognised provisions of €30m relating to legal, compliance and other costs of on-going disputes in relation to legacy business issues.

As announced by the Bank on 30 May 2019, the CBI has concluded its Enforcement Investigation in respect of Tracker Mortgages at PTSB and the associated fine of €21m was paid during the period. This reduces the overall level of uncertainty for this matter. However uncertainty still arises in respect to additional compensation and costs arising from appeals taken by customers through the appeals process, the FSPO or the Courts. Management have exercised judgement in arriving at the estimated provision in respect of these uncertainties. It is expected that €20m will be utilised in the next 12 months.

Other
At June 2019, the provision of €14m (31 December 2018: €14m) primarily relates to indemnities and guarantees provided by the Group, together with further costs, relating to deleveraging of various asset portfolios.

22. Leases

The Group has recognised right-of-use assets which were previously treated under the guidelines of IAS17 as at 31 December 2018.

Right-of-use assets

	30 June 2019
	€m
Right-of-use assets - land and buildings	**45**
Right-of-use assets - vehicles	**1**
Depreciation charge for the period	**(4)**
Balance as at 30 June 2019	**42**

Additions to the right-of-use assets during 2019 were €3m. Lease exits or cancellations during 2019 were €2m.

22. Leases (continued)

Lease liabilities

	30 June 2019
	€m
Maturity analysis - contractual undiscounted cash flows	
Less than one year	-
One to five years	15
More than five years	33
Total undiscounted lease liabilities at 30 June 2019	48
Lease liabilities included in the statement of financial position at 30 June 2019	45
Current lease liability	-
Non-current lease liability	45

Amounts recognised in income statement*

	30 June 2019
	€m
Depreciation of right-of-use assets	(4)
Total	(4)

* Interest expense on the lease liabilities amounted to €0.2m whereas income from sub-leasing of surplus properties (finance leases) is less €0.1m for the period ended 30 June 2019.

Amounts recognised in the statement of cash flows

	30 June 2019
	€m
Cash outflow for leases	(4)
Total	(4)

As a lessee

i. Real estate lessee

The Group leases retail properties for its branch operations. The lease term of retail properties typically run for a period of 10-30 years. The Group does not have variable lease payments and its leases do not contain extension options.

ii. Vehicles

The Group leases vehicles with lease terms of three to five years. The Group has no option to purchase the assets at the end of the contract term and it does not guarantee the residual value of the leased assets at the end of the contract term.

iii. Other leases

The Group also leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

iv. Sub-leases

Two of the properties that the Group leases are vacant and surplus to its requirements. These two units are with agents for disposal by way of assignment or sub-let. These sub-leases have been classified as finance leases because the sub-lease is for the whole of the remaining term of the head lease and treated separately from their head lease.

23. Share capital, reserves and other equity instruments

Share capital

Share capital is the funds raised as a result of a share issue and comprises the ordinary shares of the company.

Authorised share capital

	Number of shares	30 June 2019 €m
Ordinary shares of €0.32 each	**750,000,000**	**€240**
Preference shares of €1 each	**300,000,000**	**€300**
Preference shares of US$1 each	**200,000,000**	**$200**
Preference shares of Stg£1 each	**100,000,000**	**£100**

	Number of shares	31 December 2018 €m
Ordinary shares of €0.32 each	750,000,000	€240
Preference shares of €1 each	300,000,000	€300
Preference shares of US$1 each	200,000,000	$200
Preference shares of Stg£1 each	100,000,000	£100

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

Issued share capital

There were no movements in the share capital for the interim period ending 30 June 2019. The number of paid up ordinary shares at €0.32 cent is as follows:

Balance as at 30 June 2019

	30 June 2019	31 December 2018
Issued share capital (number of shares)	**276,782,351**	276,782,351
Issued share capital (€m)	**89**	89

Share premium

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

Other reserves

Revaluation reserve (Non-distributable)

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

Fair value reserve (Non-distributable)

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

Currency translation adjustment reserve (Non-distributable)

The currency translation adjustment reserve represents the cumulative gains and losses, net of hedging on the re-translation of the Group's net investment in foreign operations, at the rate of exchange at the reporting date.

Other capital reserves (Non-distributable)

Other capital reserves include €7m capital redemption reserve arising from the repurchase and cancellation of shares.

Retained earnings

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

On 1 January 2019, the Group adopted IFRS 16 and on transition to IFRS 16, the Group recognized an additional €45m of right-of-use assets €46m of lease liabilities, and €1m of finance leases. There was an immaterial difference on retained earnings from transition to IFRS 16.

Furthermore €11m (2018: €11m) coupon interest on the AT1 securities was paid from this reserve during 2019.

Other equity instruments - Non-distributable

	30 June 2019	31 December 201
	€m	€n
Additional Tier 1 securities	**122**	12

On 6 May 2015, the Company issued €125,000,000 fixed rate resettable 'AT1 securities' as part of the PTSBGH Capital Raise. The first reset date for the fixed rate is 1 April 2021.

The AT1 securities are perpetual and redeemable financial instruments with an annual coupon of 8.625%. The Company may elect at its full discretion at any time to cancel permanently (in whole or in part) the interest amount otherwise scheduled to be paid on an interest payment date. The Company ma use such cancelled payments without restriction, including to make distributions or any other payments to the holders of its shares or any other securities issued by the Company. Any cancellation of interest payments will be permanent and on a non-cumulative basis and such cancellation will not give rise to or impose any restriction on the Company.

On the occurrence of a Trigger Event 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 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). AT1 securities are included in regulatory capital base of the Group on a fully loaded basis.

Although the AT1 securities are perpetual, the Company may, in its sole discretion, redeem the AT1 securities in full on the first reset date, being 1 April 2021 and on every interest payment date thereafter (subject to the approval of the Supervisory Authority).

€11m coupon interest on the AT1 securities was paid in April 2019 (April 2018: €11m). This is paid out of distributable retained earnings on an annual basis.

24. 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 condensed consolidated statement of changes of equity.

6 months to 30 June 2019	**Revaluation reserve**	**Fair value reserve**	**Currency translation adjustment reserve**	**Retained earnings**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
Other comprehensive expense (net of tax)					
Revaluation of property	**-**	**-**	**-**	**-**	**-**
Currency translation adjustment	**-**	**-**	**-**	**-**	**-**
Fair value reserve (equity instruments):					
Change in value of equity instruments	**-**	**3**	**-**	**-**	**3**
Fair value reserve (debt instruments):					
Change in fair value of debt instruments	**-**	**(9)**	**-**	**-**	**(9)**
Disposal of debt instruments	**-**	**4**	**-**	**-**	**4**
Total other comprehensive expense, net of tax	**-**	**(2)**	**-**	**-**	**(2)**

12 months to 31 December 2018	Revaluation reserve	Fair value reserve	Currency translation adjustment reserve	Retained earnings	Total
	€m	€m	€m	€m	€m
Other comprehensive expense (net of tax)					
Revaluation of property	-	-	-	-	-
Currency translation adjustment	-	-	(1)	-	(1)
Fair value reserve (equity instruments):					
Change in value of equity instruments	-	1	-	-	1
Fair value reserve (debt instruments):					
Change in fair value of debt instruments	-	(18)	-	-	(18)
Disposal of debt instruments	-	(6)	-	-	(6)
Total other comprehensive expense, net of tax	-	(23)	(1)	-	(24)

6 months to 30 June 2018	Revaluation reserve	Fair value reserve	Currency translation adjustment reserve	Retained earnings	Total
	€m	€m	€m	€m	€m
Other comprehensive expense (net of tax)					
Revaluation of property	(5)	-	-	-	(5)
Currency translation adjustment	-	-	-	-	-
Fair value reserve (equity instruments):					
Change in value of equity instruments	-	1	-	-	1
Fair value reserve (debt instruments):					
Change in fair value of debt instruments	-	(10)	-	-	(10)
Disposal of debt instruments	-	(10)	-	-	(10)
Total other comprehensive expense, net of tax	(5)	(19)	-	-	(24)

25. Measurement basis and fair values of financial instruments

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

30 June 2019	**Note**	**Held at amortised cost €m**	**At fair value through OCI €m**	**At fair value through profit or loss €m**	**Designated as fair value hedges €m**	**Total carrying value €m**	**Fair value €m**
Financial assets:							
Cash and balances with central banks	8	**46**	-	-	-	**46**	**46**
Items in course of collection	8	**28**	-	-	-	**28**	**28**
Debt securities*	9	**1,714**	**422**	-	-	**2,136**	**2,181**
Equity securities	10	-	**17**	-	-	**17**	**17**
Derivative assets**	11	-	-	-	**1**	**1**	**1**
Loans and advances to banks	12	**1,698**	-	-	-	**1,698**	**1,698**
Loans and advances to customers	13	**15,804**	-	-	**2**	**15,806**	**15,156**
Financial liabilities:							
Deposits by banks	17	**206**	-	-	-	**206**	**206**
Customer accounts	18	**17,371**	-	-	-	**17,371**	**17,361**
Debt securities in issue	19	**729**	-	-	-	**729**	**727**
Derivative liabilities**	11	-	-	**2**	**9**	**11**	**11**

31 December 2018	Note	Held at amortised cost €m	At fair value through OCI €m	At fair value through profit or loss €m	Designated as fair value hedges €m	Total carrying value €m	Fair value €m
Financial assets:							
Cash and balances with central banks	9	65	-	-	-	65	65
Items in course of collection	9	17	-	-	-	17	17
Debt securities*	10	2,090	557	-	-	2,647	2,682
Equity securities	11	-	13	-	-	13	13
Derivative assets**	12	-	-	-	1	1	1
Loans and advances to banks	13	1,159	-	-	-	1,159	1,159
Loans and advances to customers	14	15,885	-	-	3	15,888	14,908
Financial liabilities:							
Deposits by banks	18	1,552	-	-	-	1,552	1,552
Customer accounts	19	17,020	-	-	-	17,020	17,038
Debt securities in issue	20	1,095	-	1	(1)	1,095	1,093
Derivative liabilities**	12	-	-	2	12	14	14

*Debt securities held at amortised cost include €1,714m of hold to collect securities (31 December 2018: €2,090m).

**Derivative assets and liabilities held at fair value through the profit and loss (FVTPL) relate to derivative instruments deemed to be held for trading.

Fair value measurement principles

The Group's accounting policy on valuation of financial instruments which is described in note 1 and note 2 of the 2018 Annual Report 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 half year which may not necessarily be indicative of any subsequent fair value. Changes in the assumptions used would impact 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 here, 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. The fair values disclosed above also do not represent nor should they be interpreted to represent, the underlying value of the Group as a going concern at the reporting date.

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.

A description of the methods, assumptions and processes used to calculate fair values of these assets and liabilities are set out on pages 187 to 188 (note 34) of the Annual Report for the year ended 31 December 2018. At 30 June 2019, there have been no significant changes to these methods, assumptions or processes.

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

The following table presents financial instruments that are measured at fair value categorised into the fair value hierarchy.

30 June 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
	€m	**€m**	**€m**	**€m**
Financial assets measured at fair value				
Debt securities (note 9)	**422**	**-**	**-**	**422**
Equity instruments (note 10)	**-**	**-**	**17**	**17**
Derivative assets (note 11)	**-**	**1**	**-**	**1**
Financial liabilities measured at fair value				
Derivative liabilities (note 11)	**-**	**11**	**-**	**11**

During the half year ended 30 June 2019, there were no transfers between any of the levels of the fair value hierarchy.

31 December 2018	Level 1	Level 2	Level 3	Total
	€m	€m	€m	€m
Financial assets measured at fair value				
Debt securities				
AFS Debt securities (note 10)	557	-	-	557
Equity instruments (note 11)	-	-	13	13
Derivative assets (note 12)	-	1	-	1
Financial liabilities measured at fair value				
Derivative liabilities (note 12)	-	14	-	14

During the year ended 31 December 2018, there were no transfers between any of the levels of the fair value hierarchy.

Derivative assets and liabilities

Derivative assets of €1m (31 December 2018: €1m) and derivative liabilities of €11m (31 December 2018: €14m) have been classified as level 2 in the fair value hierarchy above. Valuation techniques used for instruments categorised in level 2 are described in note 34 of the 2018 Annual Report.

Reconciliation of level 3 fair value measurements of financial assets

	2019	2018
	€m	€m
Equity instruments - fair value reserve		
As at 1 January	**13**	12
Revaluation movement	**4**	1
As at 30 June 2019/31 December 2018	**17**	13

Equity instruments - fair value reserve

PTSB continues to hold the preferred stock in Visa Inc. at 30 June 2019. This was fair valued at €17m at 30 June 2019 (31 December 2018: €13m) and is recognised in the statement of financial position.

26. Financial risk management

The Group's risk management framework, risk identification and assessment process are disclosed in detail in the risk management section of the report.

Credit risk

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

The Group manages credit risk through detailed credit policies for each business unit which outline relevant conditions under which a loan can be made covering collateral credit assessment risk grading and compliance. Credit policies establish coherent limit systems for credit risk. There are various limit structures which are in place to manage credit default risk, concentration risk, settlement risk and counterparty risk.

The Group Credit Committee, as created by the Board of Directors, oversees the overall exposure to credit risk and the arrangements put in place to minimise credit risk in line with regulatory and statutory requirements.

26. Financial risk management (continued)

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

	Notes	30 June 2019	31 December 2018
		€m	€m
Cash and balances with central banks	8	46	65
Items in course of collection	8	28	17
Debt securities (i)	9	2,136	2,647
Derivative assets (ii)	11	1	1
Loans and advances to banks (iii)	12	1,698	1,159
Loans and advances to customers (iv)	13	15,806	15,888
Other assets	16	-	1,220
		19,715	20,997
Commitments and contingencies	27	942	912
		20,657	21,909

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). These exposures are subject to the limitations contained within Board approved policies, with sovereign debt restricted to those countries that have an External Credit Assessment Institution (ECAI) rating of investment grade.

The following table gives an indication of the level of the creditworthiness of the Group's debt securities and is based on ratings that are equivalent to the ratings prescribed by Moodys investor services.

	30 June 2019	31 December 2018
	€m	€m
Rating		
A	1,880	2,391
Baa	213	212
Unrated	43	44
Total	2,136	2,647

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

	30 June 2019	31 December 2018
	€m	€m
Country		
Ireland	1,923	2,435
Spain	213	212
Total	2,136	2,647

Irish sovereign debt of €1,880m which is held by the Group carries a guarantee from the Minister for Finance on behalf of the Irish State with the exception of Glenbeigh securities (€43m).

(ii) Derivative assets

	30 June 2019	31 December 2018
	€m	€m
Covered by netting agreements	1	1
Total	1	1

The Group has executed standard ISDA agreements with all of its counterparties. The Group has also executed CSAs with its counterparties in respect of the majority of derivative instruments to mitigate its credit risk. As part of these agreements, the Group exchanges collateral in line with movements in the market values of derivative positions daily. The cumulative positive market value of derivative assets at 30 June 2019 was €1m (31 December 2018: €1m). In the majority of cases the Group manages its collateral derivative positions with counterparties on a net basis. The uncollateralised derivative position as at 30 June 2019 is €nil (31 December 2018: €nil). The level of collateral placed and received by the Group is outlined in note 12 Loans and advances to banks.

(iii) Loans and advances to banks
The Group has a policy to ensure that, where possible, loans and advances to banks are held with investment grade counterparties with any exceptions subject to prior approval by the BRCC. The table on the following page gives an indication of the level of creditworthiness of the Group's loans and advances to banks and is based on the internally set rating that is equivalent to the rating prescribed by Moody's Investor Services Limited and Standard & Poor's for the CBI.

26. Financial risk management (continued)

	30 June 2019	31 December 2018
	€m	€m
Rating		
Aaa	**888**	562
Aa	**674**	368
A	**127**	212
Baa	**9**	4
Ba	**-**	13
Total	**1,698**	1,159

The tables below outline total loans and advances to customers for the Group's residential mortgages analysed by home loans, buy-to-let, commercial and

(iv) Loans and advances to customers

Asset Quality

	30 June 2019	31 December 2018
Measured at amortised cost	**€m**	€m
Residential mortgages:		
Home loan	**12,403**	12,413
Buy-to-let	**3,904**	4,003
Total residential mortgages	**16,307**	16,416
Commercial	**171**	165
Consumer finance	**349**	335
Total measured at amortised cost	**16,827**	16,916
Analysed by ECL staging:		
Stage 1	**10,620**	10,519
Stage 2	**4,522**	4,701
Stage 3	**1,682**	1,692
POCI	**3**	4
Neither past due nor Stage 3	**15,101**	15,195
Past due but not Stage 3	**41**	25
Stage 3	**1,685**	1,696
Total measured at amortised cost	**16,827**	16,916
Of which are reported as non-performing loans	**1,685**	1,696
Deferred fees, discounts and hedging adjustments	**60**	55

The tables below outline the ECL loss allowance total at 30 June 2019 and 31 December 2018 in respect of total loans and advances.

	30 June 2019	31 December 2018
	€m	€m
Loss allowance – statement of financial position		
Stage 1	**36**	35
Stage 2	**390**	411
Stage 3	**655**	637
Total loss allowance	**1,081**	1,083

	30 June 2019	31 December 2018
	%	%
Loss allowance cover percentage		
Stage 1	**0.3%**	0.3%
Stage 2	**8.6%**	8.7%
Stage 3	**38.9%**	37.6%
Total provisions/total loans	**6.4%**	6.4%

26. Financial risk management (continued)

Non-performing loans:

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

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

NPAs are defined as NPLs plus foreclosed assets.

The following table provides an aged analysis of NPLs (Stage 3):

30 June 2019

	Home loans	Buy-to-let	Commercial	Consumer finance	Total
	€m	€m	€m	€m	€m
NPL is < 90 days	602	358	30	3	993
NPL is > 90 days and < 1 year past due	73	27	1	8	109
NPL is 1-2 years past due	45	11	1	1	58
NPL is 2-5 years past due	52	18	9	4	83
NPL is > 5 years past due	296	132	7	4	439
POCI	-	-	-	3	3
Non-performing loans	**1,068**	**546**	**48**	**23**	**1,685**
Foreclosed assets*	**29**	**71**	**2**	**-**	**102**
Non-performing assets	**1,097**	**617**	**50**	**23**	**1,787**
NPLs as % of gross loans	**9%**	**14%**	**28%**	**7%**	**10%**

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

31 December 2018

	Home loans	Buy-to-let	Commercial	Consumer finance	Total
	€m	€m	€m	€m	€m
NPL is < 90 days	654	336	29	3	1022
NPL is > 90 days and < 1 year past due	77	19	-	9	105
NPL is 1-2 years past due	20	8	2	1	31
NPL is 2-5 years past due	55	19	13	4	91
NPL is > 5 years past due	294	134	11	4	443
POCI	-	-	-	4	4
Non-performing loans	1,100	516	55	25	1,696
Foreclosed assets*	43	105	-	-	148
Non-performing assets	1,143	621	55	25	1,844
NPLs as % of gross loans	9%	13%	33%	7%	10%

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

26. Financial risk management (continued)

Loan to value profile

Loan-to-value (LTV) of mortgage lending (index linked):

The LTV ratio is calculated at a property level and is the average of indexed property values in proportion to the outstanding loan balance. LTV is a key input to the impairment provisioning process. The tables below outline the composition of this ratio for the residential loan portfolio.

Actual and average LTVs across principal mortgage portfolios:

The tables below outline the weighted average LTVs for the total residential mortgage portfolios analysed across home loans and buy-to-let facilities by value. The weighted average LTV on the residential mortgage portfolios is 73% at 30 June 2019 compared to 72% at 31 December 2018.

30 June 2019

	Home loans	**Buy-to-let**	**Total**
	%	%	%
Less than 50%	**33%**	**14%**	**28%**
50% to 70%	**25%**	**13%**	**22%**
71% to 90%	**27%**	**19%**	**25%**
91% to 100%	**7%**	**13%**	**9%**
Subtotal	**92%**	**59%**	**84%**
101% to 110%	**3%**	**12%**	**5%**
111% to 120%	**2%**	**9%**	**3%**
121% to 130%	**1%**	**6%**	**2%**
131% to 140%	**1%**	**4%**	**1%**
141% to 150%	**-**	**3%**	**1%**
151% to 160%	**-**	**1%**	**1%**
161% to 170%	**-**	**1%**	**1%**
171% to 180%	**-**	**1%**	**-**
Greater than 180%	**1%**	**4%**	**2%**
Subtotal	**8%**	**41%**	**16%**
Total	**100%**	**100%**	**100%**
Weighted average LTV:			
Stock of residential mortgages	**65%**	**97%**	**73%**
New residential mortgages	**75%**	**62%**	**75%**
Stage 3 mortgages	**106%**	**141%**	**117%**

31 December 2018

	Home loans	Buy-to-let	Total
	%	%	%
Less than 50%	33%	14%	29%
50% to 70%	25%	14%	23%
71% to 90%	26%	20%	24%
91% to 100%	7%	13%	8%
Subtotal	91%	61%	84%
101% to 110%	3%	12%	5%
111% to 120%	2%	9%	3%
121% to 130%	1%	5%	2%
131% to 140%	1%	4%	1%
141% to 150%	-	2%	1%
151% to 160%	-	1%	1%
161% to 170%	1%	1%	1%
171% to 180%	-	1%	-
Greater than 180%	1%	4%	2%
Subtotal	9%	39%	16%
Total	100%	100%	100%
Weighted average LTV:			
Stock of residential mortgages	65%	96%	72%
New residential mortgages	72%	58%	71%
Stage 3 mortgages	103%	140%	115%

26. Financial risk management (continued)

Forbearance arrangements

The Group has provided information in respect of its key forborne portfolios at the statement of financial position date.

The Group operates a number of mechanisms which are designed to assist borrowers experiencing credit and loan repayment difficulties, which have been developed in accordance with the existing CCMA. These are set out in the tables below.

Residential mortgages

The tables below set out the volume of loans for which the Group has entered formal temporary and permanent forbearance arrangements with customers as at 30 June 2019 and 31 December 2018.

(i) Residential home loan mortgages:

The incidence of the main type of forbearance arrangements for home loan residential mortgages are analysed below:

30 June 2019	**All loans**		**Stage 3**	
	Number	**Balances**	**Number**	**Balances**
		€m		**€m**
Interest only	**315**	**55**	**291**	**49**
Reduced payment (less than interest only)	**23**	**4**	**17**	**3**
Reduced payment (greater than interest only)	**4,710**	**749**	**2,947**	**514**
Payment moratorium	**153**	**20**	**35**	**5**
Arrears capitalisation	**1,294**	**184**	**546**	**77**
Term extension	**924**	**79**	**347**	**31**
Hybrid*	**293**	**54**	**188**	**33**
Split mortgages	**601**	**117**	**601**	**117**
Total	**8,313**	**1,262**	**4,972**	**829**

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

31 December 2018	All loans		Stage 3	
	Number	Balances	Number	Balances
		€m		€m
Interest only	274	45	261	42
Reduced payment (less than interest only)	24	3	19	2
Reduced payment (greater than interest only)	5,420	819	3,103	534
Payment moratorium	152	22	36	5
Arrears capitalisation	1,685	240	610	86
Term extension	1,246	100	376	33
Hybrid*	333	64	209	37
Split mortgages	625	123	625	123
Total	9,759	1,416	5,239	862

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

The tables above reflect a decrease of 1,466 cases as at 30 June 2019 for the Group in the number of residential home loans in forbearance arrangements, a decrease of €154m. The average balance of forborne loans has marginally increased during the period (30 June 2019: €0.152m versus 31 December 2018: €0.145m).

(ii) Residential buy-to-let mortgages:

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

30 June 2019	**All loans**		**Stage 3**	
	Number	**Balances**	**Number**	**Balances**
		€m		**€m**
Interest only	**386**	**148**	**375**	**144**
Reduced payment (less than interest only)	**1**	**-**	**1**	**-**
Reduced payment (greater than interest only)	**714**	**282**	**337**	**116**
Payment moratorium	**4**	**1**	**3**	**1**
Arrears capitalisation	**112**	**49**	**93**	**44**
Term extension	**76**	**19**	**25**	**6**
Hybrid*	**39**	**11**	**35**	**10**
Split mortgages	**117**	**32**	**117**	**32**
Total	**1,449**	**542**	**986**	**353**

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

26. Financial risk management (continued)

31 December 2018	All loans		Stage 3	
	Number	Balances	Number	Balances
		€m		€m
Interest only	366	146	353	140
Reduced payment (less than interest only)	3	1	1	-
Reduced payment (greater than interest only)	986	426	346	115
Payment moratorium	4	1	3	1
Arrears capitalisation	147	62	96	46
Term extension	98	19	28	7
Hybrid*	41	12	29	8
Split mortgages	118	32	118	32
Total	1,763	699	974	349

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

The tables above reflect a decrease of 314 cases as at 30 June 2019 for the Group in the number of residential buy-to-let in forbearance arrangements, a decrease of €157m. The average balance of forborne loans reduced during the period (30 June 2019: €0.374m versus 31 December 2018: €0.396m).

(iii) Commercial mortgages:

	30 June 2019		31 December 2018	
	Number	**Balances**	Number	Balances
		€m		€m
Interest only	**7**	**1**	10	1
Reduced payment (less than interest only)	**-**	**-**	-	-
Reduced payment (greater than interest only)	**28**	**14**	27	13
Payment moratorium	**-**	**-**	-	-
Arrears capitalisation	**6**	**2**	7	4
Term extension	**12**	**5**	12	5
Hybrid*	**14**	**5**	14	6
Split mortgages	**-**	**-**	-	-
Total	**67**	**27**	70	29

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

The balance of loans in forbearance in the commercial portfolio amounts to €27m, a decrease of €2m or 7%.

Impairment charge and provisions on loans and advances to customers by product line

The tables below provide the movement in impairment charges from the half year ended 30 June 2018 to 30 June 2019 and also the provisions in respect of performing and Stage 3 forborne loans as at 30 June 2019 and 31 December 2018.

Forborne loans - impairment charge	**Half year ended 30 June 2019**			Half year ended 30 June 2018		
	Performing	**Stage 3**	**Total**	Performing	Stage 3	Total
	€m	**€m**	**€m**	€m	€m	€m
Residential						
- Home loans	**(6)**	**(2)**	**(8)**	(6)	26	20
- Buy-to-let	**1**	**4**	**5**	(7)	(8)	(15)
Commercial	**(1)**	**-**	**(1)**	-	(3)	(3)
Total impairment (write-back)/charge	**(6)**	**2**	**(4)**	(13)	15	2

Forborne loans - stock of impairment provisions	**30 June 2019**			31 December 2018		
	Performing	**Stage 3**	**Total**	Performing	Stage 3	Total
	€m	**€m**	**€m**	€m	€m	€m
Residential						
- Home loans	**9**	**312**	**321**	12	315	327
- Buy-to-let	**33**	**169**	**202**	60	160	220
Commercial	**-**	**15**	**15**	-	15	15
Total impairment provisions	**42**	**496**	**538**	72	490	562

26. Financial risk management (continued)

Collateral in possession

Collateral in possession occurs where the obligor either (i) voluntarily surrenders the property or (ii) the Group takes legal ownership due to non-repayment of the loan facility. The following tables outline the main movements in this category during the first six months of 2019.

Stock of collateral in possession	30 June 2019		31 December 2018	
	Number*	Balance outstanding at transfer of ownership	Number	Balance outstanding at transfer of ownership
		€m		€m
Residential collateral in possession				
Home loans	**224**	**65**	350	94
Buy-to-let	**620**	**166**	948	249
Commercial	**10**	**5**	12	6
Total	**854**	**236**	1,310	349

*During the first six months of 2019, 5 properties were reclassified between the different portfolios. This consisted of 3 home loans and 2 buy-to-let properties.

Collateral in possession assets are sold as soon as practicable. These assets which total €102m as at 30 June 2019 (31 December 2018: €148m) are included in assets held for sale (see note 29 for further details).

During the first six months of 2019, 456 properties were disposed of.

	Number
Home loans	**125**
Buy-to-let	**329**
Commercial	**2**
Total	**456**

30 June 2019	Number of disposals	Balance outstanding at transfer of ownership	Gross sales proceeds	Costs to sell	Pre provisioning loss on sale*
		€m	€m	€m	€m
Collateral in possession					
Home loans	**125**	**31**	**16**	**1**	**16**
Buy-to-let	**329**	**81**	**44**	**2**	**39**
Commercial	**2**	**1**	**1**	**-**	**-**
Period ended 30 June 2019	**456**	**113**	**61**	**3**	**55**

*Calculated as gross sales proceeds less balance outstanding at transfer of ownership less costs to sell.

31 December 2018	Number of disposals	Balance outstanding at transfer of ownership	Gross sales proceeds	Costs to sell	Pre provisioning loss on sale*
		€m	€m	€m	€m
Collateral in possession					
Home loans	339	87	45	1	43
Buy-to-let	481	120	59	3	64
Commercial	14	5	2	-	3
Year ended 31 December 2018	834	212	106	4	110

*Calculated as gross sales proceeds less balance outstanding at transfer of ownership less costs to sell.

26. 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.

The Group's liquidity risk framework is disclosed in the 2018 Annual Report (pages 58, 59 and 60). There have been no changes to the framework during the half year ended 30 June 2019.

The Assets and Liabilities Committee (ALCO) monitors sources of funding and reviews short-term and long-term borrowings and their respective maturity profiles. The Group's funding profile can be broken down into the below component parts:

	30 June 2019	31 December 2018
	%	%
Customer accounts	**95**	87
Long-term debt	**4**	5
Short-term debt	**1**	8
	100	100

Long-term debt refers to debt with a remaining maturity greater than 12 months from period end and short-term debt is that which has a maturity of less than 12 months from period end.

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 condensed consolidated statement of the 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.

30 June 2019	**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	**205**	**-**	**-**	**-**	**1**	**-**	**206**
Customer accounts	**10,510**	**1,002**	**1,279**	**2,152**	**1,214**	**1,261**	**17,418**
Debt securities in issue	**-**	**-**	**-**	**1**	**9**	**785**	**795**
Derivative liabilities	**-**	**-**	**9**	**-**	**2**	**-**	**11**
Total liabilities	**10,715**	**1,002**	**1,288**	**2,153**	**1,226**	**2,046**	**18,430**

31 December 2018	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	1,151	401	-	-	-	-	1,552
Customer accounts	10,132	1,127	1,272	2,152	1,171	1,211	17,065
Debt securities in issue	-	1	2	4	14	1,337	1,358
Derivative liabilities	1	-	2	9	1	1	14
Total liabilities	11,284	1,529	1,276	2,165	1,186	2,549	19,989

27. Commitments and contingencies

The table below gives the contractual amounts of credit commitments. The maximum exposure to credit loss under commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral or security prove worthless.

Credit commitments	**30 June 2019**	31 December 2018
	€m	€m
Guarantees and irrevocable letters of credit	**2**	2
Commitments to extend credit		
- less than 1 year	**843**	800
- 1 year and over	**97**	110
Total commitments to extend credit	**940**	910
Total credit commitments	**942**	912

Other contingencies
The Group, like all other banks, is subject to litigation in the normal course of its business. Based on legal advice, other than matters referred to in note 21, the Group does not believe that any such litigation will have a material effect on its income statement or statement of financial position.

A number of different statutory and regulatory bodies, including the Central Bank of Ireland, commenced investigations into a series of transactions involving deposits placed by Irish Life Assurance plc. with Irish Bank Resolution Corporation (formerly Anglo Irish Bank) (on 31 March 2008; 26 September 2008; 29 September 2008 and 30 September 2008). While these investigations commenced a number of years ago, they were put on hold pending the determination of criminal proceedings against a number of individuals in respect of the same transactions. The Bank understands that these criminal proceedings have concluded and so the Bank is waiting to see if the investigations, which, from the Bank's perspective, have been dormant for some time will now be re-commenced.

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

28. Related parties

Related parties include individuals and entities that can exercise significant influence on operational and financial policies of the Group.

The Group has a related party relationship with its Directors; Senior Executives; the Group's pension schemes; the Minister for Finance and with the Irish Government and Irish Government related entities on the basis that the Irish Government is deemed to have control over the Group.

(a) Transactions with key management personnel
There were no changes in key management personnel or in the related party relationships for the first six months of 2019 that may impact the Group's financial performance. Executive Directors and members of the ExCo are set out in note 41 of the 2018 Annual Report and the transactions during the period were of a similar nature to those disclosed.

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

	30 June 2019	31 December 2018
Non-Executive Directors	**8**	8
Executive Directors and Senior Management	**9**	9
	17	17

(b) Irish Government and Government related entities
The Minister for Finance continues to be the majority shareholder of the Group (and the ultimate controlling party). The Irish Government is recognised as a related party as the Government is deemed to have control over the Group. The Group is exempt from the related party disclosure requirements in respect of the Government and Government related entities unless transactions are individually or collectively significant. In the normal course of business, the Group has entered into transactions with the Government and Government related entities involving deposits and senior debt .

The following are transactions and balances between the Group, the Government and Government related entities that are collectively significant:

- PTSB and its subsidiary Permanent Bank International Ltd (now known as PBI Ltd.) were participating covered institutions under the Government's Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the ELG Scheme) which guaranteed certain eligible liabilities (including deposits) of up to five years in maturity prior to its withdrawal for new deposits by the Minister for Finance from 29 March 2013. The charge to the income statement in respect of the ELG Scheme to 30 June 2019 was €nil (31 December 2018: €0.2m). The liabilities covered by the scheme at 30 June 2019 amounted to €nil (31 December 2018: €nil). The ELG Scheme ceased to apply to PTSB as of 31 March 2018.

- The Group holds securities issued by the Government and Government related entities of €1,880m (31 December 2018: €2,391m).

- Customer accounts include deposits of €0.1bn placed by a Government institution (31 December 2018: €0.1bn).

28. Related parties (continued)

- 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. The Group incurred a charge in respect of the levy of €23m for the year ended 31 December 2018. The Group expects to incur a charge in the second half of 2019, which is broadly in line with the charge incurred last year. 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 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 30 June 2019, the Group had recorded a payable of €1m due under the FIA (31 December 2018: €0.9m).

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 previously described, balances between these financial institutions and the Group are considered related party transactions.

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 p.l.c						
	30 June 2019	**-**	**-**	**-**	**-**	**-**
	31 December 2018	5	-	-	-	-
Bank of Ireland						
	30 June 2019	**2**	**-**	**-**	**-**	**-**
	31 December 2018	5	-	-	-	-

29. Assets classified as held for sale

At 30 June 2019, assets classified as held for sale amounted to €103m (31 December 2018: €150m). This consists of the following:

1) €102m (31 December 2018: €148m) relates to collateral in possession. These properties are expected to be sold within the next 12 months.

2) €1m (31 December 2018: €2m) relates to four branch properties (31 December 2018: six branch properties) which are no longer occupied by the Group. The sale of these properties is expected to complete within the next 12 months.

30. Reporting currency and exchange rates

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

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

	30 June 2019	31 December 2018	30 June 2018
€ / £ exchange rate			
Closing	**0.8966**	0.8945	0.8861
Average	**0.8731**	0.8860	0.8800
€ / US$ exchange rate			
Closing	**1.1380**	1.1450	1.1658
Average	**1.1315**	1.1791	1.2071

31. Events after the reporting period

No events occurred between the reporting date 30 June 2019 and the date the condensed consolidated financial statements were approved for issue by the Board of Directors being 24 July 2019 that may require adjustments to the disclosure in these financial statements.

Abbreviations

The following information has not been subject to review by the Group’s Independent Auditor.

ABS Asset Backed Security
AFS Available For Sale
AGM Annual General Meeting
ALCO Asset and Liability Committee
ALM Asset Liability Management
AT1 Additional Tier 1
BAC Board Audit Committee
BPFI Banking and Payments Federation Ireland
BRCC Board Risk and Compliance Committee
BRRD Banking Recovery and Resolution Directive
CAC Capital Adequacy Committee
CBI Central Bank of Ireland
CCB Capital Conservation Buffer
CCMA Code of Conduct on Mortgage Arrears
CCyB Countercyclical Capital Buffer
CEO Chief Executive Officer
CET 1 Common Equity Tier 1
CFP Contingency Funding Plan
CODM Chief Operating Decision Maker
CRD IV Capital Requirements Directive IV
CRO Chief Risk Officer
CRR Capital Requirements Regulation
CSAs Credit Support Annexes
CSO Central Statistics Office
D&I Diversity & Inclusion
DGS Deposit Guarantee Scheme
DIRT Deposit Interest Retention Tax
DoF Department of Finance
DTA Deferred Tax Asset
EAD Exposure at Default
EAR Earnings at Risk
EBA European Banking Authority
ECAI External Credit Assessment Institution
ECB European Central Bank
ECL Expected Credit Loss
EIR Effective Interest Rate
ELG Eligible Liabilities Guarantee
ESRI Economic & Social Research Institute
EU European Union
EURIBOR Euro Inter Bank Offer Rate
EV Economic Valuation
EWI Early Warning Indicator
ExCo Executive Committee
FIA Financial Incentives Agreement
FLI Forward looking information
FSPO Financial Services and Pensions Ombudsman Bureau of Ireland
FTE Full Time Equivalent
FTP Fund Transfer Price
FVOCI Fair value through other comprehensive income
FVTPL Fair value through profit or loss
FX Foreign Exchange
GAAP Generally Accepted Accounting Principles
GCC Group Credit Committee
GDP Gross Domestic Product
GGD Gross Government Debt
GIA Group Internal Audit
GNI Gross National Income
GPPC Global Public Policy Committee
GRC Group Risk Committee
GRMA Group Risk Management Architecture
GRMF Group Risk Management Framework
HPI House Price Index
HTC Hold to Collect
HTC&S Hold to Collect and Sell
HQLA High Quality Liquid Assets
IAS International Accounting Standards
IASB International Accounting Standards Board
ICAAP Internal Capital Adequacy Assessment Process
IFRIC International Financial Reporting Standards Interpretations Committee
IFRS International Financial Reporting Standards
ILAAP Internal Liquidity Adequacy Assessment Process
IOM Isle of Man
IPP Integrated Planning Process
IRB Internal rating based approach
IRRBB Interest Rate Risk in the Banking Book
ISDA International Swaps and Derivatives Association
JST Joint Supervisory Team
KRI Key Risk Indicator
LCR Liquidity Coverage Ratio
LDR Loan to Deposit Ratio
LGD Loss Given Default
LIBOR London Inter Bank Offer Rate
LSI Less Significant Institution
LTV Loan to value
MCO Maximum Cumulative Outflow
MGC Model Governance Committee
MREL Minimum Requirement for own funds and Eligible Liabilities
MTM Market to Market
MTN Medium Term Note
MTP Medium Term Plan
NCU Newbridge Credit Union
NII Net Interest Income
NIM Net Interest Margin
NPA Non Performing Assets
NPL Non Performing Loan
NSFR Net Stable Funding Ratio
OCI Other Comprehensive Income
OECD Organisation for Economic Co-operation and Development
P2G Pillar 2 Guidance
P2R Pillar 2 Requirement
PBI PBI Limited (formerly Permanent Bank International Limited)
PD Probability of Default
PDH Principle Dwelling Home
POCI Purchased or Originated Credit Impaired
PTSB Permanent TSB plc.
PTSBGH Permanent TSB Group Holding plc.
PwC PricewaterhouseCoopers
RAF Risk Appetite Framework
RAS Risk Appetite Statement
RCSA Risk and Control Self Assessment
RPPI Residential Property Price Index
RP Recovery Plan
RRM Risk Reduction Measures
RWAs Risk Weighted Assets
SICR Significant increase in credit risk
SME Small and medium sized enterprises
SREP Supervisory Review & Evaluation Process
SSM Single Supervisory Mechanism
SVR Standard Variable Rate
TRIM Targeted Review of Internal Models
UK United Kingdom
US United States