Company Registered Number: R0000733

ULSTER BANK LIMITED

REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS

31 December 2015

ULSTER BANK LIMITED

CONTENTS

BOARD OF DIRECTORS AND SECRETARIES 1

STRATEGIC REPORT 2

REPORT OF THE DIRECTORS 8

STATEMENT OF DIRECTORS' RESPONSIBILITIES 9

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ULSTER BANK LIMITED 10

CONSOLIDATED INCOME STATEMENT *for the year ended 31 December 2015* 12

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *for the year ended 31 December 2015* 13

BALANCE SHEETS *as at 31 December 2015* 14

STATEMENTS OF CHANGES IN EQUITY *for the year ended 31 December 2015* 15

CASH FLOW STATEMENTS *for the year ended 31 December 2015* 16

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2015* 17

DIRECTORS AND EXECUTIVES 105

ULSTER BANK LIMITED

BOARD OF DIRECTORS AND SECRETARIES

DIRECTORS:	C Campbell	(Chairman)
	E Graham	
	N Hamilton	
	M Larkin	
	L Matheson	
	C Mills	
	D O'Shea	
	R Quinlan	
	B Rosewell	
REGISTERED OFFICE:	11-16 Donegall Square East	
	Belfast	
	BT1 5UB	
SECRETARIES:	S Anderson	
	E Dignam	(Deputy secretary)
AUDITORS:	Deloitte	
	Chartered Accountants & Statutory Audit Firm	
	Deloitte and Touche House	
	Earlsfort Terrace	
	Dublin 2	

STRATEGIC REPORT

The directors of Ulster Bank Limited ("the Bank") present their report, together with audited financial statements of the Bank and its subsidiaries (together "the Group" or "Ulster Bank Group") for the year ended 31 December 2015. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

ACTIVITIES AND BUSINESS REVIEW

Principal activities

The Group's principal operating entities are leading retail and commercial banks in Northern Ireland and the Republic of Ireland, operating under the Ulster Bank brand. The Group provides a comprehensive range of financial services through its retail and commercial banking divisions. The retail banking divisions provide loan and deposit products through the Group's network of branches and direct channels, including telephony, the internet and mobile apps. The commercial banking divisions provide services to business and corporate customers, including small and medium enterprises.

Business review

It is the Group's clear ambition to be the number one for customer service, trust and advocacy by 2020. During 2015 the Group focussed on growing new lending, supporting existing customers, innovation and development and made further progress on legacy issues.

In retail banking the 'Big Yes' and 'a mortgage you can live with' campaigns contributed to new mortgage lending of £766m, an increase of 35% from total drawdowns in 2014 at constant exchange rates. In addition to lowering interest rates and introducing new mortgage products, including seven year fixed rate mortgages, the Group made mobile mortgage managers available to meet customers outside normal business hours and locations, re-entered the mortgage broker market in the Republic of Ireland, made improvements to the broker proposition in Northern Ireland and simplified the 'Home Mover' products for existing customers in the Republic of Ireland who are in negative equity or who have tracker mortgages.

In commercial banking the Group introduced a number of measures designed to support the farming and food and drink industries. A Dairy Toolkit was launched to provide support to dairy farming customers at a time of low milk prices and pasture loans of up to £50,000 were made available to dairy, beef and sheep farmers for improving their grass production and profitability. In February the Group announced tailored packages for the food and drink sectors. The Group re-entered the Commercial Real Estate market with the aim of increasing lending in this sector within risk appetite. The Group acquired the Irish asset financing businesses of a fellow subsidiary of The Royal Bank of Scotland Group plc ("RBS Group") and integrated it with the existing Ulster Bank business. The directors aim to grow lending in this sector through continuing to provide hire purchase and lease finance for business assets; re-entry to short term wholesale forecourt finance for dealers in cars, vans, heavy goods vehicles and plant and selective point of sale finance for consumer hire purchase of cars.

The Group has further developed and improved the channels for its customers to interact with the business and make managing their accounts easier. The Group was among the first banks in the UK to allow customers to utilise the Apple Pay feature. From April both personal and business customers in the Republic of Ireland were able to perform some of their banking through the An Post network, providing greater choice and flexibility for the Group's customers. The Group has been at the forefront of mobile banking, being among the first banks to offer Touch ID for Apple users and the first Irish bank to offer an app for Apple Watch. The mobile banking app was made available on a wider range of devices and developed to make it easier for customers to register for mobile banking, to view and manage regular payments and to send low value payments without a card reader.

The Group invested heavily to enhance its online capabilities during 2015. The Group's website has been developed and updated with additional functionality for online borrowing applications for sole traders, partnerships and companies. Our business customers in Northern Ireland are now able to elect to receive eStatements and one in four of the Group's business account holders in Northern Ireland avail of this service.

The Group's focus on innovation and development has been further evident throughout 2015. Hackathons were facilitated in Belfast and Dublin, bringing together members of the external technology community to debate, design, code and pitch ideas on banking innovations. The Group also announced partnerships with Dogpatch Labs and Entrepreneurial Spark. The partnership with Dogpatch Labs in Dublin allowed the development of 8,000 square feet of new space in the vaults of the chq building to provide facilities for established and start up tech companies with potential for high-growth to create, test, market and deliver scalable technology products. The Group has also developed the Ulster Bank Solutions Centre at Dogpatch Labs where Group employees will work closely with start-up companies to develop and showcase technology innovations for Ulster Bank. The business accelerator hub in Belfast, in conjunction with Entrepreneurial Spark will provide office facilities and training from Group and Entrepreneurial Spark employees to 80 entrepreneurs free of charge. In conjunction with this the Entrepreneurial Development Academy training programme was launched for Group employees to accelerate a shift across the Group to a more innovative and creative culture.

The Group continued to make significant progress in dealing with legacy issues in 2015. RBS Capital Resolution Ireland ("RCRI") made significant progress in deleveraging the Group's Balance Sheet ahead of the initial expectations. Projects Aran, Clear, Coney, Finn and Rathlin were transacted in 2015 and contributed to a reduction of approximately £2.3 billion of RCRI assets.

Business review (continued)

It was anticipated that RCRI would run down the £4.8 billion of assets that were transferred to it in 2013 in three years but at 31 December 2015 only £297m of RCRI assets remained on the Group's Balance Sheet with plans to deleverage further in the first quarter of 2016. The Group has established a Problem Debt Management division which will deal with impaired debt within the core bank. From a retail banking perspective £180m of buy-to-let mortgages were sold under Project Arthur in September. In April the Group launched a series of customer commitments specifically designed to help and encourage Republic of Ireland customers that are in arrears with their home loans to engage with the Group to allow them to stay in their home. The Group continued investment into its systems to improve IT security and resilience.

In October 2015 the directors implemented a revised management structure to facilitate the Group's dual strategy of building a challenger bank in the Republic of Ireland and strengthening the Group's market leading position in Northern Ireland through greater alignment with NatWest and the Royal Bank of Scotland ("RBS"). The Northern Ireland businesses now report to their equivalent NatWest and RBS divisions, enabling the customers of these businesses to realise the benefits of being part of the UK's leading and largest banks. The Group's customers in the Republic of Ireland now benefit from having an executive management team that is focussed exclusively on serving their needs, whilst drawing on the scale of expertise and services of NatWest and RBS.

Initiatives undertaken by the Group under this dual strategy were evident during the latter part of 2015. In Northern Ireland, in conjunction with NatWest, the Group launched the Help to Buy: ISA to help first time buyers save towards buying a home. In the Republic of Ireland the Group launched a campaign to promote awareness of the Group's distinctive current account features and positive customer satisfaction benchmarks against competitors.

During the year the Group internally launched "Determined to make a difference" to support the goal of reaching number one for customer service, trust and advocacy. Group employees are being challenged to be determined to make a difference for: customers through improved service, products and processes; their colleagues through valuing, equipping and encouraging staff; the Group's communities through fundraising and having a positive impact on enterprise, education and inclusion and for the Group's corporate stakeholders by delivering a stronger, simpler, fairer bank that delivers attractive, balanced and sustainable returns.

The Group has continued its strong corporate social responsibility ("CSR") agenda and through One Week In June raised £312,000 for the Group's charity partners on the island of Ireland. Ulster Bank was also recognised in the Chambers Ireland Awards for Corporate Social Responsibility as Ireland's most responsible business. The Group won the Community Volunteering Award for MoneySense, its financial education programme, as well as winning the overall award for Outstanding Achievement in CSR.

The Group has established a set of key performance indicators (KPIs) to track its performance towards its objectives:

	Target	**2015**	2014	2013
Loan:deposit ratio	110%	**109%**	119%	129%
Net interest margin	>2.15%	**1.24%**	1.18%	1.19%
Cost:income ratio	<60%	**80%**	67%	80%*
Transactions through digital channels **	>70%	**60%**	55%	51%

* The 2013 cost:income ratio has been revised for the impact of the one-off gain on redemption of own debt.

** In addition to the transactions through digital channels (online and mobile), ATMs account for a further 26% (2014: 29%, 2013: 31%) of transactions.

The loan:deposit ratio continued to improve during the year as a result of the continued deleveraging of the RCRI assets.

The drivers of the changes in the net interest margin and the cost:income ratio are discussed further in the financial performance section of this report.

Financial performance

The Group's financial performance is presented in the Consolidated Income Statement on page 12.

The Group reported a total profit after tax for the financial year ended 31 December 2015 of £837m (2014: restated £1,908m) driven primarily by a net impairment gain of £731m (2014: £1,471m).

Business review (continued)

Financial performance (continued)

Net interest income decreased by 14% to £497m due to reduced income on free funds and a lower yield from liquidity management instruments. Other contributory factors were the further reduction throughout 2015 in the loan book from asset sales and loan amortisation, the full year impact of the 2014 reductions in the European Central Bank (ECB) headline rate on the Group's Republic of Ireland tracker mortgage book and the effect of the movement in the Euro to Sterling exchange rate. These were partially offset by pricing actions taken on retail and commercial deposits.

Non-interest income decreased from £314m in 2014 to £190m, mainly due to the lower interest rate swap volumes driven by RCRI asset disposals, reduced mark-to-market income as a result of interest rate movements impacting swap rates, increased losses on RCRI asset disposals and the effect of the movement in the Euro to Sterling exchange rate.

Operating expenses decreased by 9% to £549m in the current year. A continued focus on the cost base, reduced operating lease costs resulting from the Group's property strategy, the impact of one-off costs incurred in 2014 associated with the European Central Bank's Asset Quality Review and the movement in the Euro to Sterling exchange rate offset higher pension charges resulting from the increased deficit position at 31 December 2014 and continued pressure on costs from regulatory levies.

The impairment gain reduced to £731m from £1,471m in 2014. Improved residential and commercial property market conditions increasing collateral values, the release of RCRI provisions due to asset sales and proactive debt management reducing bad book flows drove the gains in both years, although to a lesser degree in 2015. The reduction in 2015 was exacerbated by the movement in the Euro to Sterling exchange rate on the gain in Ulster Bank Ireland Limited ("UBIL").

The Group incurred a tax charge in 2015 of £32m and a tax credit of £146m in 2014. The 2014 credit was generated by the recognition of an additional £149m deferred tax asset on tax losses in UBIL based on updated business forecasts reflecting improving economic conditions. The tax charge for the year has benefitted from the utilisation of carried forward tax losses.

At the year end the total assets of the Group were £33,990m (2014: restated £37,552m, 2013: restated £40,105m). Return on total assets for 2015 was 2.3% (2014: 4.9%, 2013: (9.9)%).

The Group's capital position strengthened during the year, as evidenced by the increase in the CET1 ratios of the Bank and UBIL. The Bank's CET1 ratio increased from 15.7% at 31 December 2014 to 17.5% at 31 December 2015. UBIL's CET1 ratio increased from 21.1% at 31 December 2014 to 29.6% at 31 December 2015.

The Group and Bank financial statements have been restated as a result of a change in the Group's accounting policy for the recognition of surpluses in its defined benefit schemes. Full details are provided in Note 34 to the financial statements.

Risk management

The major risks associated with the Group's businesses are credit, market, liquidity, regulatory, reputational, conduct and operational risk, with the principal risk associated with the Group's business being credit risk. The Group has established a comprehensive framework for managing these risks, which is continually evolving as the Group's business activities change in response to market, credit, product, regulatory and other developments. The Group is also exposed to risks from its defined benefit pension schemes. The Group's policies for managing each of these risks and its exposure thereto are detailed in Note 24 to the financial statements.

The Group's future performance and results could be materially different from expected results depending on the outcome of certain potential risks and uncertainties, particularly credit risk.

Accounting policies

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Details of the Group's critical accounting policies and key sources of estimation uncertainty are included in the Accounting policies on pages 24 to 27.

Outlook

The directors note that the most recent releases of economic data for Ulster Bank's core markets continue to be positive notwithstanding a backdrop of multiple macroeconomic risks, including heightened uncertainty regarding the UK referendum on membership of the European Union, the outlook for emerging market economies in general and the Chinese economy in particular, continuing low rates of growth in the Eurozone and the prospect of the low interest rate environment persisting longer than anticipated. The event of a UK exit from the European Union could significantly impact the environment in which the Group and its customers operate, introducing significant new uncertainties in financial markets, as well as the legal and regulatory requirements and environment to which the Group and its customers are subject.

Business review (continued)

Outlook (continued)

For the Republic of Ireland, the Group's largest market, the latest Central Statistics Office ("CSO") reports show annual economic (real GDP) growth of 7% in the first three quarters of 2015 and the latest IMF forecast expects solid growth to continue for the next two years, albeit this has yet to translate into positive net credit growth across the private sector. The strong growth performance has contributed to ongoing solid improvement in the labour market: the rate of unemployment stood at 8.8% in December 2015, down from 10.2% in December 2014 and the number of people in employment increased by 2.9% year on year to Q3 2015. Residential house prices have continued to rise: the CSO residential property price index recorded a 6.6% increase over the year to December 2015 (December 2014: 16.3% increase).

Indicators have also been positive, though to a lesser degree, in Northern Ireland where, according to the Northern Ireland Composite Economic Index, produced by the Northern Ireland Statistics and Research Agency, the economy grew by 1.1% in 2015 driven by a 2% growth in the private sector. The unemployment rate increased by 0.1% year on year but the number of people in employment increased by 1.4%. The Office of National Statistics reported an annual increase of 4.6% in average house prices to November 2015, down from an 11.4% increase in 2014.

Significant investment in the Ulster Bank brand has been and will continue to be made by the Group in 2016 to further promote the "Help for what matters" marketing strategy. The directors intend to continue growing the balance sheet whilst reducing distressed assets to further improve the Group's strength and sustainability.

The directors believe that the positive economic indicators, along with the actions being taken to achieve the Group's ambition to be the number one for customer service, trust and advocacy should lead to a sustainable financial performance whilst being cognisant of the macroeconomic risks outlined above.

Share capital

Details of share capital can be found in Note 21 to the financial statements.

Directors' indemnities

In terms of Section 236 of the Companies Act 2006, all directors have been granted Qualifying Third Party Indemnity Provisions by RBS Group.

Staff involvement

The Group values the input of its employees and actively seeks opportunities to engage with staff at all levels and invites them to contribute to on-going dialogue and activities to make Ulster Bank a better bank for staff and our customers. The annual survey of employee opinions, known as Our View, provides valuable data to decision makers across the Group in support of improving employee engagement and satisfaction. We track our progress through pulse surveys and ask questions used by other organisations so we can compare ourselves against our financial peers.

As part of 'Determined to make a difference', discussed in the business review, the directors rolled out the 'Determined to lead' training programme to the leaders within the Group. The programme sets clear and consistent expectations on how we lead our people, how we work together and how we deliver for our customers. Determined to lead provides a set of practical tools and concepts which can be used to support a step change in the way leaders within the Group think and operate to help us achieve the ambition to be the number one for customer service, trust and advocacy.

Our community programmes focus on delivering genuine benefits that make a difference to people's lives throughout Ireland. We invest in programmes that are most relevant for us as a financial institution – in particular promoting financial education. Employees across the Group continue to widely support, both financially and through volunteering, many community and other worthy causes. Such giving is encouraged by the Group through its use of payroll giving and staff charity funds which support worthy causes at local, national and international level. Every June, employees come together to raise funds for local and national charities. "Give A Day" offers employees an extra day's annual leave to give their time as volunteers and fundraisers to a charity or cause that matters to them.

The Group promotes flexible working for its employees through the "UB Choice" programme. UB Choice provides support to businesses, managers and individuals to facilitate flexible working. Employees are able to avail of a range of flexible working options including regular or occasional working from home, working variable hours or working part time.

The Group is represented on the European Employee Council which facilitates dialogue amongst employee representatives in the European Economic Area.

Employment of disabled persons

The Group's policy is that disabled persons are considered for employment and subsequent training, career development and promotion based on merit. If members of staff become disabled, it is the Group's policy, wherever possible, to retain them in their existing jobs or to re-deploy them in suitable alternative duties.

Diversity

The Group values and promotes diversity in all areas of recruitment and employment. Building a working environment where all our employees can develop to their full potential is important to us irrespective of their age, belief, disability, ethnic or national origin, gender, gender identity, marital or civil partnership status, political opinion, race, religion or sexual orientation. We work hard to avoid limiting potential through bias, prejudice or discrimination. We need a diverse mix of uniquely talented individuals to deliver great service to our diverse customer base. Key principles of Your Inclusion Policy include that we attract, motivate and retain the best talent. We base the employment relationship on the principles of fairness, respect and inclusion. We comply with local laws on equality and Our Code to build and develop an inclusive workforce in order to understand and respond to our diverse customer base.

Safety, health and wellbeing

The Group recognises that people are key to the success of its business. The Group's vision is for its employees, peers and communities to recognise that the Group's pride and performance in safety, health and wellbeing adds value to them and to the Group's business. Industry leading expertise, innovative tools, products and services and a practical approach to implementation are combined to ensure improved performance continues to be delivered.

During 2015, the Group continued to focus on compliance, governance and managing risk across both jurisdictions in which it operates. Opportunities to improve the efficiency and effectiveness of safety, health and wellbeing management policies and services were monitored and, where relevant, implemented.

Political donations

During the year the Group made no political donations in the UK or the EU (2014: £nil).

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, including potential risks and uncertainties, are set out in the Business review on pages 2 to 5.

The financial position of the Group, its cash flows, liquidity position, capital and funding sources are set out in the financial statements. Notes 9, 24 and 35 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to market, credit and liquidity risks.

The Group avails of a number of sources of liquidity including RBS inter-group lines ("IGL"), the ECB's Targeted Long Term Refinancing Operation ("TLTRO"), debt securities in issue and retail and corporate deposits. The disposal of RCRI assets has significantly improved the liquidity position of the Group. The Group's assets as at 31 December 2014 contain £1.9 billion of short term liquidity instruments.

The Group's capital position strengthened during the year, as evidenced by the increase in the CET1 ratios of the Bank and UBIL. The Bank's CET1 ratio increased from 15.7% at 31 December 2014 to 17.5% at 31 December 2015. UBIL's CET1 ratio increased from 21.1% at 31 December 2014 to 29.6% at 31 December 2015.

Having reviewed the Group's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that the Group and the Bank will continue in operational existence for the foreseeable future. Accordingly, the financial statements of the Group and the Bank have been prepared on a going concern basis.

Investments in Group undertakings

The investments in Group undertakings are shown in Note 13. All of these undertakings are included in the Group's consolidated financial statements and all have an accounting reference date of 31 December.

Country-by-Country Reporting

The Bank is availing of the exemption under section 5(3) of The Capital Requirements (Country-by-Country Reporting) Regulations 2013 as the information required under the regulations is produced on a consolidated basis by the Group's ultimate parent company, RBS Group, and published on its sustainability website:
www.rbs.com/sustainability/sustainability-downloads.html.

Dividends

The directors do not recommend the payment of a dividend on ordinary shares (2014: £nil).

Post balance sheet events

During 2015 the Group acquired the asset financing business of Lombard Ireland Limited ("LIL"), a subsidiary of the RBS Group. As part of this transaction the Group agreed to assume the liabilities of LIL's pension scheme, subject to a s.50 amendment to bring the terms and conditions of the scheme in line with the Group's other schemes. This s.50 amendment has been transacted subsequent to the balance sheet date and the scheme will transfer on completion of an IAS 19 valuation. There is no financial impact of this transaction as finalisation of the purchase consideration was subject to the IAS 19 valuation post the s.50 amendment.

By order of the Board:

Sheryl Anderson
Secretary
11-16 Donegall Square East
Belfast
BT1 5UB

18 February 2016

Ulster Bank Limited is registered in Northern Ireland No. R0000733

REPORT OF THE DIRECTORS

The Strategic Report includes the review of the year, risk report, directors' indemnities and note of post balance sheet events.

Directors and secretaries

The names of the current members of the Board of Directors are shown on page 1 and brief biographical details are shown on pages 105 to 106. From 1 January 2015 to date the following changes have taken place:

	Appointed	Resigned
Directors		
L Matheson	15 October 2015	-
M Larkin	15 October 2015	-
E Graham	18 February 2016	-
S Bell		20 August 2015
J Brown	-	31 August 2015
P Stanley	-	14 October 2015
P Nolan	-	14 October 2015
Secretary		
R Bergin	-	31 January 2016

In accordance with the Articles of Association, the directors are not required to retire by rotation.

Directors' disclosure to auditors

Each of the directors at the date of approval of this report confirms that:

(a) so far as the director is aware, there is no relevant audit information of which the Bank's auditors are unaware; and

(b) the director has taken all steps he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By order of the Board:

Sheryl Anderson
Secretary
11-16 Donegall Square East
Belfast
BT1 5UB

18 February 2016

Ulster Bank Limited is registered in Northern Ireland No. R0000733

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable laws and regulation. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare Group and Bank financial statements in accordance with IFRS as adopted by the EU. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Bank and of the profit or loss for that period. In preparing these financial statements, the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance; and
- make an assessment of the Group and Bank's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Bank and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for safeguarding the assets of the Group and Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that these financial statements comply with the aforementioned requirements.

By order of the Board:

Sheryl Anderson
Secretary
11-16 Donegall Square East
Belfast
BT1 5UB

18 February 2016

Ulster Bank Limited is registered in Northern Ireland No. R0000733

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ULSTER BANK LIMITED

We have audited the financial statements of Ulster Bank Limited (the "Bank") and its subsidiaries (together, "the Group") for the year ended 31 December 2015 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Bank Balance Sheet, the Consolidated Statement of Changes in Equity, the Bank Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Bank Cash Flow Statement and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Bank financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Bank's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Directors and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Continued on next page/

/Continued from previous page

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ULSTER BANK LIMITED

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Bank financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Bank; or
- the Bank financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Brian O'Callaghan
For and on behalf of Deloitte
Chartered Accountants and Statutory Auditor
Dublin, Ireland

18 February 2016

CONSOLIDATED INCOME STATEMENT *for the year ended 31 December 2015*

		Group	
			Restated
		2015	2014[1]
	Note	**£m**	£m
Interest receivable		**676**	829
Interest payable		**(179)**	(251)
Net interest income	2	**497**	578
Fees and commission receivable		**148**	163
Fees and commission payable		**(17)**	(15)
Income from trading activities		**67**	150
Other operating (expenses)/income		**(8)**	16
Non-interest income	3	**190**	314
Total income		**687**	892
Operating expenses	4	**(549)**	(601)
Operating profit before impairment		**138**	291
Impairment gain	10	**731**	1,471
Operating profit before tax		**869**	1,762
Tax (charge)/credit	7	**(32)**	146
Profit for the year		**837**	1,908
Profit attributable to:			
Ordinary shareholders		**837**	1,908
		837	1,908

[1] For details of the restatement refer to Note 34.

The accompanying notes form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 18 February 2016 and signed on its behalf by:

Christopher Campbell	Leslie Matheson	Michael Larkin
Chairman	Chief Executive Officer	Chief Financial Officer

Ulster Bank Limited is registered in Northern Ireland No. R0000733

ULSTER BANK LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *for the year ended 31 December 2015*

	Group	
	2015	Restated 2014[1]
	£m	£m
Profit for the year	**837**	1,908
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains/(losses) on defined benefit plans and other movements	**148**	(261)
Tax	**5**	-
Items that will be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(278)**	(276)
Other comprehensive loss after tax	**(125)**	(537)
Total comprehensive income for the year	**712**	1,371
Attributable to:		
Non-controlling interests	**(27)**	(33)
Ordinary shareholders	**739**	1,404
	712	1,371

[1] For details of the restatement refer to Note 34.

The accompanying notes form an integral part of these financial statements.

BALANCE SHEETS *as at 31 December 2015*

		Group			Bank		
		2015	Restated 2014[1]	Restated 2013[1]	**2015**	Restated 2014[1]	Restated 2013[1]
	Note	**£m**	£m	£m	**£m**	£m	£m
Assets							
Cash and balances at central banks	9	**868**	884	867	**616**	647	624
Loans and advances to banks	9	**9,485**	8,925	9,752	**7,119**	6,897	7,236
Loans and advances to customers	9	**20,643**	24,467	28,263	**3,801**	4,340	4,930
Debt securities	9,11	**1,889**	2,059	9	**-**	6	9
Equity shares	9,12	**5**	26	9	**-**	-	-
Investments in Group undertakings	9,13	**-**	-	-	**6,432**	4,719	3,110
Derivatives	9,16	**627**	657	561	**3**	5	16
Property, plant and equipment	9,15	**126**	266	333	**44**	47	56
Prepayments, accrued income and other assets	9,17	**95**	41	236	**31**	8	194
Retirement benefit assets	5,9	**16**	3	-	**16**	3	-
Deferred taxation	9,19	**236**	224	75	**25**	-	1
Total assets		**33,990**	37,552	40,105	**18,087**	16,672	16,176
Liabilities							
Deposits by banks	9	**4,785**	6,336	8,661	**4,003**	4,159	4,485
Customer accounts	9	**18,977**	21,024	22,298	**5,860**	5,978	6,818
Debt securities in issue	9	**1,473**	1,707	1,908	**1**	10	9
Derivatives	9,16	**477**	609	744	**35**	48	47
Accruals, deferred income and other liabilities	9,18	**921**	962	1,008	**748**	752	735
Retirement benefit liabilities	5,9	**285**	458	260	**-**	**-**	28
Deferred taxation	9,19	**3**	8	3	**-**	4	-
Subordinated liabilities	9,20	**960**	1,031	1,175	**820**	883	956
Total liabilities		**27,881**	32,135	36,057	**11,467**	11,834	13,078
Equity							
Non-controlling interests		**435**	482	517	**-**	**-**	**-**
Shareholders' equity:							
Called up share capital	21	**1,521**	1,521	1,505	**1,521**	1,521	1,505
Reserves		**4,153**	3,414	2,026	**5,099**	3,317	1,593
Total equity	9	**6,109**	5,417	4,048	**6,620**	4,838	3,098
Total liabilities and equity		**33,990**	37,552	40,105	**18,087**	16,672	16,176

[1] For details of the restatement refer to Note 34.

The accompanying notes form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 18 February 2016 and signed on its behalf by:

Christopher Campbell
Chairman

Leslie Matheson
Chief Executive Officer

Michael Larkin
Chief Financial Officer

Ulster Bank Limited is registered in Northern Ireland No. R0000733

ULSTER BANK LIMITED

STATEMENTS OF CHANGES IN EQUITY *for the year ended 31 December 2015*

	Group		Bank	
	2015	Restated 2014[(1)]	**2015**	Restated 2014[(1)]
	£m	£m	**£m**	£m
Called up share capital				
At 1 January	**1,521**	1,505	**1,521**	1,505
Share transfer	**-**	16	**-**	16
At 31 December	**1,521**	1,521	**1,521**	1,521
Share premium account				
At 1 January	**891**	907	**891**	907
Share transfer	**-**	(16)	**-**	(16)
At 31 December	**891**	891	**891**	891
Foreign exchange reserve				
At 1 January	**(238)**	5	**-**	-
Retranslation of net assets	**(251)**	(243)	**-**	-
At 31 December	**(489)**	(238)	**-**	-
Retained earnings				
At 1 January	**(11,751)**	(13,398)	**(12,086)**	(13,826)
Actuarial gains/(losses) on defined benefit plans and other movements	**148**	(261)	**(16)**	(2)
Tax	**5**	-	**5**	-
Profit attributable to ordinary shareholders	**837**	1,908	**1,793**	1,742
At 31 December	**(10,761)**	(11,751)	**(10,304)**	(12,086)
Capital contribution				
At 1 January and 31 December	**14,512**	14,512	**14,512**	14,512
Shareholders' equity at 31 December	**5,674**	4,935	**6,620**	4,838
Non-controlling interests				
At 1 January	482	517	**-**	**-**
(Decrease)/increase in loan classed as equity	(20)	8	**-**	**-**
Equity disposal	-	(10)	**-**	**-**
Currency translation and other adjustments	(27)	(33)	**-**	**-**
At 31 December	**435**	482	**-**	-
Total equity at 31 December	**6,109**	5,417	**6,620**	4,838

Total comprehensive income recognised in the Statement of Changes in Equity is attributable as follows:

	Group 2015	Group 2014	Bank 2015	Bank 2014
Non-controlling interests	**(27)**	(33)	**-**	-
Ordinary shareholders	**739**	1,404	**1,782**	1,740
	712	1,371	**1,782**	1,740

(1) For details of the restatement refer to Note 34.

The accompanying notes form an integral part of these financial statements.

ULSTER BANK LIMITED

CASH FLOW STATEMENTS *for the year ended 31 December 2015*

		Group		Bank	
			Restated		Restated
		2015	2014[1]	**2015**	2014[1]
	Note	**£m**	£m	**£m**	£m
Operating activities					
Operating profit before tax		**869**	1,762	**1,820**	1,748
Adjustments for:					
Dividends received		**-**	-	**(31)**	-
Depreciation, amortisation and impairment of property, plant and equipment		**13**	15	**4**	4
Interest on subordinated liabilities		**11**	15	**6**	9
Charge for defined benefit pension schemes		**62**	36	**14**	10
Cash contribution to defined benefit pension schemes		**(70)**	(79)	**(43)**	(44)
Impairment gains on loans and advances and amounts written off		**(7,138)**	(2,693)	**(1,635)**	(379)
Reversal of impairment in Group undertakings		**-**	-	**(1,713)**	(1,609)
Elimination of foreign exchange differences		**(790)**	(883)	**(21)**	78
Other non-cash items		**(145)**	(153)	**10**	(2)
Net cash flows used in from trading activities	26	**(7,188)**	(1,980)	**(1,589)**	(185)
Changes in operating assets and liabilities		**6,980**	3,171	**1,411**	696
Net cash flows (used in)/from operating activities before tax		**(208)**	1,191	**(178)**	511
Income taxes (paid)/received		**(78)**	196	**(66)**	191
Net cash flows (used in)/from operating activities	26	**(286)**	1,387	**(244)**	702
Investing activities					
Sale and maturity of securities		**1,446**	257	**5**	3
Purchase of debt securities		**(1,371)**	(2,303)	**-**	-
Purchase of equity shares		**(1)**	(2)	**-**	-
Sale of equity shares		**62**	3	**-**	-
Purchase of property, plant and equipment		**(6)**	(11)	**(1)**	(2)
Sale of property, plant and equipment		**171**	66	**-**	7
Dividends received		**-**	-	**31**	-
Net cash flows from/(used in) investing activities		**301**	(1,990)	**35**	8
Financing activities					
Repayment of subordinated loans		**(20)**	(80)	**(20)**	(20)
Interest on subordinated liabilities		**(11)**	(15)	**(6)**	(9)
Net cash flows used in financing activities		**(31)**	(95)	**(26)**	(29)
Effect of exchange rate changes on cash and cash equivalents		**(184)**	(176)	**(22)**	(131)
Net (decrease)/increase in cash and cash equivalents		**(200)**	(874)	**(257)**	550
Cash and cash equivalents 1 January	29	**7,197**	8,071	**4,153**	3,603
Cash and cash equivalents 31 December	29	**6,997**	7,197	**3,896**	4,153

(1) For details of the restatement refer to Note 34.

The accompanying notes form an integral part of these financial statements.

1. Accounting policies

a) Presentation of financial statements

The consolidated financial statements are prepared on a going concern basis and in accordance with IFRS issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, as adopted by the EU. The Group and Bank's financial statements are presented in accordance with the Companies Act 2006.

The Bank is incorporated and registered in Northern Ireland. The Group and Bank's financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, held-for-trading financial assets and financial liabilities, financial assets and financial liabilities that are designated at fair value through profit or loss, available-for-sale financial assets and investment property. Recognised financial assets and financial liabilities in fair value hedges are adjusted for changes in fair value in respect of the risk that is hedged.

'Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)' was issued in November 2013 and effective from 1 July 2014. This amendment distinguishes the accounting for employee contributions that are related to service from those that are independent of service. Adoption of these has not had any effect on the financial statements of the Group or Bank.

Annual Improvements to IFRS 2010 - 2012 and 2011 - 2013 cycles were issued in December 2013, effective for annual periods beginning on or after 1 July 2014, making a number of minor amendments to IFRS. Adoption of these has not had any effect on the financial statements of the Group or Bank.

b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank (Ulster Bank Limited) and entities (including certain special purpose entities) that are controlled by the Bank (its subsidiaries). The Group controls another entity (a subsidiary) when it is exposed, or has rights, to variable returns from its involvement with that entity and has the ability to affect those returns through its power over the other entity; power generally arises from holding a majority of voting rights.

On acquisition of a subsidiary, its identifiable assets, liabilities and contingent liabilities are included in the consolidated financial statements at their fair value. Any excess of the cost (the fair value of assets given, liabilities incurred or assumed and equity instruments issued by the Group plus any directly attributable costs) of an acquisition over the fair value of the net assets acquired is recognised as goodwill. The interest of non-controlling shareholders is stated at their share of the fair value of the subsidiary.

A subsidiary is included in the consolidated financial statements from the date control passes until the Group ceases to control them through a sale or significant change in circumstances. Changes in interest that do not result in a loss of control are recognised in equity. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group balances, transactions, income and expenses are eliminated on consolidation. The consolidated financial statements are prepared using uniform accounting policies.

c) Revenue recognition

Interest income and expense on financial assets that are classified as loans and receivables, available-for-sale or held-to-maturity and interest expense on financial liabilities other than those at fair value through profit or loss is determined using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable, that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows. Where negative effective interest rates apply to financial assets the related interest expense is shown as a separate item in interest payable.

Financial assets and financial liabilities held-for-trading or designated as at fair value through profit or loss are recorded at fair value. Changes in fair value are recognised through profit or loss together with dividends and interest receivable and payable.

Fees in respect of services are recognised as the right to consideration accrues through the provision of the service to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable. The application of this policy to significant fee types is outlined below.

1. Accounting policies (continued)

c) Revenue recognition (continued)

Payment services: this income comprises income received for payment services including cheques cashed and direct debits. These are generally charged on a per transaction basis. The income is earned when the payment or transaction occurs. Charges for payment services are usually debited to the customer's account, monthly or quarterly in arrears. Income is accrued at period end for services provided but not charged.

Card related services: fees from credit card business include:

- Interchange received: as issuer, the Group receives a fee (interchange) each time a cardholder purchases goods and services. The Group also receives interchange fees from other card issuers for providing cash advances through its branch and automated teller machine networks. These fees are accrued once the transaction has taken place; and
- Periodic fees payable by credit card holders: these are deferred and taken to profit or loss over the period of the service.

Lending (credit facilities): Commitment and utilisation fees are determined as a percentage of the outstanding facility. If it is unlikely that a specific lending arrangement will be entered in to, such fees are taken to profit or loss over the life of the facility otherwise they are deferred and included in the effective interest rate on the advance.

Brokerage fees: in respect of securities, foreign exchange, futures or options transactions entered into on behalf of a customer are recognised as income on execution of a significant act.

Trade finance: Income from the provision of trade finance is recognised over the term of the finance unless specifically related to a significant act, causing income to be recognised when the act is executed.

Investment management fees: fees charged for managing investments are recognised as revenue as the services are provided. Incremental costs that are directly attributable to securing an investment management contract are deferred and charged as an expense as the related revenue is recognised.

Fees and commissions payable: fees and commissions are payable in respect of services provided by third party intermediaries. These are charged through profit or loss over the life of the underlying product.

d) Pensions and other post-retirement benefits

The Group provides post-retirement benefits in the form of pensions to eligible employees.

For defined benefit schemes, scheme liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate that reflects the current rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities. Scheme assets are measured at their fair value. Past service costs are recognised immediately to the extent that benefits have vested; otherwise they are amortised over the period until the benefits become vested.

Any surplus or deficit of scheme assets over liabilities adjusted for unrecognised actuarial gains and losses and past services costs is recognised on the balance sheet as an asset (surplus) or liability (deficit). In 2015, the Group voluntarily changed its accounting policy for the recognition of surpluses in its defined benefit pension schemes: in particular, the policy for determining whether or not it has an unconditional right to a refund of surpluses in its employee pension funds. Where the Group has a right to a refund, this is not deemed unconditional if pension fund trustees can use a scheme surplus to enhance benefits for plan members. As a result of this change, a minimum funding requirement to cover an existing shortfall in a scheme may give rise to an additional liability and surpluses may not be recognised in full. The revised accounting policy, by taking account of the powers of pension trustees in assessing the economic benefit available as a refund, provides more relevant information about the effect on the Group's financial position of its defined benefit pension schemes.

Contributions to defined contribution pension schemes are recognised in the income statement when payable.

e) Intangible assets and goodwill

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

f) Property, plant and equipment

Items of property, plant and equipment (except investment properties – see accounting policy h) are stated at cost less accumulated depreciation (see below) and accumulated impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for separately.

1. Accounting policies (continued)

f) Property, plant and equipment (continued)

Depreciation is charged to profit or loss on a straight-line basis so as to write off the depreciable amount of property, plant and equipment (including assets owned and let on operating leases) over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value. Freehold Land is not depreciated. Estimated useful lives are as follows:

Freehold and long leasehold buildings	50 years
Short leaseholds	unexpired period of the lease
Property adaptation costs	10 to 15 years
Computer equipment	up to 5 years
Other equipment	4 to 15 years

The residual value and useful life of property, plant and equipment are reviewed at each balance sheet date with the effect of any changes in estimate accounted for on a prospective basis.

g) Impairment of non-financial assets

At each reporting date, the Group assesses whether there is any indication that the value of its non-financial assets is impaired. If any such indication exists, the Group estimates the recoverable amount of the asset and the impairment loss, if any. The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. Value in use is the present value of future cash flows from the asset or cash-generating unit discounted at a rate that reflects market interest rates adjusted for risk specific to the asset or cash-generating unit that have not been reflected in the estimation of future cash flows. If the recoverable amount of a non-financial asset is less than its carrying value, an impairment loss is recognised immediately in profit or loss and the carrying value of the asset reduced by the amount of the loss. A reversal of an impairment loss on non-financial assets is recognised as it arises provided the increased carrying value does not exceed that which it would have been had no impairment loss been recognised.

h) Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Fair value is based on current prices for similar properties in the same location and condition using internal valuation models based on yield comparables and any available recent market transactions taking cognisance of the principles of the Royal Institute of Chartered Surveyors (RICS) valuation methodology.

Rental income from investment property is recognised on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

i) Foreign currencies

The Group's consolidated financial statements are presented in Sterling which is the functional currency of the Bank.

Group entities record transactions in foreign currencies in their functional currency - the currency of the primary economic environment in which they operate - at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on the settlement of foreign currency transactions and from the translation of monetary assets and liabilities are reported in income from trading activities except for differences arising on cash flow hedges and hedges of net investments in foreign operations.

Non-monetary items denominated in foreign currencies that are stated at fair value are translated into the relevant functional currency at the foreign exchange rates ruling at the dates the values are determined. Translation differences arising on non-monetary items measured at fair value are recognised in profit or loss except for differences arising on available-for-sale non-monetary financial assets, for example equity shares, which are recognised in other comprehensive income unless the asset is the hedged item in a fair value hedge.

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Sterling at foreign exchange rates ruling at the balance sheet date. Income and expenses of foreign operations are translated into Sterling at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on the translation of a foreign operation are recognised in other comprehensive income. The amount accumulated in equity is reclassified from equity to profit or loss on disposal or partial disposal of a foreign operation.

1. Accounting policies (continued)

j) Leases

As lessor
Contracts with customers to lease assets are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer. All other contracts with customers to lease assets are classified as operating leases.

Finance lease receivables are included in the balance sheet, within loans and advances to customers, at the amount of the net investment in the lease being the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease. Finance lease income is allocated to accounting periods so as to give a constant periodic rate of return before tax on the net investment and included in interest receivable. Unguaranteed residual values are subject to regular review; if there is a reduction in their value, income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

Rental income from operating leases is credited to the income statement on a receivable basis over the term of the lease. Operating lease assets are included within property, plant and equipment and depreciated over their useful lives (see accounting policy f). Operating lease rentals receivable are included in other operating income.

As lessee
Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

k) Provisions and contingent liabilities

The Group recognises a provision for a present obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably.

If the Group has a contract that is onerous, it recognises the present obligation under the contract as a provision. An onerous contract is one where the unavoidable costs of meeting the obligations under it exceed the expected economic benefits. When the Group vacates a leasehold property, a provision is recognised for the costs under the lease less any expected economic benefits (such as rental income).

Contingent liabilities are possible obligations arising from past events whose existence will be confirmed only by uncertain future events or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

l) Taxation

Income tax expense or income, comprising current tax and deferred tax, is recorded in the income statement except income tax on items recognised outside profit or loss which is credited or charged to other comprehensive income or to equity as appropriate.

Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the year arising in income or in equity. Provision is made for current tax at rates enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered. Deferred tax is not recognised on temporary differences that arise from initial recognition of an asset or liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to offset and where they relate to income taxes levied by the same taxation authority either on an individual Group company or on Group companies in the same tax group that intend, in future periods, to settle current tax liabilities and assets on a net basis or on a gross basis simultaneously.

m) Financial assets

On initial recognition financial assets, as defined by IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39), are classified into held-for-trading; designated as at fair value through profit or loss; loans and receivables or available-for-sale. Regular way purchases of financial assets classified as loans and receivables are recognised on settlement date; all other regular way purchases are recognised on trade date.

1. Accounting policies (continued)

m) Financial assets (continued)

Held-for-trading - a financial asset is classified as held-for-trading if it is acquired principally for sale in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative (not in a qualifying hedge relationship). Held-for-trading financial assets are recognised at fair value with transaction costs being recognised in profit or loss. Subsequently they are measured at fair value. Gains and losses on held-for-trading financial assets are recognised in profit or loss as they arise.

Designated as at fair value through profit or loss - financial assets may be designated as at fair value through profit or loss only if such designation: (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial assets, financial liabilities or both, that the Group manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract.

Financial assets that the Group designates on initial recognition as being at fair value through profit or loss are recognised at fair value, with transaction costs being recognised in profit or loss and are subsequently measured at fair value. Gains and losses on financial assets that are designated as at fair value through profit or loss are recognised in profit or loss as they arise.

Loans and receivables - non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except those that are classified as available-for-sale, as held-for-trading or designated as at fair value through profit or loss. Loans and receivables are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method (see accounting policy c) less any impairment losses.

Available-for-sale - financial assets that are not classified as held-for-trading; designated as at fair value through profit or loss; or loans and receivables are classified as available-for-sale. Financial assets can be designated as available-for-sale on initial recognition. Available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost and classified as available-for-sale financial assets. Impairment losses and exchange differences resulting from retranslating the amortised cost of monetary available-for-sale financial assets denominated in a foreign currency are recognised in profit or loss together with interest calculated using the effective interest method (see accounting policy c). Other changes in the fair value of available-for-sale financial assets and any related tax are reported in a separate component of shareholders' equity until disposal, when the cumulative gain or loss is recognised in profit or loss.

Fair value - fair value for a net open position in a financial asset that is quoted in an active market is the closing market price times the number of units of the instrument held. Fair values for financial assets not quoted in an active market are determined using appropriate valuation techniques including discounting future cash flows, option pricing models and other methods that are consistent with accepted economic methodologies for pricing financial assets.

n) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as available-for-sale or loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

Financial assets carried at amortised cost - if there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the original effective interest rate of the instrument at initial recognition. For collateralised loans and receivables, estimated future cash flows include cash flows that may result from foreclosure less the costs of obtaining and selling the collateral, whether or not foreclosure is probable.

Where, in the course of the orderly realisation of a loan it is exchanged for equity shares or properties, the exchange is accounted for as the sale of the loan and the acquisition of equity securities or investment properties. Where the Group's interest in equity shares following the exchange is such that the Group controls an entity, that entity is consolidated.

Impairment losses are assessed individually for financial assets that are individually significant and individually or collectively for assets that are not individually significant. In making collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted, on the basis of current observable data, to reflect current conditions not affecting the period of historical experience.

1. Accounting policies (continued)

n) Impairment of financial assets (continued)

Impairment losses are recognised in profit or loss and the carrying amount of the financial asset or group of financial assets reduced by establishing an allowance for impairment losses. If, in a subsequent period, the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. Once an impairment loss has been recognised on a financial asset or group of financial assets, interest income is recognised on the carrying amount using the original effective rate of interest at which estimated future cash flows were discounted in measuring impairment.

Impaired loans and receivables are written off, i.e. the impairment provision is applied in writing down the loan's carrying value partially or in full, when the Group concludes that there is no longer any realistic prospect of recovery of part or all of the loan. For portfolios that are collectively assessed for impairment, the timing of write off principally reflects historic recovery experience for each portfolio. For loans that are individually assessed for impairment, the timing of write off is determined on a case-by-case basis. Such loans are reviewed regularly and write offs will be prompted by bankruptcy, insolvency, restructuring and similar events. Amounts recovered after a loan has been written off are credited to the loan impairment charge for the period in which they are received.

Financial assets carried at fair value - when a significant or prolonged decline in the fair value of a financial asset classified as available-for-sale has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in profit or loss. The loss is measured as the difference between the acquisition cost of the financial asset and its current fair value. Impairment losses on available-for-sale equity instruments are not reversed through profit or loss, but those on available-for-sale debt instruments are reversed if there is an increase in fair value that is objectively related to a subsequent event.

o) Financial liabilities

On initial recognition financial liabilities, as defined by IAS 39, are recognised at fair value and classified into held-for-trading; designated as at fair value through profit or loss; or amortised cost.

Held-for-trading - a financial liability is classified as held-for-trading if it is incurred principally for the repurchase in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative (not in a qualifying hedge relationship). Held-for-trading financial liabilities are recognised at fair value with transaction costs being recognised in profit or loss. Subsequently they are measured at fair value. Gains and losses are recognised in profit or loss as they arise.

Designated as at fair value through profit or loss - financial liabilities may be designated as at fair value through profit or loss only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial assets, financial liabilities or both that the Group manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract.

Financial liabilities that the Group designates on initial recognition as being at fair value through profit or loss are recognised at fair value, with transaction costs being recognised in profit or loss, and are subsequently measured at fair value. Gains and losses on financial liabilities that are designated as at fair value through profit or loss are recognised in profit or loss as they arise.

Amortised cost - all other financial liabilities are measured at amortised cost using the effective interest method (see accounting policy c).

Fair value - fair value for a net open position in a financial liability that is quoted in an active market is the closing market price times the number of units of the instrument held or issued. Fair values for financial liabilities not quoted in an active market are determined using appropriate valuation techniques including discounting future cash flows, option pricing models and other methods that are consistent with accepted economic methodologies for pricing financial liabilities. Valuation adjustments are made when fair valuing financial liabilities to reflect the Group's own credit standing.

p) Derecognition

A financial asset is derecognised when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the rights to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been neither retained nor transferred, the Group assess whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Group has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

1. Accounting policies (continued)

p) Derecognition (continued)

A financial liability is removed from the balance sheet when the obligation is discharged, or cancelled, or expires. On the redemption or settlement of debt securities (including subordinated liabilities) issued by the Group, the Group derecognises the debt instrument and records a gain or loss being the difference between the debt's carrying amount and the cost of redemption or settlement. The same treatment applies where the debt is exchanged for a new debt issue that has terms substantially different from those of the existing debt. The assessment of whether the terms of the new debt instrument are substantially different takes into account qualitative and quantitative characteristics including a comparison of the discounted present value of the cash flows under the new terms with the discounted present value of the remaining cash flows of the original debt issue.

q) Sale and repurchase transactions

Securities subject to a sale and repurchase agreement under which substantially all the risks and rewards of ownership are retained by the Group continue to be shown on the balance sheet and the sale proceeds recorded as a deposit. Securities acquired in reverse sale and repurchase transactions under which the Group is not exposed to substantially all the risks and rewards of ownership are not recognised on the balance sheet and the consideration is recorded in Loans and advances to banks or Loans and advances to customers as appropriate.

Securities borrowing and lending transactions are usually secured by cash or securities advanced by the borrower. Borrowed securities are not recognised on the balance sheet or lent securities derecognised. Cash collateral received or given is treated as a loan or deposit; collateral in the form of securities is not recognised. However, where securities borrowed are transferred to third parties, a liability for the obligation to return the securities to the stock lending counterparty is recorded.

r) Netting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities. Where it does not intend to settle the amounts net or simultaneously the assets and liabilities concerned are presented gross.

s) Capital instruments

The Group classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities.

t) Derivatives and hedging

Derivative financial instruments are initially recognised, and subsequently measured, at fair value. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models. Credit valuation adjustments are made when valuing derivative financial assets to incorporate counterparty credit risk.

A derivative embedded in a contract is accounted for as a stand-alone derivative if its economic characteristics are not closely related to the economic characteristics of the host contract; unless the entire contract is measured at fair value with changes in fair value recognised in profit or loss.

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge are recognised as they arise in profit or loss.

The Group enters into two types of hedge relationship: hedges of changes in the fair value of a recognised asset or liability or unrecognised firm commitment (fair value hedges) and hedges of the variability in cash flows from a recognised asset or liability or a highly probable forecast transaction (cash flow hedges).

Fair value hedge - in a fair value hedge, the gain or loss on the hedging instrument is recognised in profit or loss. The gain or loss on the hedged item attributable to the hedged risk is recognised in profit or loss and, where the hedged item is measured at amortised cost, adjusts the carrying amount of the hedged item. Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; or if the hedging instrument expires or is sold, terminated or exercised; or if hedge designation is revoked. If the hedged item is one for which the effective interest rate method is used, any cumulative adjustment is amortised to profit or loss over the life of the hedged item using a recalculated effective interest rate.

1. Accounting policies (continued)

t) Derivatives and hedging (continued)

Cash flow hedge - in a cash flow hedge, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion in profit or loss. When the forecast transaction results in the recognition of a financial asset or financial liability, the cumulative gain or loss is reclassified from equity to profit or loss in the same periods in which the hedged forecast cash flows affect profit or loss. Otherwise the cumulative gain or loss is removed from equity and recognised in profit or loss at the same time as the hedged transaction.

Hedge relationships are formally designated and documented at inception. The documentation identifies the hedged item and the hedging instrument and details the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in offsetting changes in fair values attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued. Hedge accounting is also discontinued if the Group revokes the designation of a hedged relationship.

u) Share-based payments

RBS awards options over shares to its employees and employees of subsidiary companies (including the Group) under various share option schemes. IFRS 2 'Share-based Payment' is applied by RBS to grants made under these schemes. The cost of employee services received in exchange for an award of shares or share options granted is measured by reference to the fair value of the shares or share options on the date the award is granted. The fair value of options granted is estimated using valuation techniques which incorporate exercise price, term, risk-free interest rates, the current share price and its expected volatility. The cost is expensed on a straight-line basis over the vesting period. RBS includes the cost of these awards in determining any recharges of employee costs it makes to subsidiaries. The Group recognises the cost based on these recharges.

v) Cash and cash equivalents

In the Cash Flow Statements, cash and cash equivalents comprise cash and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

w) Investments in Group undertakings

The Bank's investments in its subsidiaries are stated at cost less any accumulated impairment losses.

x) Critical accounting policies and key sources of estimation uncertainty

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, International Accounting Standard (IAS) 8 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant and reliable information in light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of financial statements.

The judgements and assumptions involved in the Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

Loan impairment provisions

The Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost. A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

There are three components to the Group's loan impairment provisions: individual, collective and latent.

Individual component - all impaired loans that exceed specific thresholds are individually assessed for impairment. Individually assessed loans principally comprise the Group's portfolio of commercial loans to medium and large businesses. Impairment losses are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held. These estimates take into account the customer's debt capacity and financial flexibility; the level and quality of its earnings; the amount and sources of cash flows; the industry in which the counterparty operates; and the realisable value of any security held. Estimating the quantum and timing of future recoveries involves significant judgement.

1. Accounting policies (continued)

x) Critical accounting policies and key sources of estimation uncertainty (continued)

Loan impairment provisions (continued)

Individual component (continued)
The size of receipts will depend on the future performance of the borrower and the value of security, both of which will be affected by future economic conditions; additionally, collateral may not be readily marketable. The actual amount of future cash flows and the date they are received may differ from these estimates and consequently actual losses incurred may differ from those recognised in these financial statements.

Collective component - impaired loans that are below individual assessment thresholds are collectively assessed. Collectively assessed provisions are established on a portfolio basis using a present value methodology taking into account the level of arrears, security, past loss experience, credit scores and defaults based on portfolio trends. The most significant factors in establishing these provisions are the expected loss rates and the related average life. These portfolios include personal advances including mortgages, smaller commercial loans and credit card receivables. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, the unemployment level, payment behaviour and bankruptcy trends.

Latent component – latent loss provisions are held against estimated impairment losses in the performing portfolio that have yet to be identified as at the balance sheet date. To assess the latent loss within its portfolios, the Group has developed methodologies to estimate the time that an asset can remain impaired within a performing portfolio before it is identified and reported as such.

The impact of changes to key sources of estimation uncertainty to the Group's loan provisioning are described below:

Probability of default ("PD") models assess the probability of a customer defaulting their credit obligations over a twelve-month time horizon. A 1% increase in the overall PD in both retail and wholesale portfolios would have resulted in an increase in the credit losses provisioning of c£47m at the balance sheet date.

The loss given default ("LGD") models estimate the incurred loss experienced (the amount that cannot be recovered) by the Group on a credit facility in the event of default. A 1% increase in the wholesale collective and latent loss given default at the balance sheet date would have resulted in an increase in the provision for credit losses of c£7m.

Property price indices, produced by the Central Statistics Office in the Republic of Ireland and the Office for National Statistics in the United Kingdom are used to the determine value of collateral and the indexed LTV based on the indices are a key input of the LGD model used for the Retail mortgage portfolio. A 1% reduction in the price indices would have resulted in an increase in the credit losses provisioning of c£12m at the balance sheet date.

The probability of repossession rate is a significant judgemental item for the LGD on the retail mortgage portfolio. A 1% increase in repossession rates at 31 December 2015 would have resulted in a c£8m increase in the credit losses provisioning at year end.

The emergence period is the period between the occurrence of the impairment event and a loan being identified and reported as impaired. An increase of one month in the emergence period at the balance sheet date in the retail and wholesale portfolios would have resulted in an increase of c£6m in the credit losses provisioning.

Forbearance

The forbearance policies are the main response to managing mortgage customers in financial difficulty and are deployed through the Group's forbearance initiative. Forbearance is applied to secured retail products where temporary relief is offered through the renegotiation of the original contract, although on terms not generally available on a commercial basis. This may include offering contract revision by various means including reduced repayment, interest only arrangements, negative amortisation, payment moratorium, term extension, lifetime reduced repayment and/or interest rate reduction; these forbearance arrangements are subject to heightened monitoring.

Forbearance offered by the Group on loans where an impairment loss provision has been previously recognised will result in such loans retaining their classification as non-performing. Where the customer met the loan terms prior to modification and there is a realistic expectation that the customer will adhere to forbearance terms, these loans are classified as performing loans. In recognising their credit risk profile, they carry a provision incorporating an expectation that some customers will fail to comply with the terms of the forbearance together with the associated loss rate.

1. Accounting policies (continued)

x) Critical accounting policies and key sources of estimation uncertainty (continued)

Impairment of investment in Group undertakings

At each reporting date, the Bank assesses whether there is any indication that the value of its investments in Group undertakings is impaired. If any such indication exists, the Bank estimates the recoverable amount of the investment using a model based on discounted expected future profits and discounted future equity flows. If the recoverable amount of an investment is less than its carrying value, an impairment loss is recognised immediately in profit or loss and the carrying value of the asset reduced by the amount of the loss. A reversal of an impairment loss in investments in Group undertakings is recognised as it arises provided the increased carrying value does not exceed that which it would have been had no impairment loss been recognised.

Valuation of investment property

Investment property is measured initially at cost and subsequently at fair value. Fair value is based on current prices for similar properties in the same location and condition using internal valuation models based on yield comparables and any available recent market transactions taking cognisance of the principles of the RICS valuation methodology. Fair value of the investment properties is determined on at least an annual basis by officers of the Group. A selection of properties may be valued by external appointed surveyors from time to time as the commercial need arises. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Deferred tax

The Group makes provision for deferred tax on short-term and other temporary differences where tax recognition occurs at a different time from accounting recognition. Tax assets are recognised in respect of unused tax losses to the extent that it is probable that there will be future taxable profits against which the losses can be utilised.

Pensions

There are three defined benefit pension schemes in operation within the Group: Ulster Bank Pension Scheme, Ulster Bank Pension Scheme (Republic of Ireland) and First Active Pension Scheme. The assets of defined benefit schemes are measured at their fair value at the balance sheet date. Scheme liabilities are measured using the projected unit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the scheme liabilities. These cash flows are discounted at an interest rate based on the yields of high-quality corporate bonds of appropriate duration, with high-quality almost universally understood to mean AA-rated. The choice of discount rate is a source of estimation uncertainty, due to a lack of appropriate Euro-denominated AA-rated bonds of equivalent duration to the pension schemes' liabilities.

The approach used is to fit a yield curve to an appropriate dataset of AA bonds, and derive the discount rate from that curve. To increase the number of reference bonds available at the end of the reporting period, equivalent AA yields were extrapolated for longer dated A and AAA rated bonds by applying a credit spread adjustment to their actual yields. These were then included in the dataset used to create the yield curve.

In determining the value of scheme liabilities, financial and demographic assumptions are made as to price inflation, pension increases, earnings growth and employee life expectancy. A range of assumptions could be adopted in valuing the schemes' liabilities. Different assumptions could significantly alter the amount of the surplus or deficit recognised in the balance sheet and the pension cost charged to the income statement. The assumptions adopted for the Group's pension schemes are set out in Note 5 to the financial statements together with sensitivities of the balance sheet and income statement to changes in those assumptions.

Fair value – financial instruments

Financial instruments classified as held-for-trading or designated as at fair value through profit or loss and financial assets classified as available-for-sale are recognised in the financial statements at fair value. All derivatives are measured at fair value. On the balance sheet, financial assets carried at fair value are included within debt securities, equity shares and derivatives as appropriate. Financial liabilities carried at fair value are included within deposits by banks, customer accounts and derivatives. Derivative assets and derivative liabilities are shown separately on the face of the balance sheets. The carrying value of a financial asset or a financial liability carried at cost or amortised cost that is the hedged item in a qualifying hedge relationship is adjusted by the gain or loss attributable to the hedged risk.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are determined by reference to observable market prices where available and reliable. Where representative market prices for an instrument are not available or are unreliable because of poor liquidity, the fair value is derived from prices for its components using appropriate pricing or valuation models that are based on independently sourced market parameters, including interest rate yield curves, option volatilities and currency rates.

1. Accounting policies (continued)

x) Critical accounting policies and key sources of estimation uncertainty (continued)

Fair value – financial instruments (continued)

Financial assets carried at fair value include debt securities issued by governments and companies, reverse repurchase agreements (reverse repos), loans and advances, equity shares of companies or corporations, both listed and unlisted, and derivatives. Financial liabilities carried at fair value include customer deposits, repurchase agreements (repos), debt securities in issue and derivatives. Fair value for a substantial proportion of these instruments is based on observable market prices or derived from observable market parameters. Where observable prices are not available, fair value is based on appropriate valuation techniques or management estimates.

The Group's derivative products include swaps, forwards, futures and options. Exchange traded instruments are valued using quoted prices. The fair value of over-the-counter instruments is derived from pricing models which take account of contract terms, including maturity, as well as quoted market parameters such as interest rates and volatilities. Most of the Group's pricing models do not entail material subjectivity because the methodologies utilised do not incorporate significant judgement and the parameters included in the models can be calibrated to actively quoted market prices. Values established from pricing models are adjusted for credit risk, liquidity risk and future operational costs.

The fair value of substantially all securities positions carried at fair value is determined directly from quoted prices. Fair value for a net open position in a financial instrument in an active market is the number of units of the instrument held times the closing market price. In determining the fair value of derivative financial instruments gross long and short positions measured at current mid market prices are adjusted by bid-offer reserves calculated on a portfolio basis. Credit valuation adjustments are made when valuing derivative financial assets to incorporate counterparty credit risk. Valuation adjustments are made when fair valuing financial liabilities to reflect the Group's own credit standing. Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data.

More details about the Group's valuation methodologies of the fair value of financial instruments valued using techniques where at least one significant input is unobservable are given in Note 9.

Provisions for liabilities

As set out in Note 18, at 31 December 2015 the Group recognised provisions for liabilities in respect of Interest Rate Hedging Products, Payment Protection Insurance and other litigation. Provisions are liabilities of uncertain timing or amount, and are recognised when there is a present obligation as a result of a past event, the outflow of economic benefit is probable and the outflow can be estimated reliably. Judgement is involved in determining whether an obligation exists, and in estimating the probability, timing and amount of any outflows. Where the Group can look to another party such as an insurer to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received. The provisions are management's best estimate of the anticipated costs of redress and related administration expenses.

y) Accounting developments

International Financial Reporting Standards

A number of IFRSs and amendments to IFRS were in issue at 31 December 2015 that would affect Group from 1 January 2016 or later.

Effective for 2016

'Accounting for Acquisitions of Interests in Joint Operations' issued in May 2014 amends IFRS 11 'Joint Arrangements' to clarify that the donor of assets and liabilities to a joint operation should hold its continuing interest in them at the lower of cost and recoverable amount. The effective date is 1 January 2016.

'Clarification of Acceptable Methods of Depreciation and Amortisation' issued in May 2014 amends IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' requiring amortisation to be based on the consumption of an asset, introducing a rebuttable presumption that this is not achieved by an amortisation profile aligned to revenue. The effective date is 1 January 2016.

Annual Improvements to IFRS 2012 - 2014 cycle was issued in September 2014 making a number of minor amendments to IFRS. The effective date is 1 January 2016.

1. Accounting policies (continued)

y) Accounting developments (continued)

Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' were issued in September 2014 to clarify the accounting for sales between an investor, its associate or joint ventures, and in December 2014 to clarify the application of the investment entity consolidation exception. The effective date of these amendments is 1 January 2016.

An amendment to IAS 1 'Presentation of Financial Statements' was issued in December 2014 to clarify the application of materiality to financial statements. Its effective date is 1 January 2016.

None of these amendments is expected to have a material effect on the Group's financial statements.

Effective after 2016

IFRS 15 'Revenue from Contracts with Customers' was issued in May 2014. It will replace IAS 11 'Construction Contracts', IAS 18 'Revenue' and several Interpretations. Contracts are bundled or unbundled into distinct performance obligations with revenue recognised as the obligations are met. It is effective from 1 January 2018. It is not expected to have a material effect on the Group's financial statements.

IFRS 16 Leases was issued in January 2016 to replace IAS 17 Leases. Accounting for finance leases will remain substantially the same. Operating leases will be brought on balance sheet through the recognition of assets representing the contractual rights of use and liabilities will be recognised for the contractual payments. The effective date is 1 January 2019.

In July 2014 the IASB published IFRS 9 'Financial Instruments' with an effective date of 1 January 2018. IFRS 9 replaces the current financial instruments standard, IAS 39, setting out new accounting requirements for classification and measurement of financial instruments, impairment of financial instruments and hedge accounting.

Classification and measurement
Financial assets
There are three classifications for financial assets in IFRS 9: fair value through profit or loss; fair value through other comprehensive income and amortised cost.

Financial assets with terms that give rise to interest and principal cash flows only and which are held in a business model whose objective is to hold financial assets to collect their cash flow are measured at amortised cost.

Financial assets with terms that give rise to interest and principal cash flows only and which are held in a business model whose objective is achieved by holding financial assets to collect their cash flow and selling them are measured at fair value through other comprehensive income.

Other financial assets are measured at fair value through profit and loss.

However, at initial recognition, any financial asset may be irrevocably designated as measured at fair value through profit or loss if such designation eliminates a measurement or recognition inconsistency. The Group expects that the measurement basis of the majority of the Group's financial assets will be unchanged on application of IFRS 9.

Financial liabilities
IFRS 9's requirements on the classification and measurement of financial liabilities are largely unchanged from those in IAS 39. However, there is a change to the treatment of changes in the fair value attributable to own credit risk of financial liabilities designated as at fair value through profit or loss which are recognised in other comprehensive income and not in profit or loss as required by IAS 39.

Impairment
IFRS 9's credit impairment requirements apply to financial assets measured at amortised cost, to those measured at fair value through other comprehensive income, to lease receivables and to certain loan commitments and financial guarantee contracts. On initial recognition a loss allowance is established at an amount equal to 12-month expected credit losses ("ECL"), that is the portion of life-time expected losses resulting from default events that are possible within the next 12 months. Where a significant increase in credit risk since initial recognition is identified, the loss allowance increases so as to recognise all expected default events over the expected life of the asset.

1. Accounting policies (continued)

y) Accounting developments (continued)

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted: determined by evaluating at the reporting date a range of possible outcomes using reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions. The estimation of ECL also takes into account the time value of money. Recognition and measurement of credit impairments under IFRS 9 are more forward-looking than under IAS 39.

The Group has established a programme to implement the necessary changes in the modelling of credit loss parameters and the underlying credit management and financial processes; this programme is led jointly by Risk and Finance. The inclusion of loss allowances on all financial assets will tend to result in an increase in overall impairment balances when compared with the existing basis of measurement under IAS 39.

Hedge accounting

IFRS 9 includes hedge accounting requirements designed to align accounting more closely to the risk management framework; permit a greater variety of hedging instruments; and remove or simplify some of the rule-based requirements in IAS 39. The basic mechanics of hedge accounting: fair value, cash flow and net investment hedges are retained. There is an option in IFRS 9 for an accounting policy choice to continue with the IAS 39 hedge accounting framework. The Group is actively considering its implementation approach.

Transition

The classification and measurement and impairment requirements are to be applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. Hedge accounting is generally applied prospectively from that date.

The Group is continuing to assess the standard's effect on its financial statements.

2. Net interest income

	Group	
	2015	2014
	£m	£m
Loans and advances to customers	**613**	765
Loans and advances to banks	**63**	64
Interest receivable	**676**	829
Customer accounts	**(75)**	(130)
Deposits by banks	**(81)**	(97)
Debt securities in issue	**(5)**	(9)
Subordinated liabilities	**(11)**	(15)
Interest payable on liabilities	**(172)**	(251)
Loans and advances to banks	**(5)**	-
Debt security assets	**(2)**	-
Interest payable on assets	**(7)**	-
Total interest payable	**(179)**	(251)
Net interest income	**497**	578

Included within net interest income is £48m (2014: £98m) of interest on impaired loans.

3. Non-interest income

	Group	
	2015	2014
	£m	£m
Fees and commission receivable	**148**	163
Fees and commission payable	**(17)**	(15)
Income from trading activities[1]:		
Foreign exchange	**52**	64
Interest rates	**13**	86
Equities and other	**2**	-
Other operating (expenses)/income[2]	**(8)**	16
Non-interest income	**190**	314

(1) The analysis of trading income is based on how the business is organised and the underlying risks managed.
Trading income comprises gains and losses on financial instruments held-for-trading, both realised and unrealised, interest income and dividends and the related funding costs.
i) Foreign exchange: spot foreign exchange contracts, currency swaps and options, emerging markets and related hedges and funding.
ii) Interest rates: interest rate swaps, forward foreign exchange contracts, forward rate agreements, interest rate options, interest rate futures and related hedges and funding.
iii) Equities and other: equities and equity derivatives.
(2) Included within other operating expenses are net losses on loans and receivables of £105m (2014: £56m).

4. Operating expenses

	Group	
		Restated
	2015	2014
	£m	£m
Wages, salaries and other staff costs	**210**	233
Social security costs	**21**	24
Pension costs:		
- defined benefit schemes (see Note 5)	**62**	36
- defined contribution schemes (see Note 5)	**3**	4
Restructure costs	**8**	5
Staff costs	**304**	302
Premises and equipment	**98**	140
Administration	**134**	144
Other expenses	**232**	284
Property, plant and equipment depreciation (see Note 15)	**13**	15
Operating expenses	**549**	601

The average number of persons employed by the Group during the year, excluding temporary staff, was 4,975 (2014: 5,192). The average number of temporary employees during 2015 was 269 (2014: 311). The number of persons employed by the Group at 31 December, excluding temporary staff, was as follows:

	Group	
	2015	2014
Employee numbers	**Number**	Number
Retail Banking ROI	**1,227**	1,222
Commercial Banking ROI	**543**	654
Retail Banking NI	**850**	890
Commercial Banking NI	**175**	276
Other	**2,080**	2,033
	4,875	5,075

Included within the 2015 other total are 109 staff members (2014: nil) whose roles involve the provision of services exclusively to other companies in the Royal Bank of Scotland Group. The staff costs of these employees are recharged to the companies they provide services to and are therefore not reflected in the Group's staff costs as detailed above.

4. Operating expenses (continued)

	Group	
	2015	2014
Auditors' remuneration	**£'000**	£'000
Audit of the Bank's individual and Group accounts	**815**	905
Assurance services	**163**	24
	978	929

Other than the amounts disclosed above, no remuneration was payable in respect of tax advisory services and other non-audit services.

Auditors' remuneration is disclosed exclusive of VAT.

Bank Levy

The UK bank levy rate increased during 2015 and the blended rate charged was 0.1967% on chargeable liabilities in excess of £20 billion (2014: 0.156%). Levy costs in respect of the Bank will be borne by RBS for 2015.

5. Pension costs

The Group operates the following defined benefit pension schemes, the assets of which are independent of the Group's finances:

Name of schemes
Ulster Bank Pension Scheme
Ulster Bank Pension Scheme (Republic of Ireland)
First Active Pension Scheme

The Ulster Bank Pension Scheme operates under UK trust law and is managed and administered on behalf of its members in accordance with the terms of the trust deed, the scheme rules and UK legislation (principally the Pension Schemes Act 1993, the Pensions Act 1995 and the Pensions Act 2004). Under UK legislation a defined benefit pension scheme is required to meet the statutory funding objective of having sufficient and appropriate assets to cover its liabilities. Pension fund trustees are required to: prepare a statement of funding principles; obtain regular actuarial valuations and reports; put in place a recovery plan addressing any funding shortfall; and send regular summary funding statements to members of the scheme.

The Ulster Bank Pension Scheme corporate Trustee is Ulster Bank Pension Trustees Limited ("UBPTL") a wholly owned subsidiary of Ulster Bank Limited. UBPTL is the legal owner of the scheme assets which are held separately from the assets of the Group. The board of UBPTL comprises 3 trustee directors nominated by members selected from eligible active staff and pensioner members who apply and 6 appointed by the Group. The board is responsible for operating the scheme in line with its formal rules and pensions law. It has a duty to act in the best interests of all scheme members, including pensioners and those who are no longer employed by the Group, but who still have benefits in the scheme.

The Group's main pension scheme in the Republic of Ireland, the Ulster Bank Pension Scheme (Republic of Ireland) ("UBPSRI"), operates under Republic of Ireland trust law and is managed and administered on behalf of its members in accordance with the terms of the trust deed; the scheme rules; and Republic of Ireland legislation (principally the Pension Schemes Act 1990). Under Republic of Ireland legislation a defined benefit pension scheme is required to build up and maintain enough funds to pay members their pension entitlements should the scheme be wound up. Pension fund trustees are required to obtain regular actuarial valuations and reports put in place a recovery plan addressing any funding shortfall and submit that plan to the Irish Pensions Board for approval.

5. Pension costs (continued)

The corporate Trustee of the UBPSRI is Ulster Bank Pension Trustees (RI) Limited ("UBPTRIL"), a wholly owned subsidiary of Ulster Bank Holdings (ROI) Limited. UBPTRIL is the legal owner of the scheme assets which are held separately from the assets of the Group. The board of UBPTRIL comprises 3 trustee directors nominated by the unions and 6 appointed by the Group. The board is responsible for operating the scheme in line with its formal rules and pensions law. It has a duty to act in the best interests of all scheme members, including pensioners and those who are no longer employed by the Group, but who still have benefits in the scheme.

Similar governance principles to those outlined above relating to UBPSRI apply to the First Active Pension Scheme in the Republic of Ireland.

The schemes were closed to new entrants in 2009, when a new defined contribution scheme was launched.

Employees make contributions at varying levels depending on which scheme they are a member of and when they joined the scheme. In addition, employees may make voluntary contributions to secure additional benefits on a money-purchase basis.

The Group also make contributions to a small number of RBS Group Pension Schemes, the costs of which are accounted for as defined contributions. The Group made contributions of £3m to its own defined contribution schemes in 2015 (2014: £4m, 2013: £4m). The Bank made contributions of £1m to its own defined contribution schemes in 2015 (2014: £1m, 2013: £1m).

Interim valuations of the Group's schemes were prepared to 31 December 2015 by independent actuaries, using the following assumptions:

	Group		
Principal actuarial assumptions at 31 December (weighted average)	**2015**	2014	2013
Discount rate	**2.60% - 3.90%**	2.20% - 3.70%	3.80% - 4.65%
Rate of increase in salaries	**1.30% - 2.75%**	1.50% - 2.95%	1.75% - 3.30%
Rate of increase in pensions in payment	**0.88% - 2.00%**	0.88% - 1.95%	0.00% - 2.30%
Inflation assumption	**1.75% - 3.00%**	1.75% - 2.95%	2.00% - 3.30%

Discount rate

The Sterling and Euro yield curves are constructed by reference to yields on 'AA' corporate bonds from which a single discount rate is derived based on a cash flow profile similar in structure and duration to the pension obligations. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The criteria include issuance size, quality of pricing and the exclusion of outliers. Judgement is also required in determining the shape of the yield curve at long durations. For the Sterling curve, a constant credit spread relative to gilts is assumed while for the Euro curve rates at longer durations are derived by extrapolating yields on "A" and "AAA" corporate bonds to derive equivalent AA yields.

	Group		
Major classes of plan assets as a percentage of total plan assets	**2015**	2014	2013
Quoted assets			
Quoted equities	**34%**	32%	35%
Index-linked bonds	**17%**	13%	6%
Government fixed interest bonds	**2%**	5%	1%
Corporate and other bonds	**29%**	31%	22%
Other quoted securities	**-**	1%	-
Unquoted assets			
Corporate and other bonds	**1%**	-	1%
Hedge funds	**3%**	-	5%
Real estate	**4%**	3%	5%
Derivatives	**4%**	5%	1%
Cash and other assets	**6%**	10%	24%

5. Pension costs (continued)

	Bank		
Principal actuarial assumptions at 31 December	**2015**	2014	2013
Discount rate	**3.90%**	3.70%	4.65%
Rate of increase in salaries	**1.75% - 3.00%**	1.75% - 2.95%	1.75% - 3.30%
Rate of increase in pensions in payment	**1.00% - 2.00%**	0.98% - 1.95%	1.15% - 2.30%
Inflation assumption	**2.00% - 3.00%**	1.95% - 2.95%	3.30%

	Bank		
Major classes of plan assets as a percentage of total plan assets	**2015**	2014	2013
Quoted assets			
Quoted equities	**28%**	27%	36%
Index-linked bonds	**32%**	25%	13%
Government fixed interest bonds	**-**	4%	-
Corporate and other bonds	**23%**	25%	17%
Other quoted securities	**-**	1%	-
Unquoted assets			
Corporate and other bonds	**1%**	-	1%
Hedge funds	**3%**	-	9%
Real estate	**4%**	3%	6%
Derivatives	**4%**	5%	-
Cash and other assets	**5%**	10%	18%

	Group and Bank		
Post–retirement mortality assumptions (Main scheme)	**2015**	2014	2013
Longevity at age 70 for current pensioners (years)			
Males	**17.2**	17.7	17.5
Females	**18.8**	19.0	18.9
Longevity at age 63 for future pensioners (years)			
Males	**23.7**	24.2	24.1
Females	**25.5**	25.7	25.6

These post-retirement mortality assumptions are derived from standard mortality tables used by the scheme actuary to value the liabilities for the main scheme.

5. Pension costs (continued)

Group (all schemes)

Changes in value of net pension liability	Recoverable amount of plan assets £m	Present value of defined benefit obligations £m	Net pension liability £m
At 1 January 2015[1]	1,601	(2,056)	**(455)**
Currency translation and other adjustments	(47)	77	**30**
Income statement:			
Return on plan assets above recognised interest income	48	-	**48**
Interest cost	-	(55)	**(55)**
Current service cost	-	(41)	**(41)**
Contributions by other scheme members	-	3	**3**
Past service cost	-	(13)	**(13)**
Interest on asset ceiling	(4)	-	**(4)**
	44	(106)	**(62)**
Statement of comprehensive income:			
Actuarial gains and losses due to experience gains and losses	(52)	19	**(33)**
Actuarial gains and losses due to changes in financial assumptions	-	150	**150**
Actuarial gains and losses due to changes in demographic assumptions	-	51	**51**
Loss resulting from changes in amounts not recognised due to effect of asset ceiling excluding amounts recognised in net interest income	(35)	-	**(35)**
Gain resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest income	15	-	**15**
Contributions by employer	70	-	**70**
Contributions by other scheme members	3	(3)	**-**
Contributions by plan participants	3	(3)	**-**
Benefits paid	(47)	47	**-**
At 31 December 2015	**1,555**	**(1,824)**	**(269)**

[1] Restated - see Note 34 for details.

5. Pension costs (continued)

Group (all schemes)

Restated changes in value of net pension liability	Recoverable amount of plan assets £m	Present value of defined benefit obligations £m	Net pension liability £m
At 1 January 2014[1]	1,356	(1,616)	(260)
Currency translation and other adjustments	(54)	77	23
Income statement:			
Return on plan assets above recognised interest income	62	-	62
Interest cost	-	(68)	(68)
Current service cost	-	(34)	(34)
Contributions by other scheme members	-	1	1
Past service gain	-	8	8
Interest on the asset ceiling[1]	(5)	-	(5)
	57	(93)	(36)
Statement of comprehensive income:			
Actuarial gains and losses due to experience gains and losses	205	15	220
Actuarial gains and losses due to changes in financial assumptions	-	(466)	(466)
Actuarial gains and losses due to changes in demographic assumptions	-	(9)	(9)
Loss resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest income[1]	(6)	-	(6)
Contributions by employer	79	-	79
Contributions by other scheme members	1	(1)	-
Contributions by plan participants	3	(3)	-
Benefits paid	(39)	39	-
Expenses included in service cost	(1)	1	-
At 31 December 2014[1]	1,601	(2,056)	(455)

[1] Restated - see Note 34 for details.

The asset ceiling of £35m at 31 December 2015 (2014: £nil; 2013: £nil) and the additional liability due to minimum funding requirements of £105m at 31 December 2015 (2014: £116m; 2013: £105m) have reduced the fair value of plan assets of £1,695m at 31 December 2015 (2014: £1,717m; 2013: £1,461m) to their recoverable amount.

Net pension deficit comprises (restated)	**2015 £m**	2014 £m	2013 £m
Net assets of schemes in surplus	**16**	3	-
Net liabilities of schemes in deficit	**(285)**	(458)	(260)
	(269)	(455)	(260)

Of the expense for the year, £62m (2014: restated £36m) has been included in the income statement within staff costs (see Note 4). Actuarial gains of £148m (2014: restated losses of £261m) have been recognised in the Statement of Comprehensive Income.

The Group expects to contribute £107m to its defined benefit pension schemes in 2016.

The weighted average duration of the Group's defined benefit obligation is 23 years.

5. Pension costs (continued)

Bank

Changes in value of net pension asset	Recoverable amount of plan assets £m	Present value of defined benefit obligations £m	Net pension asset £m
At 1 January 2015[1]	773	(770)	**3**
Income statement:			
Return on plan assets above recognised interest income	33	-	**33**
Interest cost	-	(28)	**(28)**
Current service cost	-	(12)	**(12)**
Past service cost	-	(3)	**(3)**
Interest on the asset ceiling	(4)	-	**(4)**
	29	(43)	**(14)**
Statement of comprehensive income:			
Actuarial gains and losses due to experience gains and losses	(33)	8	**(25)**
Actuarial gains and losses due to changes in financial assumptions	-	24	**24**
Actuarial gains and losses due to changes in demographic assumptions	-	5	**5**
Loss resulting from changes in amounts not recognised due to effect of asset ceiling excluding amounts recognised in net interest income	(35)	-	**(35)**
Gain resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest income	15	-	**15**
Contributions by employer	43	-	**43**
Contributions by plan participants	1	(1)	**-**
Benefits paid	(22)	22	**-**
At 31 December 2015	**771**	**(755)**	**16**

[1] Restated - see Note 34 for details.

5. Pension costs (continued)

Bank

Restated changes in value of net pension (liability)/asset	Recoverable amount of plan assets £m	Present value of defined benefit obligations £m	Net pension (liability)/asset £m
At 1 January 2014[1]	626	(654)	(28)
Income statement:			
Return on plan assets above recognised interest income	33	-	33
Interest cost	-	(30)	(30)
Current service cost	-	(9)	(9)
Past service cost	-	1	1
Interest on the asset ceiling[1]	(5)	-	(5)
	28	(38)	(10)
Statement of comprehensive income:			
Actuarial gains and losses due to experience gains and losses	99	6	105
Actuarial gains and losses due to changes in financial assumptions	-	(93)	(93)
Actuarial gains and losses due to changes in demographic assumptions	-	(9)	(9)
Loss resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest income[1]	(6)	-	(6)
Contributions by employer	44	-	44
Contributions by other scheme members	1	(1)	-
Contributions by plan participants	1	(1)	-
Benefits paid	(20)	20	-
At 31 December 2014[1]	773	(770)	3

[1] Restated - see Note 34 for details.

The asset ceiling of £35m at 31 December 2015 (2014: £nil; 2013: £nil) and the additional liability due to minimum funding requirements of £105m at 31 December 2015 (2014: £116m; 2013: £105m) have reduced the fair value of plan assets of £911m at 31 December 2015 (2014: £889m; 2013: £731m) to their recoverable amount.

Of the expense for the year, £14m (2014: restated £10m) has been included in the income statement within staff costs.

The Bank expects to contribute £40m to its defined benefit pension schemes in 2016.

Restated history of defined benefit schemes (Group)	**2015 £m**	2014 £m	2013 £m	2012 £m	2011 £m
Present value of defined benefit obligations	**(1,824)**	(2,056)	(1,616)	(1,511)	(1,195)
Recoverable amount of plan assets	**1,555**	1,601	1,356	1,280	1,125
Net deficit	**(269)**	(455)	(260)	(231)	(70)
Experience gains on plan liabilities	**19**	15	53	31	12
Experience gains/(losses) on plan assets	**(52)**	205	20	55	(70)
Actual return on pension scheme assets	**(4)**	267	79	117	(6)

5. Pension costs (continued)

Restated history of defined benefit schemes (Bank)	**2015 £m**	2014 £m	2013 £m	2012 £m	2011 £m
Present value of defined benefit obligations	**(755)**	(770)	(654)	(616)	(552)
Recoverable amount of plan assets	**771**	773	626	598	518
Net surplus/(deficit)	**16**	3	(28)	(18)	(34)
Experience gains on plan liabilities	**8**	6	7	28	5
Experience gains/(losses) on plan assets	**(33)**	99	28	22	(21)
Actual return on pension scheme assets	**-**	132	58	50	8

The tables below set out the sensitivities of the pension cost for the year and the present value of defined benefit obligations at the balance sheet dates to a change in the principal actuarial assumptions:

	Group					
	(Decrease)/increase in pension cost for the year			(Decrease)/increase in obligation at 31 December		
	2015 £m	2014 £m	2013 £m	**2015 £m**	2014 £m	2013 £m
0.25% increase in the discount rate	**(3)**	(6)	(6)	**(92)**	(112)	(84)
0.25% increase in inflation	**2**	4	4	**57**	69	61
0.25% additional rate of increase in pensions in payment	**2**	3	3	**57**	67	50
0.25% additional rate of increase in deferred pensions	**1**	1	-	**18**	24	16
0.25% additional rate of increase in salaries	**2**	2	3	**20**	26	21
Longevity increase of 1 year	**2**	2	2	**49**	56	37

	Bank					
	(Decrease)/increase in pension cost for the year			(Decrease)/increase in obligation at 31 December		
	2015 £m	2014 £m	2013 £m	**2015 £m**	2014 £m	2013 £m
0.25% increase in the discount rate	**(0.4)**	(2)	(2)	**(33)**	(36)	(30)
0.25% increase in inflation	**0.3**	1	1	**24**	26	21
0.25% additional rate of increase in pensions in payment	**0.2**	1	1	**23**	24	21
0.25% additional rate of increase in deferred pensions	**-**	-	-	**6**	7	6
0.25% additional rate of increase in salaries	**0.1**	1	1	**4**	5	6
Longevity increase of 1 year	**0.1**	1	1	**17**	17	13

The Finance (No.2) Act 2011 in the Republic of Ireland introduced a levy at the rate of 0.6% per annum for each of the next four years, 2011 to 2014. In October 2013, the Government introduced an additional levy of 0.15% of the Scheme's assets which is payable in 2014 and 2015. The Act states that payment is due by 25 September each year. The levy is payable on all of a scheme's assets (other than "excluded assets"). During 2015, an amount of £1.2m (excluding Additional Voluntary Contributions) was deducted from the asset value of the Group's two Republic of Ireland pension schemes within the statutory deadlines (2014: £5.3m, 2013: £4.2m).

6. Emoluments of directors

	2015	2014
	£	£
Emoluments for the provision of directors' services:		
Non-executive directors - emoluments	**293,250**	270,000
Chairman and executive directors - emoluments	**1,994,918**	2,415,267
Total emoluments received	**2,288,168**	2,685,267

Two of the executive directors of the Bank, Les Matheson and Mike Larkin, are employed by RBS and are remunerated for their services to RBS Group as a whole.

No retirement benefits are accruing to directors under either the Bank's defined contribution or defined benefit schemes at year end (2014: £nil).

Performance related bonuses are awarded on the basis of measuring annual performance against certain specified financial targets, which include both corporate performance objectives and key strategic objectives.

During the year there were no emoluments in respect of compensation payments for loss of office (2014: £nil).

During the year the highest paid director received emoluments of £1,032,582 (2014: £1,166,507). The highest paid director did not exercise any share options during the year.

The executive directors may also participate in the RBS executive share option and Sharesave schemes.

7. Taxation

	Group	
		Restated
	2015	2014
Current taxation:	£m	£m
United Kingdom corporation tax at 20.25% (2014: 21.5%)		
Charge for the year	**(5)**	(14)
(Under)/over provision in respect of prior periods	**(49)**	12
	(54)	(2)
Overseas tax at 12.5% (2014: 12.5%)		
Charge for the year	**(4)**	(7)
Over provision in respect of prior periods	**1**	2
Total current taxation	**(57)**	(7)
Deferred taxation:		
Charge for the year	**(17)**	(12)
Increase in deferred tax asset in respect of previously unrecognised losses	**-**	159
Over provision in respect of prior periods	**42**	6
Total deferred taxation	**25**	153
Tax (charge)/credit for the year	**(32)**	146

7. Taxation (continued)

The actual tax (charge)/credit differs from the expected tax charge computed by applying the standard rate of UK Corporation Tax of 20.25% (2014: 21.5%) as follows:

	2015	Restated 2014
	£m	£m
Operating profit before tax	**869**	1,762
Expected tax charge	**(176)**	(379)
Factors affecting the (charge)/credit for the year:		
Tax arising at rates other than the standard rate of tax	**69**	151
Non-deductible items	**(24)**	(3)
Non-taxable income	**5**	-
UK tax rate change impact	**(1)**	-
Other temporary differences	**(8)**	(7)
Losses brought forward and utilised	**109**	205
Increase in deferred tax asset in respect of previously unrecognised losses	**-**	159
Adjustments to tax (charge)/credit in respect of prior periods	**(6)**	20
Actual tax (charge)/credit for the year	**(32)**	146

The effective tax rate for the year was 3.7% (2014 restated: (8.3)%).

8. Profit dealt with in the financial statements of the Bank

In accordance with the exemption contained within Section 408(3) of the Companies Act 2006 the primary financial statements of the Bank do not include an Income Statement or Statement of Comprehensive Income. The Bank's profit after tax for the year ended 31 December 2015 was £1,793m (2014: restated £1,742m).

9. Financial instruments

The following tables analyse the financial assets and financial liabilities of the Group and Bank in accordance with the categories of financial instruments as defined by IAS 39. Assets and liabilities outside the scope of IAS 39 are shown separately.

	Group						
	Held-for-trading	Designated as at fair value through profit or loss	Available-for-sale	Loans and receivables	Other (amortised cost)	Non financial assets / liabilities	Total
2015	£m	£m	£m	£m	£m	£m	£m
Assets							
Cash and balances at central banks[1]	-	-	-	868	-	-	868
Loans and advances to banks[2]	-	-	-	9,485	-	-	9,485
Loans and advances to customers[3]	-	-	-	20,643	-	-	20,643
Debt securities	-	-	1,889	-	-	-	1,889
Equity shares	-	-	5	-	-	-	5
Derivatives	627	-	-	-	-	-	627
Property, plant and equipment	-	-	-	-	-	126	126
Prepayments, accrued income and other assets	-	-	-	-	-	95	95
Retirement benefit assets	-	-	-	-	-	16	16
Deferred taxation	-	-	-	-	-	236	236
	627	-	1,894	30,996	-	473	33,990
Liabilities							
Deposits by banks[4]	31	-	-	-	4,754	-	4,785
Customer accounts[5]	-	1,156	-	-	17,821	-	18,977
Debt securities in issue[6]	-	-	-	-	1,473	-	1,473
Derivatives	477	-	-	-	-	-	477
Accruals, deferred income and other liabilities	-	-	-	-	687	234	921
Retirement benefit liabilities	-	-	-	-	-	285	285
Deferred taxation	-	-	-	-	-	3	3
Subordinated liabilities	-	-	-	-	960	-	960
	508	1,156	-	-	25,695	522	27,881
Equity							6,109
							33,990

For notes relating to this table refer to page 43.

9. Financial instruments (continued)

	Group						
	Held-for-trading	Designated as at fair value through profit or loss	Available-for-sale	Loans and receivables	Other (amortised cost)	Non financial assets / liabilities	Total
Restated 2014	£m	£m	£m	£m	£m	£m	£m
Assets							
Cash and balances at central banks[1]	-	-	-	884	-	-	884
Loans and advances to banks[2]	-	-	-	8,925	-	-	8,925
Loans and advances to customers[3]	-	-	-	24,467	-	-	24,467
Debt securities	-	-	2,059	-	-	-	2,059
Equity shares	-	20	6	-	-	-	26
Derivatives	657	-	-	-	-	-	657
Property, plant and equipment	-	-	-	-	-	266	266
Prepayments, accrued income and other assets	-	-	-	-	-	41	41
Retirement benefit assets	-	-	-	-	-	3	3
Deferred taxation	-	-	-	-	-	224	224
	657	20	2,065	34,276	-	534	37,552
Liabilities							
Deposits by banks[4]	33	-	-	-	6,303	-	6,336
Customer accounts[5]	-	1,837	-	-	19,187	-	21,024
Debt securities in issue[6]	-	-	-	-	1,707	-	1,707
Derivatives	609	-	-	-	-	-	609
Accruals, deferred income and other liabilities	-	-	-	-	674	288	962
Retirement benefit liabilities	-	-	-	-	-	458	458
Deferred taxation	-	-	-	-	-	8	8
Subordinated liabilities	-	-	-	-	1,031	-	1,031
	642	1,837	-	-	28,902	754	32,135
Equity							5,417
							37,552

For notes relating to this table refer to page 43.

9. Financial instruments (continued)

	Group						
Restated 2013	Held-for-trading £m	Designated as at fair value through profit or loss £m	Available-for-sale £m	Loans and receivables £m	Other (amortised cost) £m	Non financial assets / liabilities £m	Total £m
Assets							
Cash and balances at central banks[(1)]	-	-	-	867	-	-	867
Loans and advances to banks[(2)]	-	-	-	9,752	-	-	9,752
Loans and advances to customers[(3)]	-	-	-	28,263	-	-	28,263
Debt securities	-	-	9	-	-	-	9
Equity shares	-	2	7	-	-	-	9
Derivatives	561	-	-	-	-	-	561
Property, plant and equipment	-	-	-	-	-	333	333
Prepayments, accrued income and other assets	-	-	-	-	-	236	236
Deferred taxation	-	-	-	-	-	75	75
	561	2	16	38,882	-	644	40,105
Liabilities							
Deposits by banks[(4)]	25	-	-	-	8,636	-	8,661
Customer accounts[(5)]	-	2,174	-	-	20,124	-	22,298
Debt securities in issue[(6)]	-	-	-	-	1,908	-	1,908
Derivatives	744	-	-	-	-	-	744
Accruals, deferred income and other liabilities	-	-	-	-	635	373	1,008
Retirement benefit liabilities	-	-	-	-	-	260	260
Deferred taxation	-	-	-	-	-	3	3
Subordinated liabilities	-	-	-	-	1,175	-	1,175
	769	2,174	-	-	32,478	636	36,057
Equity							4,048
							40,105

(1) Cash and balances at central banks includes Bank of England notes held in respect of notes in circulation in Northern Ireland.

(2) This includes reverse repurchase agreements of £nil (2014: £495m, 2013: £nil) and items in the course of collection from other banks of £74m (2014: £91m, 2013: £126m).

(3) The Group has advances secured on residential properties subject to non-recourse funding. Under IAS 39, these securitised mortgages qualify for full recognition on the balance sheet at 31 December 2015. As at 31 December 2015 £7,395m (2014: £8,593m, 2013: £9,308m) is included in loans and advances to customers. There are no gross loans subject to IAS 32 (on balance sheet) netting arrangements included within loans and advances to customers (2014: £nil, 2013: £1m). No netting has taken place in any of the years under review therefore the net effective Balance Sheet value is equal to the gross amount.

(4) This includes repurchase agreements of £nil (2014: £nil, 2013: £1,874m) and items in the course of transmission to other banks of £21m (2014: £24m, 2013: £273m). There are no gross amounts relating to reverse repurchase agreements included within Deposits by banks (2014: £nil, 2013: £1,193m) which are subject to enforceable offset arrangements. No netting has taken place therefore the net effective Balance Sheet value is equal to the gross amount.

(5) The carrying amount of other customer accounts designated as at fair value through profit or loss is £51m more (2014: £49m more, 2013: £3m less) than the principal amount.

(6) Comprises bonds and medium term notes of £1,472m (2014: £1,697m, 2013: £1,890m) and certificates of deposit and other commercial paper of £1m (2014: £10m, 2013: £18m). The medium term notes are issued by limited recourse entities that are controlled by the Group and are collateralised on residential mortgages held by the Group. Further information on securitisations is provided in Note 23.

9. Financial instruments (continued)

	Bank						
2015	Held-for-trading £m	Designated as at fair value through profit or loss £m	Available-for-sale £m	Loans and receivables £m	Other (amortised cost) £m	Non financial assets / liabilities £m	Total £m
Assets							
Cash and balances at central banks	-	-	-	616	-	-	616
Loans and advances to banks [1]	-	-	-	7,119	-	-	7,119
Loans and advances to customers	-	-	-	3,801	-	-	3,801
Investment in Group undertakings	-	-	-	-	-	6,432	6,432
Derivatives	3	-	-	-	-	-	3
Property, plant and equipment	-	-	-	-	-	44	44
Prepayments, accrued income and other assets	-	-	-	-	-	31	31
Retirement benefit assets	-	-	-	-	-	16	16
Deferred taxation	-	-	-	-	-	25	25
	3	-	-	11,536	-	6,548	18,087
Liabilities							
Deposits by banks [2]	-	-	-	-	4,003	-	4,003
Customer accounts [3]	-	159	-	-	5,701	-	5,860
Debt securities in issue	-	-	-	-	1	-	1
Derivatives	35	-	-	-	-	-	35
Accruals, deferred income and other liabilities	-	-	-	-	687	61	748
Subordinated liabilities	-	-	-	-	820	-	820
	35	159	-	-	11,212	61	11,467
Equity							6,620
							18,087

	Bank						
Restated 2014	Held-for-trading £m	Designated as at fair value through profit or loss £m	Available-for-sale £m	Loans and receivables £m	Other (amortised cost) £m	Non financial assets / liabilities £m	Total £m
Assets							
Cash and balances at central banks	-	-	-	647	-	-	647
Loans and advances to banks [1]	-	-	-	6,897	-	-	6,897
Loans and advances to customers	-	-	-	4,340	-	-	4,340
Debt securities	-	-	6	-	-	-	6
Investments in Group undertakings	-	-	-	-	-	4,719	4,719
Derivatives	5	-	-	-	-	-	5
Property, plant and equipment	-	-	-	-	-	47	47
Prepayments, accrued income and other assets	-	-	-	-	-	8	8
Retirement benefit assets	-	-	-	-	-	3	3
	5	-	6	11,884	-	4,777	16,672
Liabilities							
Deposits by banks [2]	-	-	-	-	4,159	-	4,159
Customer accounts [3]	-	265	-	-	5,713	-	5,978
Debt securities in issue	-	-	-	-	10	-	10
Derivatives	48	-	-	-	-	-	48
Accruals, deferred income and other liabilities	-	-	-	-	674	78	752
Deferred taxation	-	-	-	-	-	4	4
Subordinated liabilities	-	-	-	-	883	-	883
	48	265	-	-	11,439	82	11,834
Equity							4,838
							16,672

For notes relating to these tables refer to page 45.

9. Financial instruments (continued)

	Bank						
	Held-for-trading	Designated as at fair value through profit or loss	Available-for-sale	Loans and receivables	Other (amortised cost)	Non financial assets / liabilities	Total
Restated 2013	£m	£m	£m	£m	£m	£m	£m
Assets							
Cash and balances at central banks	-	-	-	624	-	-	624
Loans and advances to banks [1]	-	-	-	7,236	-	-	7,236
Loans and advances to customers	-	-	-	4,930	-	-	4,930
Debt securities	-	-	9	-	-	-	9
Investments in Group undertakings	-	-	-	-	-	3,110	3,110
Derivatives	16	-	-	-	-	-	16
Property, plant and equipment	-	-	-	-	-	56	56
Prepayments, accrued income and other assets	-	-	-	-	-	194	194
Deferred taxation	-	-	-	-	-	1	1
	16	-	9	12,790	-	3,361	16,176
Liabilities							
Deposits by banks [2]	-	-	-	-	4,485	-	4,485
Customer accounts [3]	-	312	-	-	6,506	-	6,818
Debt securities in issue	-	-	-	-	9	-	9
Derivatives	47	-	-	-	-	-	47
Accruals, deferred income and other liabilities	-	-	-	-	635	100	735
Retirement benefit liabilities	-	-	-	-	-	28	28
Subordinated liabilities	-	-	-	-	956	-	956
	47	312	-	-	12,591	128	13,078
Equity							3,098
							16,176

(1) Includes items in the course of collection from other banks of £44m (2014: £58m, 2013: £54m).
(2) Includes items in the course of transmission to other banks of £21m (2014: £24m, 2013: £27m).
(3) The carrying amount of other customer accounts designated as at fair value through profit or loss is £8m less (2014: £16m less, 2013: £30m less) than the principal amount.

9. Financial instruments (continued)

The following tables show the financial instruments carried at fair value by valuation method:

	Group			
	2015			
	Level 1 [(1)]	**Level 2 [(2)]**	**Level 3 [(3)]**	**Total**
	£m	**£m**	**£m**	**£m**
Assets				
Debt securities	**1,889**	**-**	**-**	**1,889**
Equity shares	**-**	**-**	**5**	**5**
Derivatives	**-**	**414**	**213**	**627**
Total	**1,889**	**414**	**218**	**2,521**
Liabilities				
Deposits by banks	**-**	**31**	**-**	**31**
Customer accounts	**-**	**1,156**	**-**	**1,156**
Derivatives	**-**	**213**	**264**	**477**
Total	**-**	**1,400**	**264**	**1,664**

	Group			
	2014			
	Level 1 [(1)]	Level 2 [(2)]	Level 3 [(3)]	Total
	£m	£m	£m	£m
Assets				
Debt securities	2,053	6	-	2,059
Equity shares	-	-	26	26
Derivatives	-	562	95	657
Total	2,053	568	121	2,742
Liabilities				
Deposits by banks	-	33	-	33
Customer accounts	-	1,837	-	1,837
Derivatives	-	426	183	609
Total	-	2,296	183	2,479

	Group			
	2013			
	Level 1 [(1)]	Level 2 [(2)]	Level 3 [(3)]	Total
	£m	£m	£m	£m
Assets				
Debt securities	-	9	-	9
Equity shares	2	-	7	9
Derivatives	-	561	21	582
Total	2	570	28	600
Liabilities				
Deposits by banks	-	25	-	25
Customer accounts	-	2,174	-	2,174
Derivatives	-	744	150	894
Total	-	2,943	150	3,093

For notes relating to these tables refer to page 48.

9. Financial instruments (continued)

The following tables show the financial instruments carried at fair value by valuation method:

	Bank			
	2015			
	Level 1 (1)	**Level 2 (2)**	**Level 3 (3)**	**Total**
	£m	**£m**	**£m**	**£m**
Assets				
Derivatives	**-**	**3**	**-**	**3**
Total	**-**	**3**	**-**	**3**
Liabilities				
Customer accounts	**-**	**159**	**-**	**159**
Derivatives	**-**	**35**	**-**	**35**
Total	**-**	**194**	**-**	**194**

	Bank			
	2014			
	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total
	£m	£m	£m	£m
Assets				
Debt securities	-	6	-	6
Derivatives	-	5	-	5
Total	-	11	-	11
Liabilities				
Customer accounts	-	265	-	265
Derivatives	-	48	-	48
Total	-	313	-	313

	Bank			
	2013			
	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total
	£m	£m	£m	£m
Assets				
Debt securities	-	9	-	9
Derivatives	-	16	-	16
Total	-	25	-	25
Liabilities				
Customer accounts	-	312	-	312
Derivatives	-	47	-	47
Total	-	359	-	359

For notes relating to these tables refer to page 48.

9. Financial instruments (continued)

(1) Valued using unadjusted quoted prices in active markets for identical financial instruments. This category includes listed equity shares and government securities.

(2) Valued using techniques based significantly on observable market data. Instruments in this category are valued using:
a) quoted prices for similar instruments or identical instruments in markets which are not considered to be active: or
b) valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

The type of instruments that trade in markets that are not considered to be active, but are based on quoted market prices, broker dealer quotations or alternative pricing sources with reasonable levels of price transparency and those instruments valued using techniques include most government agency securities, investment-grade corporate bonds, certain mortgage products, certain bank and bridge loans, repos and reverse repos, less liquid equities, state and municipal obligations, most physical commodities, investment contracts issued by the Group's life assurance businesses and certain money market securities and loan commitments and most OTC derivatives.

(3) Instruments in this category have been valued using a valuation technique where at least one input (which could have a significant effect on the instrument's valuation) is not based on observable market data. Where inputs can be observed from market data without undue cost and effort, the observed input is used. Otherwise, the Group determines a reasonable level for the input.

Financial instruments included within Level 3 of the fair value hierarchy primarily consist of cash instruments which trade infrequently, certain syndicated and commercial mortgage loans, unlisted equity shares, certain residual interests in securitisations, super senior tranches of high grade and mezzanine collateralised debt obligations (CDOs), and other mortgage-based products and less liquid debt securities, certain structured debt securities in issue and OTC derivatives where valuation depends upon unobservable inputs such as certain credit and exotic derivatives. No gain or loss is recognised on the initial recognition of a financial instrument valued using a technique incorporating significant unobservable data.

Level 3 portfolio movement tables

	Group					
	Equity shares		Derivative assets		Derivative liabilities	
	2015	2014	**2015**	2014	**2015**	2014
	£m	£m	**£m**	£m	**£m**	£m
At 1 January	**26**	7	**95**	21	**(183)**	(150)
Additions	**1**	2	**-**	-	**-**	-
Disposals	**(22)**	(3)	**-**	-	**-**	-
Fair value adjustment	**-**	20	**-**	-	**-**	-
Credit/(charge) to Income statement	**-**	-	**118**	74	**(81)**	(33)
At 31 December	**5**	26	**213**	95	**(264)**	(183)

The following tables show the carrying values and the fair values of financial instruments on the balance sheet carried at amortised cost. The fair value of the cash and balances at central banks and £1,803m (2014: £1,267m, 2013: £42m) of the loans and advances to banks carried at amortised cost have been determined using procedures consistent with the requirements of level 2 valuation methodologies, as set out above. The fair value of these loans and advances to banks equal carrying value. All other balances have been fair valued using procedures that fall within level 3 of the fair value methodologies.

	Group					
	2015	**2015**	2014	2014	2013	2013
	Carrying value	**Fair value**	Carrying value	Fair value	Carrying value	Fair value
	£m	**£m**	£m	£m	£m	£m
Financial assets						
Cash and balances at central banks	**868**	**868**	884	884	867	867
Loans and advances to banks	**9,485**	**9,485**	8,925	8,910	9,752	9,752
Loans and advances to customers	**20,643**	**18,741**	24,467	21,853	28,263	22,643
Financial liabilities						
Deposits by banks	**4,754**	**4,754**	6,303	6,303	8,636	8,636
Customer accounts	**17,821**	**17,835**	19,187	19,215	20,124	20,175
Debt securities in issue	**1,473**	**1,248**	1,707	1,567	1,908	1,575
Accruals, deferred income and other liabilities	**687**	**687**	674	674	635	635
Subordinated liabilities	**960**	**845**	1,031	872	1,175	1,175

9. Financial instruments (continued)

	Bank					
	2015	**2015**	2014	2014	2013	2013
	Carrying value	**Fair value**	Carrying value	Fair value	Carrying value	Fair value
	£m	**£m**	£m	£m	£m	£m
Financial assets						
Cash and balances at central banks	**616**	**616**	647	647	624	624
Loans and advances to banks	**7,119**	**7,119**	6,897	6,897	7,236	7,236
Loans and advances to customers	**3,801**	**3,710**	4,340	4,127	4,930	4,496
Financial liabilities						
Deposits by banks	**4,003**	**4,003**	4,159	4,159	4,485	4,485
Customer accounts	**5,701**	**5,703**	5,713	5,714	6,506	6,508
Debt securities in issue	**1**	**1**	10	10	9	9
Accruals, deferred income and other liabilities	**687**	**687**	674	674	635	635
Subordinated liabilities	**820**	**713**	883	740	956	956

Fair value calculation

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted market values are used where available; otherwise, fair values have been estimated based on discounted expected future cash flows and other valuation techniques. These techniques involve uncertainties and require assumptions and judgments covering prepayments, credit risk and discount rates. Furthermore there is a wide range of potential valuation techniques. Changes in these assumptions would significantly affect estimated fair values. The fair values reported would not necessarily be realised in an immediate sale or settlement.

The assumptions and methodologies underlying the calculation of fair values of financial instruments at the balance sheet date are as follows:

Short-term financial instruments

For certain short-term financial instruments: cash and balances at central banks, items in the course of collection from other banks, settlement balances, items in the course of transmission to other banks, demand deposits and notes in circulation, fair value approximates to carrying value.

Loans and advances to banks and customers

In estimating the fair value of loans and advances to banks and customers measured at amortised cost, the Group's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans. The principal method used to estimate fair value in the Group is to discount expected cash flows (unadjusted for credit losses) at the current offer rate for the same or similar products.

For certain portfolios where there are very few or no recent transactions bespoke approaches are utilised.

Debt securities

The majority of debt securities are valued using quoted prices in active markets, or using quoted prices for similar assets in active markets. Fair values of the rest are determined using discounted cash flow valuation techniques.

Deposits by banks and customer accounts

Fair values of deposits are estimated using discounted cash flow valuation techniques.

Debt securities in issue and subordinated liabilities

Fair values are determined using quoted prices for similar liabilities where available or by reference to valuation techniques, adjusting for own credit spreads where appropriate.

9. Financial instruments (continued)

Remaining maturity

	Group		
2015	**Less than 12 months £m**	**More than 12 months £m**	**Total £m**
Assets			
Cash and balances at central banks	**868**	**-**	**868**
Loans and advances to banks	**6,659**	**2,826**	**9,485**
Loans and advances to customers	**4,356**	**16,287**	**20,643**
Debt securities	**1,331**	**558**	**1,889**
Equity shares	**-**	**5**	**5**
Derivatives	**71**	**556**	**627**
Liabilities			
Deposits by banks	**4,499**	**286**	**4,785**
Customer accounts	**17,874**	**1,103**	**18,977**
Debt securities in issue	**1**	**1,472**	**1,473**
Derivatives	**31**	**446**	**477**
Accruals, deferred income and other liabilities	**687**	**-**	**687**
Subordinated liabilities	**-**	**960**	**960**

	Group		
2014	Less than 12 months £m	More than 12 months £m	Total £m
Assets			
Cash and balances at central banks	884	-	884
Loans and advances to banks	6,418	2,507	8,925
Loans and advances to customers	5,718	18,749	24,467
Debt securities	2,053	6	2,059
Equity shares	20	6	26
Derivatives	147	510	657
Liabilities			
Deposits by banks	5,022	1,314	6,336
Customer accounts	19,537	1,487	21,024
Debt securities in issue	10	1,697	1,707
Derivatives	66	543	609
Accruals, deferred income and other liabilities	674	-	674
Subordinated liabilities	20	1,011	1,031

9. Financial instruments (continued)

	Group		
	Less than 12 months	More than 12 months	Total
2013	£m	£m	£m
Assets			
Cash and balances at central banks	867	-	867
Loans and advances to banks	7,682	2,070	9,752
Loans and advances to customers	6,193	22,070	28,263
Debt securities	-	9	9
Equity shares	-	9	9
Derivatives	78	483	561
Liabilities			
Deposits by banks	6,651	2,010	8,661
Customer accounts	20,121	2,177	22,298
Debt securities in issue	13	1,895	1,908
Derivatives	59	685	744
Accruals, deferred income and other liabilities	635	-	635
Subordinated liabilities	81	1,094	1,175

	Bank		
	Less than 12 months	**More than 12 months**	**Total**
2015	**£m**	**£m**	**£m**
Assets			
Cash and balances at central banks	**616**	**-**	**616**
Loans and advances to banks	**3,957**	**3,162**	**7,119**
Loans and advances to customers	**1,135**	**2,666**	**3,801**
Derivatives	**2**	**1**	**3**
Liabilities			
Deposits by banks	**3,728**	**275**	**4,003**
Customer accounts	**5,722**	**138**	**5,860**
Debt securities in issue	**1**	**-**	**1**
Derivatives	**16**	**19**	**35**
Accruals, deferred income and other liabilities	**687**	**-**	**687**
Subordinated liabilities	**-**	**820**	**820**

9. Financial instruments (continued)

	Bank		
2014	Less than 12 months £m	More than 12 months £m	Total £m
Assets			
Cash and balances at central banks	647	-	647
Loans and advances to banks	3,942	2,955	6,897
Loans and advances to customers	1,444	2,896	4,340
Debt securities	-	6	6
Derivatives	4	1	5
Liabilities			
Deposits by banks	3,603	556	4,159
Customer accounts	5,735	243	5,978
Debt securities in issue	10	-	10
Derivatives	8	40	48
Accruals, deferred income and other liabilities	674	-	674
Subordinated liabilities	20	863	883

	Bank		
2013	Less than 12 months £m	More than 12 months £m	Total £m
Assets			
Cash and balances at central banks	624	-	624
Loans and advances to banks	4,737	2,499	7,236
Loans and advances to customers	1,702	3,228	4,930
Debt securities	-	9	9
Derivatives	12	4	16
Liabilities			
Deposits by banks	3,683	802	4,485
Customer accounts	6,503	315	6,818
Debt securities in issue	5	4	9
Derivatives	8	39	47
Accruals, deferred income and other liabilities	635	-	635
Subordinated liabilities	20	936	956

10. Financial assets - impairments

The following tables show the movement in the provision for impairment losses for loans and advances:

	Group			
	Individually assessed	**Collectively assessed**	**Latent**	**Total**
	£m	**£m**	**£m**	**£m**
At 1 January 2015	**8,491**	**2,424**	**411**	**11,326**
Currency translation and other adjustments	**(391)**	**(117)**	**(21)**	**(529)**
Amounts written-off [1]	**(6,216)**	**(237)**	**-**	**(6,453)**
Recoveries of amounts previously written-off	**23**	**23**	**-**	**46**
Release to the income statement	**(479)**	**(131)**	**(121)**	**(731)**
Unwind of discount	**(14)**	**(34)**	**-**	**(48)**
At 31 December 2015 [2]	**1,414**	**1,928**	**269**	**3,611**

	Group			
	Individually assessed	Collectively assessed	Latent	Total
	£m	£m	£m	£m
At 1 January 2014	11,059	2,774	933	14,766
Currency translation and other adjustments	(471)	(145)	(33)	(649)
Amounts written-off [1]	(1,117)	(131)	-	(1,248)
Recoveries of amounts previously written-off	23	3	-	26
Release to the income statement	(942)	(40)	(489)	(1,471)
Unwind of discount	(61)	(37)	-	(98)
At 31 December 2014 [2]	8,491	2,424	411	11,326

	Bank			
	Individually assessed	**Collectively assessed**	**Latent**	**Total**
	£m	**£m**	**£m**	**£m**
At 1 January 2015	**1,860**	**309**	**37**	**2,206**
Amounts written-off [1]	**(1,570)**	**(32)**	**-**	**(1,602)**
Recoveries of amounts previously written-off	**8**	**14**	**-**	**22**
(Release)/charge to the income statement	**(43)**	**7**	**(19)**	**(55)**
Unwind of discount	**-**	**(3)**	**-**	**(3)**
At 31 December 2015 [2]	**255**	**295**	**18**	**568**

	Bank			
	Individually assessed	Collectively assessed	Latent	Total
	£m	£m	£m	£m
At 1 January 2014	2,135	366	76	2,577
Other adjustments	(3)	2	(4)	(5)
Amounts written-off [1]	(245)	(40)	-	(285)
Recoveries of amounts previously written-off	21	1		22
Release to the income statement	(43)	(17)	(35)	(95)
Unwind of discount	(5)	(3)	-	(8)
At 31 December 2014 [2]	1,860	309	37	2,206

(1) Amounts written off do not include any loans and advances to banks.
(2) Impairment provisions as at 31 December 2015, 31 December 2014 and 31 December 2013 do not include any balances held against loans and advances to banks.

10. Financial assets – impairments (continued)

Loan impairment
The Group considers financial assets to be impaired when there is no longer a reasonable prospect of receiving the contractual cash flows in accordance with the contract and the net present value of any security is less than the outstanding amount.

The following tables show analysis of impaired financial assets:

	2015			2014			2013		
Group	**Gross carrying value £m**	**Provision £m**	**Net book value £m**	Gross carrying value £m	Provision £m	Net book value £m	Gross carrying value £m	Provision £m	Net book value £m
Impaired financial assets									
Loans and advances to customers	**5,369**	**(3,342)**	**2,027**	15,345	(10,915)	4,430	19,212	(13,833)	5,379
- of which are individually assessed	**1,570**	**(1,414)**	**156**	10,591	(8,491)	2,100	14,346	(11,059)	3,287

	2015			2014			2013		
Bank	**Gross carrying value £m**	**Provision £m**	**Net book value £m**	Gross carrying value £m	Provision £m	Net book value £m	Gross carrying value £m	Provision £m	Net book value £m
Impaired financial assets									
Loans and advances to customers	**624**	**(550)**	**74**	2,581	(2,169)	412	3,184	(2,501)	683
- of which are individually assessed	**252**	**(255)**	**(3)**	2,169	(1,860)	309	2,695	(2,135)	560

The net book value of the individually assessed impaired loans in the Bank is less than zero as a result of provisions held against probable future cash outflows relating to off balance sheet commitments.

	Group			**Bank**		
	2015 £m	2014 £m	2013 £m	**2015 £m**	2014 £m	2013 £m
Gross income not recognised but which would have been recognised under the original terms of non–accrual and restructured loans:						
United Kingdom	**130**	498	452	**95**	401	366
Republic of Ireland	**492**	1,550	1,530	**-**	-	-
	622	2,048	1,982	**95**	401	366

The following tables show loans and advances to customers that were past due at the balance sheet date but not considered impaired:

Group	**Past due 1–29 days £m**	**Past due 30–59 days £m**	**Past due 60–89 days £m**	**Past due more than 90 days £m**	**Total £m**
2015	**556**	**250**	**271**	**24**	**1,101**
2014	690	312	325	124	1,451
2013	856	427	393	226	1,902

10. Financial assets - impairments (continued)

Bank	Past due 1–29 days £m	Past due 30–59 days £m	Past due 60–89 days £m	Past due more than 90 days £m	Total £m
2015	**39**	**14**	**7**	**4**	**64**
2014	59	18	11	30	118
2013	71	19	9	61	160

The Group holds collateral in respect of certain loans and advances to customers that are past due or impaired. Such collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant, inventories and trade receivables; and guarantees of lending from parties other than the borrower.

The following table shows financial and non-financial assets, recognised on the Group and Bank's balance sheets, obtained during the year by taking possession of collateral or calling on other credit enhancements:

	Group			Bank		
	2015	2014	2013	**2015**	2014	2013
	£m	£m	£m	**£m**	£m	£m
Other property	**-**	3	13	**-**	-	-

11. Debt securities

	Group		
2015	**Other central and local government £m**	**Mortgage backed securities £m**	**Total £m**
Available-for-sale	**1,889**	**-**	**1,889**
2014			
Available-for-sale	2,053	6	2,059
2013			
Available-for-sale	-	9	9

	Bank	
2015	**Mortgage backed securities £m**	**Total £m**
Available-for-sale	**-**	**-**
2014		
Available-for-sale	6	6
2013		
Available-for-sale	9	9

There were no gross unrealised gains or losses at the balance sheet date for any of the periods under review.

12. Equity shares

	Group								
	2015			2014			2013		
	Listed £m	**Unlisted £m**	**Total £m**	Listed £m	Unlisted £m	Total £m	Listed £m	Unlisted £m	Total £m
Designated as at fair value through profit or loss	**-**	**-**	**-**	-	20	20	2	-	2
Available-for-sale	**-**	**5**	**5**	-	6	6	-	7	7
	-	**5**	**5**	-	26	26	2	7	9

As at 31 December 2015, the Bank held £120,418 of unlisted equity shares (2014: £85,917, 2013: £88,686).

13. Investments in Group undertakings

Investments in Group undertakings are carried at cost less impairment. Movements during the year were as follows:

	Bank	
	2015 £m	2014 £m
At 1 January	**4,719**	3,110
Impairment reversal	**1,713**	1,609
At 31 December	**6,432**	4,719

The principal related undertaking of the Bank is shown below. Its capital consists of ordinary shares which are unlisted. It is wholly owned by the Bank through intermediate holding companies.

Undertaking	Nature of business	Country of incorporation
Ulster Bank Ireland Limited	Banking services, corporate and investment banking, foreign exchange services	Republic of Ireland(1)

(1) Ulster Bank Ireland Limited and its subsidiaries also operate in the UK.

The above information is provided in relation to the principal related undertakings as permitted by Section 410(2) of the Companies Act 2006. Full information on all related undertakings will be included in the Annual Return filed at Companies House. The financial performance of these companies is included in the Group's consolidated financial statements and all have an accounting reference date of 31 December.

There are a number of entities in which the Group holds less than half the voting rights which are consolidated when the substance of the relationship between the Group and the entity indicates that the entity is controlled by the Group. Such entities are deemed to be controlled by the Group when relationships with such entities give rise to benefits that are in substance no different from those that would arise were the entity a subsidiary.

14. Intangible assets

Intangible assets comprising goodwill and other acquired intangibles were fully impaired as at 31 December 2015, 31 December 2014 and 31 December 2013.

15. Property, plant and equipment

	Group					
2015	**Investment properties £m**	**Freehold land and buildings £m**	**Leases of 50 years or more unexpired £m**	**Leases of 50 years or less unexpired £m**	**Computer and other equipment £m**	**Total £m**
Cost or valuation:						
At 1 January 2015	135	92	31	78	111	**447**
Currency translation and other adjustments	(8)	(6)	(1)	(4)	(4)	**(23)**
Additions	-	3	1	1	1	**6**
Disposals	(157)	(4)	(1)	(21)	(11)	**(194)**
Revaluation	52	-	-	-	-	**52**
At 31 December 2015	**22**	**85**	**30**	**54**	**97**	**288**
Accumulated impairment, depreciation and amortisation:						
At 1 January 2015	-	42	14	39	86	**181**
Currency translation and other adjustments	-	(4)	(1)	(2)	(2)	**(9)**
Disposals	-	(4)	-	(11)	(8)	**(23)**
Depreciation charge for the year	-	3	1	5	4	**13**
At 31 December 2015	-	**37**	**14**	**31**	**80**	**162**
Carrying amount at 31 December 2015	**22**	**48**	**16**	**23**	**17**	**126**

	Group					
2014	Investment properties £m	Freehold land and buildings £m	Leases of 50 years or more unexpired £m	Leases of 50 years or less unexpired £m	Computer and other equipment £m	Total £m
Cost or valuation:						
At 1 January 2014	172	98	33	83	188	574
Currency translation and other adjustments	(8)	(6)	(1)	(5)	(6)	(26)
Additions	3	2	-	1	5	11
Disposals	(50)	(2)	(1)	(1)	(76)	(130)
Revaluation	18	-	-	-	-	18
At 31 December 2014	135	92	31	78	111	447
Accumulated impairment, depreciation and amortisation:						
At 1 January 2014	-	45	14	36	146	241
Currency translation and other adjustments	-	(4)	(1)	(2)	(4)	(11)
Disposals	-	(2)	-	(1)	(61)	(64)
Depreciation charge for the year	-	3	1	6	5	15
At 31 December 2014	-	42	14	39	86	181
Carrying amount at 31 December 2014	135	50	17	39	25	266
Carrying amount at 31 December 2013	172	53	19	47	42	333

15. Property, plant and equipment (continued)

There was no profit on disposal of freehold land and buildings during the year (2014: £nil, 2013: £nil).

Rental income from investment properties was £8m (2014: £11m, 2013: £9m). Direct operating expenses of £4m were incurred in relation to income generating investment properties (2014: £7m, 2013: £7m). No direct operating expenses were incurred for investment properties not generating income (2014: £nil, 2013: £nil).

	Bank				
2015	**Freehold land and buildings £m**	**Leases of 50 years or more unexpired £m**	**Leases of 50 years or less unexpired £m**	**Computer and other equipment £m**	**Total £m**
Cost or valuation:					
At 1 January 2015	37	21	10	55	**123**
Additions	1	-	-	-	**1**
Disposals	(2)	(1)	(2)	(4)	**(9)**
At 31 December 2015	**36**	**20**	**8**	**51**	**115**
Accumulated impairment, depreciation and amortisation:					
At 1 January 2015	14	6	7	49	**76**
Disposals	(2)	(1)	(2)	(4)	**(9)**
Depreciation charge for the year	2	-	1	1	**4**
At 31 December 2015	**14**	**5**	**6**	**46**	**71**
Carrying amount at 31 December 2015	**22**	**15**	**2**	**5**	**44**

	Bank				
2014	Freehold land and buildings £m	Leases of 50 years or more unexpired £m	Leases of 50 years or less unexpired £m	Computer and other equipment £m	Total £m
Cost or valuation:					
At 1 January 2014	36	21	10	85	152
Additions	1	-	-	1	2
Disposals	-	-	-	(31)	(31)
At 31 December 2014	37	21	10	55	123
Accumulated impairment, depreciation and amortisation:					
At 1 January 2014	13	6	6	71	96
Disposals	-	-	-	(24)	(24)
Depreciation charge for the year	1	-	1	2	4
At 31 December 2014	14	6	7	49	76
Carrying amount at 31 December 2014	23	15	3	6	47
Carrying amount at 31 December 2013	23	15	4	14	56

There was no profit on disposal of freehold land and buildings during the year (2014: £nil, 2013: £nil).

Investment properties are valued using techniques based on observable market data. This methodology falls within level 2 of the valuation methods set out in Note 9.

16. Derivatives

Companies in the Group transact derivatives as principal either as a trading activity or to manage balance sheet foreign exchange, interest rate and credit risk.

	Group								
	2015			2014			2013		
	Notional amounts	**Assets**	**Liabilities**	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Over-the counter derivatives									
Foreign exchange contracts:									
Spot, forwards and futures	**2,889**	**31**	**29**	2,887	51	51	1,789	24	28
Currency swaps	**1,290**	**51**	**101**	1,355	41	128	1,379	61	189
Interest rate contracts:									
Interest rate swaps	**32,015**	**452**	**347**	39,979	428	428	46,532	324	525
Options purchased	**77**	**-**	**-**	177	2	-	1,948	3	-
Options written	**73**	**-**	**-**	175	-	2	242	-	2
Equity and commodity contracts	**960**	**93**	**-**	1,560	135	-	1,961	149	-
	37,304	**627**	**477**	46,133	657	609	53,851	561	744

	Bank								
	2015			2014			2013		
	Notional amounts	**Assets**	**Liabilities**	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Over-the-counter derivatives									
Foreign exchange contracts:									
Spot, forwards and futures	**392**	**2**	**3**	558	4	6	216	3	3
Interest rate contracts:									
Interest rate swaps	**2,135**	**1**	**32**	2,638	1	42	3,357	13	44
	2,527	**3**	**35**	3,196	5	48	3,573	16	47

17. Prepayments, accrued income and other assets

	Group			Bank		
	2015	2014	2013	**2015**	2014	2013
	£m	£m	£m	**£m**	£m	£m
Prepayments	**7**	13	12	**3**	3	3
Accrued income	**8**	12	12	**2**	3	3
Other assets	**80**	16	212	**26**	2	188
	95	41	236	**31**	8	194

18. Accruals, deferred income and other liabilities

	Group			Bank		
	2015	2014	2013	**2015**	2014	2013
	£m	£m	£m	**£m**	£m	£m
Notes in circulation	**687**	674	635	**687**	674	635
Accruals	**120**	144	181	**30**	39	50
Deferred income	**6**	4	1	**-**	-	-
Other liabilities	**108**	140	191	**31**	39	50
	921	962	1,008	**748**	752	735

Provisions of £66m (2014: £101m, 2013: £159m) for the Group and £23m (2014: £22m, 2013: £35m) for the Bank are included in other liabilities.

The following amounts are included within provisions:

	Group				
	Property	**Interest rate hedge products**	**Payment protection insurance**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Provisions at 1 January 2014	53	59	44	3	159
Charge to income statement	23	-	-	1	24
Utilised in the year	(21)	(4)	(17)	(3)	(45)
Exchange movements	(5)	(3)	(1)	1	(8)
Release of provision	(3)	(19)	(7)	-	(29)
Provisions at 31 December 2014	47	33	19	2	101
Charge to income statement	16	-	-	13	29
Utilised in the year	(31)	(4)	(6)	(1)	(42)
Exchange movements	(3)	(2)	-	-	(5)
Release of provision	(2)	(13)	(1)	(1)	(17)
Provisions at 31 December 2015	**27**	**14**	**12**	**13**	**66**

	Bank			
	Property	**Payment protection insurance**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**
Provisions at 1 January 2014	6	27	2	35
Charge to income statement	6	-	-	6
Utilised in the year	(7)	(10)	(2)	(19)
Provisions at 31 December 2014	5	17	-	22
Charge to income statement	3	-	6	9
Utilised in the year	(2)	(5)	-	(7)
Release of provision	(1)	-	-	(1)
Provisions at 31 December 2015	**5**	**12**	**6**	**23**

Property provisions

The property provisions principally comprise provisions for onerous lease contracts. Provision is made for future rentals payable in respect of vacant leasehold property and for any shortfall where leased property is sub-let at a rental lower than the lease rentals payable by the Group.

18. Accruals, deferred income and other liabilities (continued)

Interest rate hedge products
In June 2012, following an industry wide review, the regulatory authority announced that the Group and other UK banks had agreed to:
- provide automatic fair and reasonable redress to non-sophisticated customers who were sold structured collars;
- review the sales of interest rate hedging products (other than caps or structured collars) to non-sophisticated customers to determine whether redress is due; and
- review the sale of caps to non-sophisticated customers to determine whether redress is due if a complaint is made by the customer during the review.

The Central Bank of Ireland (CBI) has requested that Ulster Bank Ireland Limited (which is not subject to the FCA review) and other Irish banks carry out a review of interest rate hedging products sold in the Republic of Ireland in the period 2001 to 2012. The Ulster Bank Ireland Limited review is being progressed in line with the RBS approach and within the infrastructure of the wider RBS project.

As a result of redress payments made during 2015, the outcome of legal cases and further estimations of the provision required for the sophisticated population, given both passage of time and actual settlement of underlying deals with customers, £13m of the provision has been released during the year.

Payment Protection Insurance (PPI)
The PPI provision was established to reflect future costs as estimated using current experience of PPI complaints received. The eventual cost is dependent upon complaint volumes, uphold rates and average redress costs. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different from the amount provided. The Group will continue to monitor the position closely and refresh its assumptions as more information becomes available.

19. Deferred taxation

Provision for deferred taxation has been made as follows:

	Group			Bank		
	2015	Restated 2014	Restated 2013	**2015**	Restated 2014	Restated 2013
	£m	£m	£m	**£m**	£m	£m
Deferred tax asset	**236**	224	75	**25**	-	1
Deferred tax liability	**(3)**	(8)	(3)	**-**	(4)	-
Net deferred tax asset/(liability)	**233**	216	72	**25**	(4)	1

	Group						
	Pension	Accelerated capital allowances	Deferred gains	Fair value on financial instruments	Other	Tax losses	Total
Restated	£m	£m	£m	£m	£m	£m	£m
At 1 January 2014	7	-	(6)	-	(3)	74	72
(Charge)/credit to income statement	(6)	-	1	-	-	158	153
Other	-	-	-	-	-	(9)	(9)
At 1 January 2015	1	-	(5)	-	(3)	223	216
(Charge)/credit to income statement	(9)	5	(2)	-	-	31	25
Credit/(charge) to other comprehensive income	5	-	-	(1)	-	-	4
Other	-	-	-	-	-	(12)	(12)
At 31 December 2015	**(3)**	**5**	**(7)**	**(1)**	**(3)**	**242**	**233**

19. Deferred taxation (continued)

A deferred tax asset of £242m (2014: £223m, 2013: £74m) has been recognised in respect of £1,852m (2014: £1,784m, 2013: £592m) of total tax losses of £7,246m (2014: £8,599m, 2013: £11,546m) carried forward at 31 December 2015. These losses arose principally from significant impairment losses reflecting weak economic conditions in the Republic of Ireland and Northern Ireland. The economies continue to improve and, based on current business forecasts, the losses on which a deferred tax asset has been recognised will be utilised against future taxable profits of the companies by the end of 2022. Under Irish and UK tax legislation, tax losses do not expire and can be carried forward indefinitely.

Deferred tax liabilities of £138m (2014: £99m, 2013: £99m) have not been recognised in respect of retained earnings of overseas subsidiaries and held-over gains on the incorporation of overseas branches. Retained earnings of overseas subsidiaries are expected to be reinvested indefinitely or remitted to the UK free from further taxation. No taxation is expected to arise in the foreseeable future in respect of held-over gains.

	Bank				
	Pension	Accelerated capital allowances	Deferred gains	Tax losses	Total
Restated	£m	£m	£m	£m	£m
At 1 January 2014	6	1	(6)	-	1
(Charge)/credit to income statement	(7)	1	1	-	(5)
At 1 January 2015	(1)	2	(5)	-	(4)
(Charge)/credit to income statement	(9)	4	(2)	31	24
Credit to other comprehensive income	5	-	-	-	5
At 31 December 2015	**(5)**	**6**	**(7)**	**31**	**25**

Under UK tax rules, tax losses can be carried forward indefinitely. In periods from April 2015, the Finance Act 2015 limits the offset of losses carried forward by UK banks to 50% of profits. The main rate of UK Corporation Tax will reduce from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. Under the Finance (No 2) Act 2015, tax losses carried forward at 31 December 2015 are given credit in future periods at the main rate of UK corporation tax rate, excluding the Banking Surcharge rate (8%) introduced by the Act. Deferred tax assets and liabilities at 31 December 2015 take into account the reduced rates in respect of tax losses and where appropriate, the banking surcharge inclusive rate in respect of other banking temporary differences.

20. Subordinated liabilities

	Group			Bank		
	2015	2014	2013	**2015**	2014	2013
	£m	£m	£m	**£m**	£m	£m
Dated loan capital	**805**	867	940	**732**	790	856
Undated loan capital	**155**	164	174	**88**	93	100
Dated subordinated bonds	**-**	-	61	**-**	-	-
	960	1,031	1,175	**820**	883	956

20. Subordinated liabilities (continued)

	Group			Bank		
	2015	2014	2013	**2015**	2014	2013
	£m	£m	£m	**£m**	£m	£m
Dated loan capital:						
£20m floating rate loan capital repayable 2014 - held by NatWest	**-**	-	20	**-**	-	20
£20m floating rate loan capital repayable 2015 - held by NatWest	**-**	20	20	**-**	20	20
£100m floating rate loan capital repayable 2019 - held by RBS	**100**	100	100	**100**	100	100
€400m floating rate loan capital repayable 2017 - held by RBS	**294**	311	334	**294**	311	333
€180m floating rate loan capital repayable 2020 - held by RBS	**132**	140	150	**132**	140	150
€380m floating rate loan capital repayable 2022 - held by RBS	**279**	296	316	**206**	219	233
	805	867	940	**732**	790	856
Dated subordinated bonds						
£60m 6.375% subordinated bonds repayable 2018	**-**	-	61	**-**	-	-
	-	-	61	**-**	-	-
Undated loan capital:						
€120m perpetual floating rate notes - held by RBS	**88**	93	100	**88**	93	100
€32m 11.375% perpetual tier two capital	**41**	44	47	**-**	-	-
£12m 11.75% perpetual tier two capital	**24**	25	25	**-**	-	-
£1.3m floating rate perpetual tier two capital	**2**	2	2	**-**	-	-
	155	164	174	**88**	93	100
Total	**960**	1,031	1,175	**820**	883	956

Dated loan capital
Claims in respect of the Group's and the Bank's loan capital are subordinate to the claims of other creditors. None of the loan capital is secured.

Interest on the Sterling denominated dated loan capital held by the Group's ultimate holding company is payable quarterly at a margin over London Interbank Offer rates. Interest on Euro denominated loan capital is payable quarterly at a margin over Euro Interbank Offer rates.

Undated loan capital
The €120m loan notes are held by RBS and are repayable at the option of the Bank, only with prior consent of the PRA.

The subordinated perpetual bonds were issued by First Active plc, in the Republic of Ireland, at par on conversion of First National Building Society to a public limited company pursuant to Section 107 of the Building Societies Act, 1989 to replace the issued fixed and floating rate permanent interest bearing shares of the society. The issuance of the bonds transferred to UBIL when First Active plc transferred its banking business to UBIL in February 2010. The claims of the holders of the bonds are subordinate to the claims of all creditors of Ulster Bank Ireland Limited.

21. Share capital

	Group and Bank					
	Allotted, called up and fully paid			Authorised		
	2015	2014	2013	**2015**	2014	2013
	£m	£m	£m	**£m**	£m	£m
Equity shares:						
Ordinary shares of £1	**1,320**	1,320	1,208	**2,000**	2,000	2,000
Equity preference shares:						
Non-cumulative redeemable preference shares of €1 each	**201**	201	297	**346**	346	346
Total share capital	**1,521**	1,521	1,505	**2,346**	2,346	2,346

	Allotted, called up and fully paid			Authorised		
	2015	2014	2013	**2015**	2014	2013
Number of shares	**Millions**	Millions	Millions	**Millions**	Millions	Millions
Equity shares:						
Ordinary shares of £1	**1,320**	1,320	1,208	**2,000**	2,000	2,000
Equity preference shares:						
Non-cumulative redeemable preference shares of €1 each	**309**	309	450	**500**	500	500
Total share capital	**1,629**	1,629	1,658	**2,500**	2,500	2,500

In December 2014, a share capital reorganisation was effected whereby the Bank re-designated and re-dominated 141,000,000 non-cumulative redeemable preference shares of €1 each into 112,137,300 ordinary shares of £1 each. The share premium attached to the redeemable preference shares, which were the subject of the share capital reorganisation, was also redesignated to ordinary share premium.

The non-cumulative redeemable preference shares entitle the holders thereof to receive periodic non-cumulative cash dividends, at the discretion of the directors, at a specified floating rate payable out of distributable profits of the Bank. In a winding-up the holders of the preference shares have the right to repayment in priority to the holders of any other class of shares in the capital of the Bank. Any surplus assets available after repayment of the preference shares will be distributable to the holders of the £1 ordinary shares.

The non-cumulative redeemable preference shares do not confer on the holder a right to attend or vote at general meetings of the Bank unless the business of the meeting includes the consideration of a resolution for winding up of the Bank, reducing its share capital or varying any of the special rights attached to the preference shares.

Subject to the provisions of company law and to the consent of the FCA, the Bank shall have the right to redeem the preference shares at any time by notice to the holders provided that no such notice may be issued in respect of any preference share prior to the day following the fifth anniversary of the date of its allotment.

22. Leases

Amounts receivable under finance lease and hire purchase agreements:

	Group								
	2015			2014			2013		
Year in which receipt will occur:	**Gross amounts**	**Present value adjustments**	**Present value**	Gross amounts	Present value adjustments	Present value	Gross amounts	Present value adjustments	Present value
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Within 1 year	**81**	**(6)**	**75**	53	(5)	48	59	(7)	52
After 1 year but within 5 years	**87**	**(7)**	**80**	72	(6)	66	71	(6)	65
After 5 years	**1**	**-**	**1**	1	-	1	-	-	-
	169	**(13)**	**156**	126	(11)	115	130	(13)	117

The Group provides asset finance to its customers through acting as a lessor. It purchases plant and equipment, renting them to customers under lease arrangements that, depending on their terms, qualify as either operating or finance leases.

Minimum amounts payable under non–cancellable leases:

	Group			
	2015			
Year in which payment will occur:	**Within 1 year**	**After 1 year but within 5 years**	**After 5 years**	**Total**
	£m	**£m**	**£m**	**£m**
Operating lease obligations:				
Premises	**16**	**42**	**113**	**171**
Equipment	**1**	**-**	**-**	**1**
	17	**42**	**113**	**172**

	2014			
Year in which payment will occur:	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	£m	£m	£m	£m
Operating lease obligations:				
Premises	18	55	122	195
Equipment	1	-	-	1
	19	55	122	196

	2013			
Year in which payment will occur:	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	£m	£m	£m	£m
Operating lease obligations:				
Premises	19	65	135	219
Equipment	1	1	-	2
	20	66	135	221

22. Leases (continued)

	Bank			
	2015			
Year in which payment will occur:	**Within 1 year £m**	**After 1 year but within 5 years £m**	**After 5 years £m**	**Total £m**
Operating lease obligations:				
Premises	**2**	**2**	**87**	**91**

	2014			
Year in which payment will occur:	Within 1 year £m	After 1 year but within 5 years £m	After 5 years £m	Total £m
Operating lease obligations:				
Premises	2	3	88	93

	2013			
Year in which payment will occur:	Within 1 year £m	After 1 year but within 5 years £m	After 5 years £m	Total £m
Operating lease obligations:				
Premises	1	3	88	92

	Group			Bank		
	2015 £m	2014 £m	2013 £m	**2015 £m**	2014 £m	2013 £m
Amounts recognised in income statement						
Operating lease expense – minimum payments	**14**	19	22	**3**	3	3

23. Collateral and securitisations

Securities repurchase agreements and lending transactions

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Generally, the agreements require additional collateral to be provided if the value of the securities fall below a predetermined level.

Under standard terms for repurchase transactions in the United Kingdom and Republic of Ireland, the recipient of collateral has an unrestricted right to sell or repledge it, subject to returning equivalent securities on settlement of the transaction.

There were no securities transferred under repurchase transactions included within debt securities on the balance sheet in any of the years under review. There were no securities received as collateral under reverse repurchase agreements in any of the years under review.

23. Collateral and securitisations (continued)

Other collateral given

	Group		
	2015	2014	2013
Group assets charged as security for liabilities	**£m**	£m	£m
Loans and advances to customers	**7,395**	8,593	10,479
Derivatives	**-**	5	-
	7,395	8,598	10,479

	Group		
	2015	2014	2013
Liabilities secured by charges on assets	**£m**	£m	£m
Debt securities in issue[1]	**5,544**	6,557	7,443
Deposits by banks	**-**	-	3,151
Derivatives	**31**	33	25
	5,575	6,590	10,619

[1] £4,071m of the debt securities in issue are held by the Group (2014: £4,860m, 2013: £5,553m) and consolidated in the Group accounts.

Included in deposits by banks in 2013 is Ulster Bank Ireland Limited's obligation to the CBI under the terms of a Mortgage Backed Promissory Note programme. These obligations are secured by way of a floating charge to the CBI over all its right, title, interest and benefit.

Securitisations and other asset transfers

The Group undertakes securitisations to fund specific portfolios of assets. In a securitisation, assets, or interests in a pool of assets, are transferred generally to a special purpose entity (SPE) which then issues liabilities to third party investors. SPEs are vehicles established for a specific, limited purpose, usually do not carry out a business or trade and typically have no employees. They take a variety of legal forms - trusts, partnerships and companies - and fulfil many different functions.

It is primarily the extent of risks and rewards assumed that determines whether these entities are consolidated in the Group's financial statements. The table below sets out the asset categories together with the carrying amounts of the assets and associated liabilities for those securitisations where substantially all the risks and rewards of the asset have been retained by the Group and continue to be presented in its balance sheet.

	2015		2014		2013	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
	£m	**£m**	£m	£m	£m	£m
Residential mortgages	**7,395**	**1,472**	8,593	1,697	9,308	1,890

24. Risk management

The major risks associated with the Group's businesses are credit, market, liquidity, regulatory, reputational, conduct, operational and sovereign risk, with the principal risk associated with the Group's business being credit risk. The Group has established a comprehensive framework for managing these risks which is continually evolving as the Group's business activities change in response to market, credit, product and other developments. The Group is also exposed to risks from its defined benefit pension schemes.

The Group has established clear risk policies, including limits, reporting lines and control procedures. This framework is designed to provide tight control and is reviewed regularly by both Executive and Board Committees. The application of this framework facilitates appropriate risk management oversight by Executive and Board Committees.

24. Risk management (continued)

Credit risk

Credit risk is the risk of financial loss due to the failure of a customer to meet its obligation to settle outstanding amounts.

Sources of credit risk
The Group is exposed to credit risk as a result of a wide range of business activities. The most significant source of credit risk is direct credit risk to customers and banks, which arises from lending activities. The second most significant source is counterparty credit risk, which results from the Group's activities in the derivatives and security financing transaction markets.

The Group offers a number of lending products where it has an irrevocable obligation to provide credit facilities to a customer. Security can be obtained to mitigate the risk of loss in the form of physical collateral such as commercial real estate assets and residential housing, or financial collateral such as cash or bonds.

Derivatives and security financing transactions expose the Group to counterparty credit risk, which is the risk of loss arising from a failure of a customer to meet obligations which vary in value by reference to a market factor.

The Group holds debt securities with the intention of selling them resulting in exposure to market risk. However, it also holds some debt securities until maturity and is exposed to credit risk as a result.

The Group is exposed to credit risk from off balance sheet products such as trade finance activities and guarantees.

As is standard practice in the industry, credit risk management activities are organised along two separate lines, wholesale and retail, reflecting the distinction between business types and consequent drivers of credit risk. Wholesale focuses on activities with institutional, corporate and SME customers. Retail covers personal customers, small businesses as well as personal lending activities in private banking. Nonetheless, many activities remain common to both business lines. The following discussion refers to both wholesale and retail, with some specific additional comments relating to each individual business line.

Credit risk models are used throughout the Group to support the quantitative risk assessment element within the credit approval process, customer management, monitoring, reporting, portfolio assessment and portfolio management. These models focus mainly on three key aspects of credit risk, namely probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD").

- PD measures the probability that a customer will default on credit obligations over a one-year period, where default is traditionally identified as falling 90+ days in arrears. There are also unlikely to pay indicators of default that signify that a customer is unable to meet its obligations, such as a customer who instigates contact with the bank and seeks to restructure the repayment plan of a currently performing loan. For retail models, each customer account is separately scored using models based on the most material drivers of default. These scorecards are statistically derived using quantitative customer and loan characteristics. Customers are assigned a score, which in turn is calibrated to a PD. PD values are used to support automated credit decision making, to group customers into risk pools for regulatory capital calculations and to estimate provisions for loans. For wholesale exposures, the process is very similar except that scorecards may combine quantitative inputs and qualitative inputs (such as management performance or sector outlook).

- LGD models estimate the economic loss expected to be experienced (the amount that cannot be recovered) by the Group on a credit facility in the event of default. LGD models take into account both borrower and loan characteristics for unsecured or partially unsecured facilities, as well as the quality of any risk mitigation that may be in place for secured facilities, the cost of collections and a time discount factor for the delay in cash recovery.

- EAD measures the expected outstanding exposure at the time of a borrower's default. For mortgages this is effectively the outstanding balance plus some accrued interest. For revolving and variable draw-down type products such as credit cards and overdrafts EAD will typically be higher than the current utilisation to recognise that customers may make more use of their existing credit facilities as they approach default.

Models are regularly revised to reflect changes in the economic environment, regulatory environment, portfolio changes or changes in business strategy. Capital models, used to estimate risk weighted assets (RWA) and capital, are subject to enhanced internal scrutiny followed by submission to the Group's regulators for approval.

Counterparty credit risk measurement models are used for derivatives and other traded instruments where the amount of credit risk exposure may be dependent upon one or more underlying market variables, such as interest or foreign exchange rates. These models drive internal credit risk management activities such as limit management.

24. Risk management – credit risk (continued)

Risk appetite

Risk appetite is set using specific quantitative targets under stress. Of particular relevance are the targets for earnings volatility and capital adequacy. The Group's credit risk framework has therefore been designed around the factors that influence the Group's ability to meet those targets. These include product and asset class, industry sector, single name and country concentrations. Any of these factors could generate higher earnings volatility under stress and, if not adequately controlled, could undermine capital adequacy.

Tools such as stress testing and economic capital are used to measure credit risk volatility and develop links between Group risk appetite targets and the credit risk control framework. The framework is supported by a suite of policies that set out the risk parameters.

Wholesale

Wholesale credit risk management focuses on the credit risks arising from activities with corporate and SME clients, as well as banks, other financial institutions and sovereigns.

Concentration risk management

Four formal frameworks are used to manage wholesale credit concentration risk. These are Product/Asset class, Sector, Single Name and Country concentration risks. These risks and the limits set associated with them are assessed for appropriateness on a regular basis.

Product/asset class concentration framework

The Group manages certain lines of business where the nature of credit risk assumed could result in a concentration or a heightened risk in some other form. This will include specific credit risk types such as asset finance, settlement risk, sponsor owned corporates and products such as long-dated derivatives. Typically specific limits and thresholds are deployed to manage the credit risk inherent in these areas, which are subject to regular review.

Sector concentration

Sector concentration risk arises from the potential for excessive exposure to exist to any one or combination of correlated industry sectors that could behave similarly under stressed conditions. Risk appetite and portfolio strategies are set at sector or sub-sector level in order to mitigate this potential risk where historic experience or trends in external factors or portfolio performance give cause for concern. Regular formal reviews are undertaken at RBS or Group level depending on materiality and inputs such as outlook for the sector and expected performance under stress conditions are taken into consideration. Reviews in recent years have resulted in a material reduction in exposure to cyclical sectors such as Commercial Real Estate.

The sector concentration framework classifies sectors based on their position relative to:

- Other sectors, in terms of size (measured as a percentage of overall exposure) and risk behaviour (measured using the projected losses under stress using Economic Capital measures)
- A benchmark portfolio - a portfolio that meets earnings volatility targets from a credit loss point of view

Single name concentration

The single name concentration framework addresses the risk of outsized exposure to a borrower or borrower group. The framework includes elevated approval authority, additional reporting and monitoring and the requirement for plans to address excess exposures.

A number of credit risk mitigation techniques are available to reduce single name concentrations including setting specific exposure reduction measures such as refinance or sale of part, or all, of deemed excess exposures. Alternatively, it may be decided to take additional security or guarantees such as cash, bank or government guarantees or credit default swaps.

Since the onset of the economic crisis in 2008 the bank has actively managed its corporate exposures to reduce concentrations and align its appetite for future business to the scale of its activities. The single name concentration framework is regularly reviewed for appropriateness including:

- Simplifying the framework and ensure it remains fit for purpose
- Sizing limits appropriately for the Group's core customer base and future strategy

Country concentration risk

The country concentration framework is described in the Country risk section on page 70.

24. Risk management – credit risk (continued)

Credit approval framework
The credit risk function assesses, approves and manages the credit risk associated with a borrower or group of related borrowers.

The RBS Chief Credit Officer has established a framework of individual delegated authorities, which requires at least two individuals to approve each credit decision, one from the business and one from the credit risk function. Both must hold appropriate delegated authority, granted through the credit risk policy framework, which is dependent on their experience and expertise. A small number of senior executives hold the highest authority available. While both parties are accountable for each decision taken, the credit risk approver holds ultimate sanctioning authority.

In all circumstances the risks associated with any proposal to provide, increase, review or change the terms or conditions of credit facilities must be assessed prior to a credit decision being made.

Assessments of credit risk must, at a minimum, specifically address the following elements:
- Amount, terms, tenor, structure, conditions, purpose and appropriateness of all credit facilities;
- Compliance with applicable RBS and/or Group credit policies and risk appetite;
- The customer’s ability to meet its obligations based on an analysis of financial information;
- The source of repayment and the customer’s risk profile;
- Refinancing risk – the ability of the customer to draw down a credit facility elsewhere;
- Consideration of other risks such as environmental, social and ethical, regulatory and reputational risks; and
- Portfolio impact of the transaction including impact on any credit risk concentration limits.

At a minimum, credit relationships are reviewed and re-approved annually. The renewal process addresses the borrower’s performance against the criteria set out above and compliance with the agreed terms and conditions. Any early warning indicators will also be considered which may prompt additional oversight.

Significant progress has been made in putting in place and embedding the necessary risk management frameworks to monitor and manage the risk inherent in the portfolios, as set out above. In addition over the period 2013 to 2015 a very significant reduction in the exposure to wholesale non-performing loans has been achieved which represents a very significant step towards bringing the credit risk profile back within the desired appetite. The final steps in this strategy are underway which will complete this task.

Retail
Retail lending entails making a large number of small value loans. To ensure that it makes these lending decisions consistently, the Group analyses the historical debt servicing behaviour of customers, including their behaviour with respect to other lenders. The Group then uses the results of these analyses to set its lending rules, developing different rules for different products. For mortgages, for example, this analysis determines whether customers receive standard scrutiny (higher scoring customers) or enhanced scrutiny (lower scoring customers). The resulting credit decision-making process is largely automated for personal lending overdrafts and credit card applications, with customers receiving a credit score that reflects the outcome of a comparison of their credit profile with the rule set. However, in the case of relatively high-value, complex personal or small business loans, specialist credit managers make the final lending decision, informed by customer scores.

Country
Country risk is the risk of losses occurring as a result of either a country event or unfavourable country operating conditions. As country events may simultaneously affect all or many individual exposures to a country, country event risk is a concentration risk. It arises from possible economic or political events in each country to which the Group has exposure and from unfavourable conditions affecting daily operations in a country.

Country events may include a sovereign default, a political conflict, a banking crisis or a deep and prolonged recession leading to possible counterparty defaults. Transfer or convertibility restrictions imposed by a country’s government to stem the loss of foreign currency reserves may temporarily prevent counterparties from meeting their foreign currency payment obligations.

The Group’s country risk exposure is predominantly in the Republic of Ireland and the UK, in line with its strategic focus on core customer markets and lack of international lending activity. The other main Country Risk exposure relates to Liquid Asset investments comprising high grade sovereign bonds (Germany, UK, France and Netherlands), cash balances placed with the Central Bank of Ireland, the Bank of England and short term interbank transactions.
Country risk appetite in the Group is set under the RBS Group Executive Risk Forum approved framework:
- through delegation to the Chief Credit Officer for setting country ratings;
- through delegation to the Credit Risk Committee for setting country limits, certain discretions have been delegated on to Country Risk Management.

Within the Group, reporting and monitoring of country risk falls under the governance of the Concentration Risk Committee.

24. Risk management – credit risk (continued)

Provisioning methodology
Given objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The Group uses one of the following three different methods to assess the amount of provision required: individual; collective; and latent.

Individually assessed provisions
Loans and securities above a defined threshold deemed to be individually significant are assessed on a case-by-case basis. Assessments of future cash flows take into account the impact of any guarantees or collateral held. Projections of cash flow receipts are based on the Group's judgement and facts available at the time. Projected cash flows are reviewed on subsequent assessment dates as new information becomes available.

Collectively assessed provisions
Provisions on impaired loans and advances below an agreed threshold are assessed on a portfolio basis, reflecting the homogeneous nature of the assets. The Group segments wholesale and retail portfolios according to product type, such as credit cards, personal loans and mortgages. The approach taken uses PD and LGD estimates, adapted to ensure consistency with IAS39 accounting rules. Hence, the provision is determined based on a quantitative review of the relevant portfolio. It takes account of the level of arrears, the value of any security, and historical and projected cash recovery trends over the recovery period, costs of collateral disposal and management costs.

Latent loss provisions
In the performing portfolio, provisions are held against losses incurred but not identified before the balance sheet date. This provision reflects the reality that a certain number of performing loans have already experienced an event that will lead to default but objective evidence of that default has not yet emerged. Latent loss provisions are a function of PD, LGD, EAD and emergence period, where emergence period is defined as the period between the occurrence of the impairment event and identification and reporting of the loan as impaired.

Looking at mortgages specifically, the position is somewhat complicated, reflecting the variety of treatments afforded to customers experiencing financial difficulty. For example, mortgage accounts with active forbearance arrangements in place may be classified in either the performing or non-performing book, depending on the arrangement type, age of arrangement and performance of the account. Classification of the account as performing or non-performing will be used to determine the appropriate provision rate to apply, with the overall portfolio non-performing forbearance arrangements subjected to a higher overall segment provision rate. These rates are assessed and adjusted (if required) on a monthly basis using latest available data. The forborne provision rate is significantly higher than that for the never forborne segment of the portfolio. Post completion of the arrangement and/or completion of an appropriate probationary period, accounts can (depending on performance) migrate from the non-performing to the performing book with adjustments to the provision rate applied once continued improved performance is evidenced.

Credit risk measurement
The Group uses a range of measures for credit risk exposures. The internal measure used is credit risk assets, which consist of:

- *Lending* **-** Comprises gross loans and advances to: central and local governments; central banks, including cash balances; other banks and financial institutions, incorporating overdraft and other short-term credit lines; corporations, in large part loans and leases; and individuals, comprising mortgages, personal loans and credit card balances. Lending includes both impaired loans and those loans where an impairment event has taken place, but no impairment provision is recognised.
- *Derivatives* **-** Comprises the mark-to-market value of such contracts after the effect of enforceable netting agreements, but before the effect of collateral. In the event of a counterparty default, this is the amount due from the counterparty. Figures shown apply counterparty netting within the regulatory capital model used.
- *Contingent obligations* **-** Comprises primarily letters of credit and guarantees.

Credit risk assets exclude issuer risk (primarily debt securities) and reverse repurchase arrangements. They take account of legal netting arrangements that provide a right of legal set-off, but do not meet the offset criteria under IFRS.

24. Risk management – credit risk (continued)

Credit risk measurement (continued)

Asset quality
Internal reporting and oversight of risk assets is principally differentiated by credit grades. Customers are assigned credit grades based on various credit grading models that reflect the key drivers of default for each customer type. All credit grades across the Group map to both a Group level asset quality scale, used for external financial reporting, and a master grading scale for wholesale exposures, used for internal management reporting across portfolios. Accordingly, measures of risk exposure may be readily aggregated and reported at increasing levels of granularity depending on stakeholder or business need.

The table below shows credit risk assets by asset quality (AQ) band:

Asset Quality Grade	Minimum	Maximum
	%	%
AQ1	0.000	0.034
AQ2	0.034	0.048
AQ3	0.048	0.095
AQ4	0.095	0.381
AQ5	0.381	1.076
AQ6	1.076	2.153
AQ7	2.153	6.089
AQ8	6.089	17.222
AQ9	17.222	100.000
AQ10	100.000	100.000

The following table provides an analysis of the credit quality of third party financial assets by probability of default.

	Group					
2015	**Cash and balances at central banks £m**	**Loans and advances to banks £m**	**Loans and advances to customers £m**	**Derivatives £m**	**Commitments £m**	**Contingent liabilities £m**
AQ1	868	7,515	68	541	84	-
AQ2	-	305	3	30	97	-
AQ3	-	1,662	248	27	323	96
AQ4	-	2	2,366	22	883	75
AQ5	-	1	5,705	3	878	33
AQ6	-	-	6,007	1	540	69
AQ7	-	-	1,134	1	265	31
AQ8	-	-	511	-	51	3
AQ9	-	-	1,742	-	8	2
AQ10	-	-	-	2	54	27
Accruing past due	-	-	1,101	-	-	-
Non–accrual	-	-	5,369	-	-	-
Impairment provisions	-	-	(3,611)	-	-	-
Total	**868**	**9,485**	**20,643**	**627**	**3,183**	**336**

24. Risk management - credit risk (continued)

Credit risk measurement (continued)

Asset quality (continued)

	Group					
2014	Cash and balances at central banks £m	Loans and advances to banks £m	Loans and advances to customers £m	Derivatives £m	Commitments £m	Contingent liabilities £m
AQ1	884	7,454	221	511	318	4
AQ2	-	159	20	33	473	1
AQ3	-	1,066	4	14	506	25
AQ4	-	246	1,763	57	576	157
AQ5	-	-	7,008	5	649	85
AQ6	-	-	5,085	1	414	48
AQ7	-	-	1,381	1	231	51
AQ8	-	-	730	-	125	6
AQ9	-	-	2,785	-	76	1
AQ10	-	-	-	35	310	15
Accruing past due	-	-	1,451	-	-	-
Non–accrual	-	-	15,345	-	-	-
Impairment provisions	-	-	(11,326)	-	-	-
Total	884	8,925	24,467	657	3,678	393

	Bank					
2015	**Cash and balances at central banks £m**	**Loans and advances to banks £m**	**Loans and advances to customers £m**	**Derivatives £m**	**Commitments £m**	**Contingent liabilities £m**
AQ1	616	7,116	90	2	40	-
AQ2	-	-	30	-	36	-
AQ3	-	2	26	-	1,107	11
AQ4	-	1	1,035	-	186	7
AQ5	-	-	1,375	-	298	17
AQ6	-	-	453	-	167	13
AQ7	-	-	380	1	100	14
AQ8	-	-	142	-	19	1
AQ9	-	-	150	-	2	-
AQ10	-	-	-	-	9	6
Accruing past due	-	-	64	-	-	-
Non–accrual	-	-	624	-	-	-
Impairment provisions	-	-	(568)	-	-	-
Total	**616**	**7,119**	**3,801**	**3**	**1,964**	**69**

24. Risk management - credit risk (continued)

Credit risk measurement (continued)

Asset quality (continued)

	Bank					
2014	Cash and balances at central banks £m	Loans and advances to banks £m	Loans and advances to customers £m	Derivatives £m	Commitments £m	Contingent liabilities £m
AQ1	647	6,896	193	4	63	-
AQ2	-	-	-	-	67	-
AQ3	-	1	2	-	1,189	-
AQ4	-	-	913	-	122	4
AQ5	-	-	1,343	-	359	13
AQ6	-	-	607	-	169	12
AQ7	-	-	447	1	114	33
AQ8	-	-	191	-	22	1
AQ9	-	-	151	-	3	1
AQ10	-	-	-	-	97	2
Accruing past due	-	-	118	-	-	-
Non–accrual	-	-	2,581	-	-	-
Impairment provisions	-	-	(2,206)	-	-	-
Total	647	6,897	4,340	5	2,205	66

24. Risk management – credit risk (continued)

Credit risk concentrations

Credit risk assets by industry and geography
Industry analysis plays an important part in assessing the potential for concentration risk in the loan portfolio. Particular attention is given to industry sectors where the Group believes there is a high degree of risk or potential for volatility in the future. The tables below analyse credit risk assets by industry sector and geographical region (based on location of transaction office) and sector.

	Group				
	Gross loans and advances to banks and customers	**Debt securities and equity shares**	**Derivatives**	**Total**	**Netting and offset**[1]
2015	£m	£m	£m	£m	£m
UK					
Central and local government	14	-	-	14	-
Manufacturing	323	-	-	323	6
Construction	144	-	-	144	25
Finance	7,561	-	2	7,563	-
Service industries and business activities	589	-	1	590	36
Agriculture, forestry and fishing	248	-	-	248	34
Property	865	-	-	865	5
Individuals					
Home mortgages	2,223	-	-	2,223	-
Other	281	-	-	281	-
Interest accruals	6	-	-	6	-
Total UK	**12,254**	**-**	**3**	**12,257**	**106**
Republic of Ireland					
Central and local government	31	1,894	-	1,925	-
Manufacturing	520	-	3	523	6
Construction	350	-	2	352	18
Finance	2,087	-	562	2,649	-
Service industries and business activities	2,542	-	47	2,589	61
Agriculture, forestry and fishing	459	-	-	459	16
Property	1,388	-	1	1,389	2
Individuals					
Home mortgages	13,770	-	-	13,770	-
Other	321	-	9	330	-
Interest accruals	17	-	-	17	-
Total Republic of Ireland	**21,485**	**1,894**	**624**	**24,003**	**103**
Total					
Central and local government	45	1,894	-	1,939	-
Manufacturing	843	-	3	846	12
Construction	494	-	2	496	43
Finance	9,648	-	564	10,212	-
Service industries and business activities	3,131	-	48	3,179	97
Agriculture, forestry and fishing	707	-	-	707	50
Property	2,253	-	1	2,254	7
Individuals					
Home mortgages	15,993	-	-	15,993	-
Other	602	-	9	611	-
Interest accruals	23	-	-	23	-
	33,739	**1,894**	**627**	**36,260**	**209**

(1) This column shows the amount by which the Group's credit risk exposures is reduced through arrangements, such as master netting agreements, which give the Group a legal right to set-off the financial asset against a financial liability due to the same counterparty. In addition, the Group holds collateral in respect of individual loans and advances to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant, inventories and trade receivables; and guarantees of lending from parties other than the borrower. The Group obtains collateral in the form of securities in reverse repurchase agreements. Cash and securities are received as collateral in respect of derivative transactions.

24. Risk management – credit risk (continued)

Credit risk concentrations (continued)

Credit risk assets by industry and geography (continued)

	Group				
2014	Gross loans and advances to banks and customers £m	Debt securities and equity shares £m	Derivatives £m	Total £m	Netting and offset [1] £m
UK					
Central and local government	15	-	-	15	-
Manufacturing	404	-	-	404	7
Construction	293	-	-	293	15
Finance	7,570	6	3	7,579	-
Service industries and business activities	694	-	1	695	43
Agriculture, forestry and fishing	253	-	-	253	47
Property	3,040	-	-	3,040	27
Individuals					
Home mortgages	2,238	-	-	2,238	-
Other	329	-	-	329	-
Interest accruals	11	-	-	11	-
Total UK	14,847	6	4	14,857	139
Republic of Ireland					
Central and local government	40	2,053	-	2,093	-
Manufacturing	633	-	8	641	6
Construction	395	-	-	395	15
Finance	1,624	6	569	2,199	-
Service industries and business activities	3,691	20	71	3,782	43
Agriculture, forestry and fishing	704	-	1	705	21
Property	6,989	-	4	6,993	5
Individuals					
Home mortgages	15,268	-	-	15,268	-
Other	501	-	-	501	-
Interest accruals	26	-	-	26	-
Total Republic of Ireland	29,871	2,079	653	32,603	90
Total					
Central and local government	55	2,053	-	2,108	-
Manufacturing	1,037	-	8	1,045	13
Construction	688	-	-	688	30
Finance	9,194	12	572	9,778	-
Service industries and business activities	4,385	20	72	4,477	86
Agriculture, forestry and fishing	957	-	1	958	68
Property	10,029	-	4	10,033	32
Individuals					
Home mortgages	17,506	-	-	17,506	-
Other	830	-	-	830	-
Interest accruals	37	-	-	37	-
	44,718	2,085	657	47,460	229

(1) This column shows the amount by which the Group's credit risk exposures is reduced through arrangements, such as master netting agreements, which give the Group a legal right to set-off the financial asset against a financial liability due to the same counterparty. In addition, the Group holds collateral in respect of individual loans and advances to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant, inventories and trade receivables; and guarantees of lending from parties other than the borrower. The Group obtains collateral in the form of securities in reverse repurchase agreements. Cash and securities are received as collateral in respect of derivative transactions.

24. Risk management – credit risk (continued)

Credit risk concentrations (continued)

Credit risk assets by industry and geography (continued)

	Bank				
	Gross loans and advances to banks and customers	**Debt securities and equity shares**	**Derivatives**	**Total**	**Netting and offset [(1)]**
2015	**£m**	**£m**	**£m**	**£m**	**£m**
UK					
Central and local government	14	-	-	14	-
Manufacturing	316	-	-	316	6
Construction	104	-	-	104	24
Finance	7,233	-	2	7,235	-
Service industries and business activities	507	-	1	508	35
Agriculture, forestry and fishing	248	-	-	248	34
Property	618	-	-	618	5
Individuals					
Home mortgages	2,223	-	-	2,223	-
Other	219	-	-	219	-
Interest accruals	6	-	-	6	-
	11,488	**-**	**3**	**11,491**	**104**

	Bank				
	Gross loans and advances to banks and customers	Debt securities and equity shares	Derivatives	Total	Netting and offset[(1)]
2014	£m	£m	£m	£m	£m
UK					
Central and local government	15	-	-	15	-
Manufacturing	376	-	-	376	7
Construction	293	-	-	293	15
Finance	7,092	6	4	7,102	-
Service industries and business activities	625	-	1	626	43
Agriculture, forestry and fishing	253	-	-	253	47
Property	2,274	-	-	2,274	27
Individuals					
Home mortgages	2,238	-	-	2,238	-
Other	271	-	-	271	-
Interest accruals	6	-	-	6	-
	13,443	6	5	13,454	139

(1) This column shows the amount by which the Bank's credit risk exposures is reduced through arrangements, such as master netting agreements, which give the Bank a legal right to set-off the financial asset against a financial liability due to the same counterparty. In addition, the Bank holds collateral in respect of individual loans and advances to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant, inventories and trade receivables; and guarantees of lending from parties other than the borrower. The Bank obtains collateral in the form of securities in reverse repurchase agreements. Cash and securities are received as collateral in respect of derivative transactions.

24. Risk management – credit risk (continued)

Credit risk mitigation

Approaches and methodologies
The Group employs a number of structures and techniques to mitigate credit risk. Netting of debtor and creditor balances is undertaken in accordance with relevant regulatory and internal policies. Exposure on over-the-counter derivative and secured financing transactions is further mitigated by the exchange of financial collateral and the use of market standard documentation. Further mitigation may be undertaken in a range of transactions, from retail mortgage lending to large wholesale financing. This can include: structuring a security interest in a physical or financial asset; use of credit derivatives, including credit default swaps, credit-linked debt instruments and securitisation structures; and use of guarantees and similar instruments (for example, credit insurance) from related and third parties. Such techniques are used in the management of credit portfolios, typically to mitigate credit concentrations in relation to an individual obligor, a borrower group or a collection of related borrowers.

The use and approach to credit risk mitigation varies by product type, customer and business strategy. Minimum standards applied across the Group cover:

- the suitability of qualifying credit risk mitigation types and any conditions or restrictions applicable to those mitigants;
- the means by which legal certainty is to be established, including required documentation, supportive independent legal opinions and all necessary steps required to establish legal rights;
- acceptable methodologies for initial and any subsequent valuations of collateral and the frequency with which collateral is to be revalued and the use of collateral haircuts;
- actions to be taken in the event that the value of mitigation falls below required levels;
- management of the risk of correlation between changes in the credit risk of the customer and the value of credit risk mitigation;
- management of concentration risks, for example, by setting thresholds and controls on the acceptability of credit risk mitigants and on lines of business that are characterised by a specific collateral type or structure; and
- collateral management to ensure that credit risk mitigation remains legally effective and enforceable.

Secured portfolios
Within its secured portfolios, the Group has recourse to various types of collateral and other credit enhancements to mitigate credit risk and reduce the loss to the Group arising from the failure of a customer to meet its obligations. These include: cash deposits; charges over residential and commercial property, debt securities and equity shares; and third-party guarantees. The existence of collateral may affect the pricing of a facility and its regulatory capital requirement.

When a collateralised financial asset becomes impaired, the impairment charge directly reflects the realisable value of collateral and any other credit enhancements.

Corporate exposures
The type of collateral taken by the Group's commercial and corporate businesses and the manner in which it is taken will vary according to the activity and assets of the customer.

- *Physical assets* - These include business assets such as stock, plant and machinery, vehicles, ships and aircraft. In general, physical assets qualify as collateral only if they can be unambiguously identified, located or traced, and segregated from uncharged assets. Assets are valued on a number of bases according to the type of security that is granted.
- *Real estate* - The Group takes collateral in the form of real estate, which includes residential and commercial properties. The loan amount will typically exceed the market value of the collateral at origination date. The market value is defined as the estimated amount for which the asset could be sold in an arm's length transaction by a willing seller to a willing buyer.
- *Receivables* - When taking a charge over receivables, the Group assesses their nature and quality and the borrower's management and collection processes. The value of the receivables offered as collateral will typically be adjusted to exclude receivables that are past their due dates.

The security charges may be floating or fixed, with the type of security likely to impact: (i) the credit decision; and (ii) the potential loss upon default. In the case of a general charge such as a mortgage debenture, balance sheet information may be used as a proxy for market value if the information is deemed reliable.

The Group does not recognise certain asset classes as collateral: for example, short leasehold property and equity shares of the borrowing company. Collateral whose value is correlated to that of the obligor is assessed on a case-by-case basis and, where necessary, over-collateralisation may be required.

24. Risk management – credit risk (continued)

Credit risk mitigation (continued)

Secured portfolios (continued)

Corporate exposures (continued)
The Group uses industry standard loan and security documentation wherever possible. Non-standard documentation is typically prepared by external lawyers on a case-by-case basis. The Group's business and credit teams are supported by in-house specialist documentation teams.

The existence of collateral has an impact on provisioning. Where the Group no longer expects to recover the principal and interest due on a loan in full or in accordance with the original terms and conditions it is assessed for impairment. If exposures are secured, the current net realisable value of the collateral will be taken into account when assessing the need for a provision. No impairment provision is recognised in cases where all amounts due are expected to be settled in full on realisation of the security.

The Group's financial performance has reflected the continued turnaround in the Commercial Real Estate ("CRE") market. Improved commercial property market conditions have resulted in increased collateral values and increased prices achieved in RCRI portfolio sales. RCRI manages 49% (£1.2bn) of the CRE portfolio, of which £1.2bn is categorised Risk elements in Lending ("REiL") with a provision coverage of 92%. Mortgages of £2.6bn have also been categorised as REiL.

	2015		2014	
	Loans	**Provisions**	Loans	Provisions
Non-performing corporate loans (excluding commercial real estate)	**£m**	**£m**	£m	£m
Secured	**1,062**	**962**	2,659	2,121
Unsecured	**39**	**36**	91	71

Retail exposures
Borrowing applications, whether secured or not, are subject to strict credit risk underwriting processes. These include affordability assessment, analysis of historical financial performance and collateral valuation. Pricing is typically higher on unsecured than secured loans. For secured loans, pricing will typically vary by LTV: higher LTV products are typically subject to higher interest rates commensurate with the associated risk.

The value of a property intended to secure a mortgage is assessed during the loan underwriting process using industry standard methodologies. Property values supporting home equity lending reflect either an individual appraisal or valuations generated by statistically valid automated valuation models. Property values are updated each quarter using the relevant house price index (Office for National Statistics House Price Index in Northern Ireland and Central Statistics Office Residential Property Price Index in the Republic of Ireland).

The Group's residential mortgage portfolio was £16.0 billion at 31 December 2015, with 86% in the Republic of Ireland and 14% in Northern Ireland.

The table below shows the distribution of residential mortgages by loan-to-value (LTV) (indexed). LTV is based upon gross loan amounts and, whilst including defaulted loans, does not take account of provisions made.

	Group	
	2015	2014
Residential mortgages – distribution by average LTV [(1)]	**%**	%
<=50%	**39.1**	34.6
>50% and <=60%	**8.5**	7.5
>60% and <=70%	**8.6**	7.5
>70% and <=80%	**9.5**	7.8
>80% and <=90%	**8.7**	8.0
>90% and <=100%	**6.9**	7.1
>100%	**18.7**	27.5
Total portfolio average LTV at 31 December	**64.1**	71.9
Average LTV on new originations during the year	**76.6**	75.2

[(1)] The above table uses unweighted LTV averages calculated by transaction volume.

24. Risk management – credit risk (continued)

Credit risk mitigation (continued)

Secured portfolios (continued)

Retail exposures (continued)
The existence of collateral has an impact on provisioning levels. Once a secured loan is classified as non-performing, the present realisable value of the underlying collateral and the costs associated with repossession are used to estimate the provision required.

The tables below show period-end weighted LTVs for the Group's residential mortgage portfolio split between performing and non-performing.

Non-performing residential mortgages average LTV by exposure	2015 £m	2014 £m
<70%	366	391
>70% and <=90%	253	276
>90% and <=110%	348	377
>110% and <=130%	416	512
>130%	539	1,022
Total	1,922	2,578
Total portfolio average by LTV	106.0%	115.0%

Performing residential mortgages average LTV by exposure	2015 £m	2014 £m
<70%	5,554	4,842
>70% and <=90%	3,229	2,856
>90% and <=110%	2,512	2,810
>110% and <=130%	2,032	2,382
>130%	737	2,035
Total	14,064	14,925
Total portfolio average by LTV	79.2%	88.0%

The reductions in LTV in 2015 reflect an improvement in residential property prices over the period, further enhanced by the sale of a portfolio of high LTV Republic of Ireland buy-to-let mortgages (Project Arthur).

Aside from the lending portfolios, the Group receives collateral and other credit enhancements on other financial assets on its balance sheet as detailed in the following table.

	2015 £m	2014 £m
Derivative assets gross exposure	31	33

Problem debt management

Retail collections and recoveries
There are collections and recoveries functions in each of the consumer businesses. Their role is to provide support and assistance to customers who are currently experiencing difficulties meeting their financial obligations. Where possible, the aim of the collections and recoveries teams is to return the customer to a satisfactory position by working with them to restructure their finances. If this is not possible, the team has the objective of reducing the loss to the Group.

24. Risk management – credit risk (continued)

Problem debt management (continued)

Forbearance
Within the Group's retail businesses forbearance generally occurs when the business grants a permanent or temporary concession to a customer. Forbearance is granted following an assessment of the customer's individual circumstances and ability to pay.

Identification of forbearance
Customers who contact the Group directly because of financial difficulties, or who are already in payment arrears, may be granted forbearance. In the course of assisting customers, more than one forbearance treatment may be granted.

Types of retail forbearance
Forbearance options include, but are not limited to, payment concessions, capitalisations of arrears, term extensions and temporary conversions to interest only.

- Payment concessions - A temporary reduction in, or elimination of, the periodic (usually monthly) loan repayment is agreed with the customer. At the end of the concessionary period, forborne principal and accrued interest outstanding is scheduled for repayment over an agreed period.
- Capitalisation of arrears - The arrears are repaid over the remaining term of the mortgage and the customer returns to an up-to-date position. Capitalisation of arrears does not apply to FCA regulated mortgages, other than in exceptional cases where other forbearance options have been exhausted.
- Term extensions - The maturity date of the loan is extended.
- Interest Only Conversions - The customer converts from principal and interest repayment to interest only repayment on a temporary or permanent basis.

For unsecured portfolios, forbearance treatments entail reduced or deferred payments. Arrangements to facilitate the repayment of overdraft excesses or loan arrears can be agreed dependent on affordability. Where repayment arrangements are not affordable debt consolidation loans can be provided to customers in collections.

The mortgage arrears information for retail accounts in forbearance and related provisions are shown in the table below:

	2015		2014	
	Balance	**Provisions**	Balance	Provisions
Arrears status and provisions	**£m**	**£m**	£m	£m
No missed payments	**2,154**	**274**	2,231	299
1-3 months in arrears	**654**	**115**	689	110
>3 months in arrears	**722**	**197**	960	267
Total	**3,530**	**586**	3,880	676

The incidence of the main types of retail forbearance on the balance sheet as at 31 December 2015 is analysed below. Definitions are based on those used within the FCA forbearance guidelines. For a proportion of mortgages, more than one forbearance type applies.

	2015	2014
	£m	£m
Interest only	**108**	346
Term extensions – capital repayment & interest only	**545**	501
Payment concession/holidays	**2,128**	2,305
Capitalisation of arrears	**1,561**	1,364
Total	**4,342**	4,516

At the balance sheet date 22.1% (2014: 22.1%) of the Group's retail mortgages were in forbearance.

The table below details residential mortgages three months or more in arrears (by volume):

	Group	
	2015	2014
Personal	**%**	%
Mortgages	**8.4**	10.2

24. Risk management (continued)

Market risk

Market risk is defined as the risk of loss as a result of adverse changes in market factors. The risk factors include interest rates, foreign currency and equity prices together with related parameters such as market volatilities.

The principal market risks to which the Group is exposed are interest rate and foreign exchange risks. The Group manages market risk within its trading and non-trading portfolios through a comprehensive market risk management framework. This framework includes limits based on, but not limited to Value at Risk ("VaR"), scenario analysis, position and sensitivity analysis. The Group in conjunction with RBS Market Risk and Treasury annually agree sub limits based on the Group's approved market risk appetite.

Risk appetite is expressed in the form of a combination of VaR, sensitivity and scenario limits. VaR is a technique that produces estimates of the potential change in the market value of a portfolio over a specified time horizon at given confidence levels. For internal risk management purposes, the Group's VaR model assumes a time horizon of one trading day and confidence level of 99% and calculates VaR using historical simulation based on the previous 500 trading days of market data. The model calculates both general market risk (the risk due to movement in general market benchmarks) and idiosyncratic market risk (the risk due to movements in the value of securities by reference to specific issuers). The Group VaR should be interpreted in light of the limitations of the methodology used as follows:

- Historical simulation VaR may not provide the best estimate of future market movements. It can only provide a prediction of the future based on events that occurred in the time series horizon. Therefore, events that are more severe than those in the historical data series cannot be predicted;
- VaR that uses a 99% confidence level does not reflect the extent of potential losses beyond that percentile;
- VaR that uses a one-day time horizon will not fully capture the profit or loss implications of positions that cannot be liquidated or hedged within one day; and
- The Group computes the VaR of trading portfolios and non-trading Treasury money market and liquid asset portfolios at the close of business. Treasury structural interest rate risk VaR is computed monthly.

These limitations mean that the Group cannot guarantee that losses will not exceed the VaR. A 'Risks not in VaR' framework has been developed to address those market risks not adequately captured by the market standard VaR methodology. Where risks are not included in the model, various non-VaR controls (for example, position monitoring, sensitivity limits, triggers or stress limits) are in place.

(i) Trading portfolios
The Group eliminates its market risk in these portfolios by entering into back-to-back positions with its ultimate parent company, The Royal Bank of Scotland Group plc.

(ii) Non-trading
The principal market risks arising from the Group's non-trading activities are interest rate risk and foreign exchange risk. Non-trading risk is managed by Treasury, and arises from mismatches between the repricing of assets and liabilities in its wholesale markets, retail business and commercial bank.

Total VaR

Treasury is responsible for raising funding in the international wholesale and repo markets and funding the corporate loan book.

The total VaR for the Group's dealing is presented in the table below:

	31 December 2015	**Maximum**	**Minimum**	**Average**
	£m	**£m**	**£m**	**£m**
Value-at-Risk	**1.0**	**1.4**	**0.5**	**0.8**

	31 December 2014	Maximum	Minimum	Average
	£m	£m	£m	£m
Value-at-Risk	1.2	1.4	0.4	0.7

24. Risk management - market risk (continued)

Interest Rate VaR

The Interest Rate VaR limit is a sub limit of the Total VaR limit and is monitored daily.

Interest Rate VaR is presented in the table below:

	31 December 2015	Maximum	Minimum	Average
	£m	£m	£m	£m
Value-at-Risk	**0.9**	**1.4**	**0.4**	**0.8**
	31 December 2014	Maximum	Minimum	Average
	£m	£m	£m	£m
Value-at-Risk	1.2	1.4	0.4	0.7

Treasury interest rate risk

The Group's portfolio of non-trading financial instruments principally comprises retail and commercial banking loans and deposits, debt securities issued, capital and hedging instruments.

Non-trading interest rate risk is calculated on the basis of establishing the repricing behaviour of each asset, liability and off-balance sheet product. For many products, the actual interest rate repricing characteristics differ from the contractual repricing. In most cases, the repricing maturity is determined by the market interest rate that most closely fits the historical behaviour of the product interest rate. For example with non-interest bearing current accounts, the repricing maturity is determined by the stability of the portfolio. The repricing maturities used are approved by the Ulster Bank Asset and Liability Committee ("ALCO") at least annually. Key conventions are reviewed annually by ALCO. Short-term exposures are reviewed in terms of net interest income sensitivity over 12 months to a 1% parallel movement in interest rates. Risk is managed through arm's length cash transactions, bonds and derivatives, principally interest rate swaps.

A static maturity gap report is produced as at the month-end, in each functional currency based on the behaviouralised repricing for each product. It is Group policy to include in the gap report non-financial assets and liabilities, mainly property, plant and equipment and the Group's capital and reserves, spread over medium and longer term maturities. This report also includes hedge transactions, principally derivatives.

Any residual non-trading interest rate exposures are controlled by limiting repricing mismatches in the balance sheets. Potential exposures to interest rate movements in the medium to long term are measured and controlled using a version of the same VaR methodology that is used for the Group's trading portfolios but without discount factors. Net accrual income exposures are measured and controlled in terms of sensitivity over time to movements in interest rates.

Risk is managed within VaR limits approved by ALCO through the execution of cash and derivative instruments. Execution of the hedging is carried out by the Group's Treasury function. The residual risk position is reported to ALCO on a monthly basis.

Principal amounts only are included. Average balances are used for products where this is considered to provide a more accurate representation of the exposure. A separate ladder is produced for each material currency.

Option risk in the non-trading businesses principally occurs in certain fixed rate assets and liabilities. It arises where businesses undertake to provide funding to, or to accept deposits from, customers at a future date at a pre-determined fixed interest rate. Derivatives are used to manage the risk of interest rate movements from the date a commitment is made to a customer to the date the transaction closes. Option risk also arises where customers can repay fixed rate loans or withdraw fixed rate deposits prior to their maturity. In managing this risk, historic early repayment rates are taken into account.

The Group generally seeks to protect itself from early repayment risk through the imposition of contract breakage fees.

Foreign exchange risk

Foreign exchange risk in the Banking Book represents exposures to changes in the values of current holdings and future cash flows denominated in other currencies. Hedging instruments used to mitigate these risks include foreign currency options, currency swaps, futures, forwards and deposits. Foreign exchange risk results from the Group's investments in overseas subsidiaries, associates and branches in three principal forms:

- Structural foreign currency exposures that arise from net investment in overseas subsidiaries, associates and branches;
- Transactional/commercial foreign currency exposures that arise from mismatches in the currency balance sheet; and
- Foreign currency profit streams.

24. Risk management (continued)

Market risk (continued)

Foreign exchange risk (continued)

The Group does not maintain material non-trading open currency positions other than the structural foreign currency translation exposures arising from its investments in foreign subsidiaries and associated undertakings and their related currency funding. The Group's policy in relation to structural positions is to match fund the structural foreign currency exposure arising from net asset value, including goodwill, in foreign subsidiaries, equity accounted investments and branches, except where doing so would materially increase the sensitivity of either the Group's or the subsidiary's regulatory capital ratios to currency movements. The policy requires structural foreign exchange positions to be reviewed regularly by ALCO.

Foreign exchange differences arising on the translation of foreign operations are recognised directly in equity together with the effective portion of foreign exchange differences arising on hedging liabilities.

The table below sets out the Group's structural foreign currency exposures as at 31 December 2015:

	2015					
	Net assets of overseas investment	**Minority interest**	**Net investments**	**Currency borrowings**	**Economic hedges**	**Structural foreign currency exposures**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Euro	**5,502**	**(1)**	**5,501**	**(305)**	**(1,202)**	**3,994**

	2014					
	Net assets of overseas investment	Minority interest	Net investments	Currency borrowings	Economic hedges	Structural foreign currency exposures
	£m	£m	£m	£m	£m	£m
Euro	5,295	(22)	5,273	(324)	(1,274)	3,675

At 31 December 2015, a 5% strengthening of foreign currencies would result in a structural foreign currency gain of £215m in equity (2014: £184m) and a 5% weakening of foreign currencies would result in a structural foreign currency loss of £215m in equity (2014: £184m).

Changes in foreign exchange rates affect the Group's earnings and equity through differences on the retranslation of the net assets and related funding of overseas subsidiaries from the local functional currency to Sterling. Gains or losses on foreign currency investments in subsidiary and associated undertakings, net of any losses or gains on related foreign currency funding, are recognised in reserves. In 2015, exchange losses of £278m (2014: £276m) have been charged to reserves.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations, including financing wholesale maturities or customer deposit withdrawals as and when they fall due. Liquidity risk is highly dependent on company specific characteristics such as the maturity profile and composition of the Group's asset and liabilities, the quality and marketable value of its liquidity buffer and broader market factors, such as wholesale market conditions alongside depositor and investor behaviour.

Policy, framework and governance

The Group has in place a comprehensive set of policies to manage liquidity risk that reflect best market practice and complies with prevailing regulatory strictures.

These policies are designed to address three broad issues which ensure that:

- the Group maintains adequate liquidity resources to meet liabilities as and when they fall due;
- the Group maintains an adequate liquidity buffer appropriate to the business activities of the Group and their risk profile; and
- the Group has in place robust strategies, policies, systems and procedures for identifying, measuring, monitoring and managing liquidity risk.

24. Risk management – liquidity risk (continued)

Policy, framework and governance (continued)
At their simplest, these policies determine the sources of liquidity risk and the steps the Group can take when these risks exceed certain tolerances. These include, not only, when and how to use the Group's liquidity buffer but also what other adjustments to the Group's balance sheet could be undertaken to manage these risks back within Group appetite. These policies are reviewed at least annually, or more frequently if the Group's own liquidity position changes, or if market conditions and/or regulatory rules warrant further amendment or refinement.

Guided by ALCO, the Bank's Board of directors are responsible for defining and approving the Group's liquidity policy and setting acceptable parameters and risk limits that align with the overall RBS standard and risk appetite. The Group's liquidity buffer is managed by Treasury which monitors and controls the Group's funding and liquidity position.

Regulatory oversight
The Group operates in both the United Kingdom and the Republic of Ireland and is subject to regulatory oversight in both jurisdictions. The Group's lead regulators are the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA"). The PRA is the consolidated supervisor of The Royal Bank of Scotland Group plc ("RBS Group") and is responsible for promoting the safety and soundness of systemically important financial institutions in the UK. The FCA provides regulatory oversight over the Group's liquidity management. In June 2010 liquidity rules were introduced to provide a standardised approach for all UK banks. At an RBS Group level, the rules focus on the UK Defined Liquidity Group (a subset comprising the RBS Group's five UK banks: RBS, NatWest, Ulster Bank Limited, Coutts & Co plc and Adam & Co plc) and cover adequacy of liquidity resources, controls, stress testing and the Individual Liquidity Adequacy Assessment ("ILAA"). The ILAA informs the RBS Group Board and the FCA of the assessment and quantification of the Group's liquidity risks and their mitigation, and how much current and future liquidity is required. In the Republic of Ireland, the Group's operations must meet liquidity requirements set out by the Central Bank of Ireland ("CBI").

Liquidity measurement and monitoring
Liquidity risk is measured and assessed on a daily basis at RBS Group level in compliance with regulatory requirements. The Group uses a set of internal metrics and analysis to assess liquidity risk including Liquidity Coverage Ratio, Net Stable Funding Ratio, Maturity Mismatch Cash Flow, Stressed Outflows, Loan to Deposit Ratio and Asset Encumbrance. In addition to risk limits covering these metrics, deposit concentration and Foreign Exchange Mismatch limits are set and monitored by ALCo. Liquidity risk performance reports are reviewed by ALCO. Any breach or material deterioration of these metrics will set in motion a series of actions and escalations.

The Group's liquidity risk framework is subject to internal oversight, challenge and governance both at Board level and via internal Risk and Audit control functions. The Group is also subject to regulatory review and challenge.

Stress testing
Stress testing is used to help inform a broader understanding of liquidity risk as well as to model specific liquidity risk events; for example the secession of a country from the Euro.

The Group actively monitors a range of market and firm specific indicators on an ongoing basis which are designed to act as early warning indicators that liquidity stresses are emerging. Some of these indicators will be based upon actual performance of the business against pre-agreed limits, for example customer deposit outflows. Others will be based around general or specific market movements.

Stress tests can therefore be run on an ad hoc basis in response to the emergence of one of these risks.

Scenarios include assumptions about significant changes in key funding sources, external credit ratings, contingent uses of funding and political and economic conditions or events in particular countries. Stress scenarios are applied to both on-balance sheet instruments and off-balance sheet activities to provide a comprehensive view of potential cash flows.

In determining the adequacy of the Group's liquidity resources the Group focuses on the stressed outflows that it could anticipate experiencing as a result of any stress scenario occurring. These outflows are measured as occurring over certain time periods which extend from any given day, out to two weeks or to as long as three months. The Group is expected to be able to withstand these stressed outflows through its own resources (principally the use of the liquidity buffer) over these time horizons without having to revert to extraordinary central bank or government assistance.

Stress tests are augmented from time to time to reflect firm specific or emerging market risks that could have a material impact on the Group's liquidity position.

The results of stress testing are an active part of balance sheet management and strategy and also inform allocation, target and limit discussions. In short, limits in the business-as-usual environment are bounded by capacity to satisfy the Group's liquidity needs in the stress environments.

24. Risk management – liquidity risk (continued)

Balance sheet composition
The Group's balance sheet composition is a function of the broad array of product offerings and diverse markets served. The structural composition of the balance sheet is enhanced as needed through active management of both asset and liability portfolios. The objective of these activities is to optimise liquidity transformation in normal business environments, while ensuring adequate coverage of all cash requirements under extreme stress conditions.

The Group also accesses professional markets funding by way of public and private debt issuances on an unsecured and secured basis. These debt issuance programmes are spread across multiple currencies and maturities, to appeal to a broad range of investor types and preferences around the world. This market-based funding supplements the Group's structural liquidity needs and, in some cases, achieves certain capital objectives.

The Group is part of RBS Group and a contingency funding support agreement is in place.

Contractual maturity
The tables below analyse the contractual undiscounted cash flows receivable and payable up to a period of twenty years including future receipts and payments of interest on the balance sheet items by contractual maturity. The balances in the tables below do not agree directly to the Group or Bank balance sheet as the tables include all cash flows relating to principal and future coupon payments presented on an undiscounted basis.

	Group					
2015	**0–3 months £m**	**3–12 months £m**	**1–3 years £m**	**3–5 years £m**	**5–10 years £m**	**10–20 years £m**
Assets by contractual maturity						
Cash and balances at central banks	868	-	-	-	-	-
Loans and advances to banks	6,114	546	1,697	1,127	-	-
Debt securities	387	955	577	-	-	-
Total maturing assets	7,369	1,501	2,274	1,127	-	-
Loans and advances to customers	2,268	1,500	3,701	3,483	5,808	6,446
Total assets	**9,637**	**3,001**	**5,975**	**4,610**	**5,808**	**6,446**
Liabilities by contractual maturity						
Deposits by banks	3,525	926	100	175	-	-
Debt securities in issue	30	84	198	167	315	357
Subordinated liabilities	3	7	310	245	304	74
Other liabilities	687	-	-	-	-	-
Total maturing liabilities	4,245	1,017	608	587	619	431
Customer accounts	16,026	1,928	905	127	-	-
Total liabilities	**20,271**	**2,945**	**1,513**	**714**	**619**	**431**
Maturity gap	**(10,634)**	**56**	**4,462**	**3,896**	**5,189**	**6,015**
Cumulative maturity gap	**(10,634)**	**(10,578)**	**(6,116)**	**(2,220)**	**2,969**	**8,984**

24. Risk management – liquidity risk (continued)

Contractual maturity (continued)

	Group					
2014	0–3 months £m	3–12 months £m	1–3 years £m	3–5 years £m	5–10 years £m	10–20 years £m
Assets by contractual maturity						
Cash and balances at central banks	884	-	-	-	-	-
Loans and advances to banks	6,165	280	1,711	829	-	-
Debt securities	265	1,798	-	-	-	1
Total maturing assets	7,314	2,078	1,711	829	-	1
Loans and advances to customers	3,648	2,846	3,947	3,499	6,315	7,304
Total assets	10,962	4,924	5,658	4,328	6,315	7,305
Liabilities by contractual maturity						
Deposits by banks	3,419	1,607	1,311	2	1	-
Debt securities in issue	49	103	254	216	409	457
Subordinated liabilities	1	24	328	112	558	35
Other liabilities	674	-	-	-	-	-
Total maturing liabilities	4,143	1,734	1,893	330	968	492
Customer accounts	16,695	2,866	872	616	-	-
Total liabilities	20,838	4,600	2,765	946	968	492
Maturity gap	(9,876)	324	2,893	3,382	5,347	6,813
Cumulative maturity gap	(9,876)	(9,552)	(6,659)	(3,277)	2,070	8,883

	Bank					
2015	**0–3 months £m**	**3–12 months £m**	**1–3 years £m**	**3–5 years £m**	**5–10 years £m**	**10–20 years £m**
Assets by contractual maturity						
Cash and balances at central banks	616	-	-	-	-	-
Loans and advances to banks	3,459	554	1,697	1,127	331	-
Total maturing assets	4,075	554	1,697	1,127	331	-
Loans and advances to customers	711	316	754	711	1,093	1,063
Total assets	**4,786**	**870**	**2,451**	**1,838**	**1,424**	**1,063**
Liabilities by contractual maturity						
Deposits by banks	3,553	175	100	175	-	-
Debt securities in issue	1	-	-	-	-	-
Subordinated liabilities	1	4	302	236	210	6
Other liabilities	687	-	-	-	-	-
Total maturing liabilities	4,242	179	402	411	210	6
Customer accounts	5,505	290	55	10	2	-
Total liabilities	**9,747**	**469**	**457**	**421**	**212**	**6**
Maturity gap	**(4,961)**	**401**	**1,994**	**1,417**	**1,212**	**1,057**
Cumulative maturity gap	**(4,961)**	**(4,560)**	**(2,566)**	**(1,149)**	**63**	**1,120**

24. Risk management – liquidity risk (continued)

Contractual maturity (continued)

	Bank					
2014	0–3 months £m	3–12 months £m	1–3 years £m	3–5 years £m	5–10 years £m	10–20 years £m
Assets by contractual maturity						
Cash and balances at central banks	647	-	-	-	-	-
Loans and advances to banks	3,687	280	1,711	829	449	-
Debt securities	-	-	-	-	-	1
Total maturing assets	4,334	280	1,711	829	449	1
Loans and advances to customers	1,071	526	673	681	1,176	1,108
Total assets	5,405	806	2,384	1,510	1,625	1,109
Liabilities by contractual maturity						
Deposits by banks	3,318	328	516	-	-	-
Debt securities in issue	7	-	3	-	-	-
Subordinated liabilities	-	20	316	100	452	-
Other liabilities	674	-	-	-	-	-
Total maturing liabilities	3,999	348	835	100	452	-
Customer accounts	5,317	421	173	65	5	-
Total liabilities	9,316	769	1,008	165	457	-
Maturity gap	(3,911)	37	1,376	1,345	1,168	1,109
Cumulative maturity gap	(3,911)	(3,874)	(2,498)	(1,153)	15	1,124

The contractual maturity of balance sheet assets and liabilities reflects the maturity transformation role banks perform, lending long-term but obtaining funding predominantly through short-term liabilities such as customer deposits. In practice, the behavioural profiles of many liabilities exhibit greater stability and longer maturity than the contractual maturity. This is particularly true of many types of retail and corporate deposits which, despite being repayable on demand or at short notice, have demonstrated very stable characteristics even in periods of acute stress. In analysis to assess and manage asset and liability maturity gaps the Group determines the expected customer behaviour through qualitative and quantitative techniques, incorporating observed customer behaviours over long periods of time. This analysis is subject to governance through ALCO.

Other contractual cash obligations

	Group					
2015	**0–3 months £m**	**3–12 months £m**	**1–3 years £m**	**3–5 years £m**	**5–10 years £m**	**10–20 years £m**
Operating leases	**5**	**12**	**27**	**15**	**17**	**10**
Contractual obligations to purchase goods or services	**-**	**2**	**4**	**2**	**-**	**-**
	5	**14**	**31**	**17**	**17**	**10**

	Group					
2014	0–3 months £m	3–12 months £m	1–3 years £m	3–5 years £m	5–10 years £m	10–20 years £m
Operating leases	5	14	32	23	22	14
Contractual obligations to purchase goods or services	1	2	5	5	-	-
	6	16	37	28	22	14

24. Risk management (continued)

Liquidity risk (continued)

Other contractual cash obligations (continued)

	Bank					
2015	**0–3 months £m**	**3–12 months £m**	**1–3 years £m**	**3–5 years £m**	**5–10 years £m**	**10–20 years £m**
Operating leases	**1**	**1**	**1**	**1**	**1**	**1**
Contractual obligations to purchase goods or services	**-**	**1**	**2**	**1**	**-**	**-**
	1	**2**	**3**	**2**	**1**	**1**

	Bank					
2014	0–3 months £m	3–12 months £m	1–3 years £m	3–5 years £m	5–10 years £m	10–20 years £m
Operating leases	1	1	2	1	1	2
Contractual obligations to purchase goods or services	-	1	2	2	-	-
	1	2	4	3	1	2

Financial assets have been reflected in the time band of the latest date on which they could be repaid unless earlier repayment can be demanded by the Group; financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty.

If the repayment of a financial asset or liability is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the asset is included in the latest date on which it can repay regardless of early repayment whereas the liability is included at the earliest possible date that the conditions could be fulfilled without considering the probability of the conditions being met. For example, if a structured note is automatically prepaid when an equity index exceeds a certain level, the cash outflow will be included in the less than three months period whatever the level of the index at the year end. The settlement date of debt securities in issue issued by certain securitisation vehicles consolidated by the Group depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of the cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date. As the repayment of assets and liabilities are linked, the repayment of assets in securitisations are shown on the earliest date that the asset can be prepaid as this is the basis used for liabilities.

The principal amounts of financial assets and liabilities that are repayable after 20 years or where the counterparty has no right to repayment of the principal are excluded from the table as are interest payments after 20 years.

Regulatory risk

Regulatory risk is the risk of material loss or liability, legal or reputational sanctions, or reputational damage, arising from the failure to comply with (or adequately plan for changes to) relevant official sector policy, laws, regulations, or major industry standards, in any location in which the Group operates.

The Group maintains well-established policies and supporting processes to ensure timely identification of, and effective responses to, changes in official sector requirements impacting the Group. Conduct and Regulatory Affairs underpin a range of other policies and processes that address on-going compliance with regulatory obligations.

The level of regulatory risk remained high during 2014, as policymakers and regulators continued to strengthen regulation and supervision in response to the events of 2007 and 2008. From 4 November 2014 the European Central Bank (ECB), assumed the responsibility for the financial supervision of Ulster Bank Ireland Limited, which is assessed as a significant institution. This change was as a result of the ECB introducing the Single Supervisory Mechanism (SSM) which introduced a standardised approach to the regulation of all significant financial institutions across the Eurozone. The ECB work in conjunction with the Central Bank of Ireland and have formed a Joint Supervisory Team (JST).

24. Risk management (continued)

Regulatory risk (continued)

Risk management and mitigation
The Group believes that maintaining a strong regulatory risk framework is fundamental to ensuring sustainable growth, rebuilding its reputation and maintaining stakeholder confidence. Key components of the framework are noted below:

- The early identification and effective management of changes in legislation and regulation as well as other requirements that may affect the Group are critical to the successful mitigation of regulatory risk.
- Conduct and Regulatory Affairs ensures all relevant parties are made aware of appropriate governance and reporting of all material regulatory reviews, investigations and upstream regulatory developments.
- There is timely communication of regulatory developments and follow-up engagement with client-facing businesses and functions, helping them identify and execute any required mitigating changes to strategy or business models.
- Key regulatory policies are kept under annual review. Each incorporates a risk appetite statement, relevant benchmarking activity against peer banks and an end-to-end review and mapping of the upstream risk management process.

The Group is proactive in managing external regulatory relationships.

Reputational risk

Reputational risk is the risk of brand damage and/or financial loss due to a failure to meet stakeholders' expectations of the Group's conduct and performance. Stakeholders include customers, investors, rating agencies, employees, suppliers, government, politicians, regulators, special interest groups, consumer groups, media and the general public. Brand damage can be detrimental to the business in a number of ways, including an inability to build or sustain business relationships, low staff morale or reduced access to funding sources.

The Group has put the focus on serving customers well at the heart of its strategic objectives that, combined with a safe and sound Group, will build a culture and reputation in line with our stakeholder expectations. There are still legacy issues to work through, but dealing with them in an open and direct manner is a necessary part of the ability to move forward.

Risk management and mitigation
The Group's reputational risk framework is aligned with its strategic objectives, its risk appetite and its focus on servicing customers. It is designed to embed, at different points of decision-making processes, a series of customer-related and reputational filters and controls that examine products, services and activities through the lens of sustainability, transparency and fairness.

The Board has ultimate responsibility for managing the Group's reputation, though all parts of the Group have responsibility for any reputational impact arising from their operations.

Several of the Group's policies address key sources of reputational risk. These policies are implemented in accordance with the Group's Policy Framework. Reputational aspects also form a core part of the Group's conduct risk framework, with a series of enhanced policies being developed in line with the Group's conduct risk appetite.

Conduct risk

Conduct risk is the risk that the conduct of the Group and its staff towards its customers, or within the markets in which it operates, leads to reputational damage and/or financial loss by breaching regulatory rules or laws, or failing to meet customers' or regulators' expectations of the Group. Activities through which conduct risk may arise include: personal account dealing; privacy and data protection; conflicts of interest and product design.

Conduct risk exists at all stages of the Group's relationships with its customers and regulators, from the development of its business strategies, through to governance arrangements and post-sales processes. Specific activities from which conduct risk may arise include but are not limited to: product design, marketing and sales; complaint handling; staff training and competence; handling of confidential and non-public price sensitive information; anti-money laundering; sanctions adherence; and bribery and corruption.

Effective conduct risk management is not only a commercial imperative for the Group; customers, clients and counterparties demand it as a precursor to building trust. It also reflects the changing regulatory environment.

Mitigation of conduct risk is driven by the relevant Executive for each business and they are responsible for the design, implementation and maintenance of an effective management framework to enable consistent identification, assessment, management, monitoring and reporting of conduct risk. The Group's board provides oversight of these responsibilities.

24. Risk management (continued)

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It arises from day to day operations and is relevant to every aspect of the Group's business.

The Group aims to drive the design, development, delivery and awareness of an integrated framework for the management of operational risk. The aim is to ensure the risks facing the Group are managed proactively and comprehensively in a manner that shapes and supports the effective delivery of the Group's strategy. Strategies to manage operational risk include avoidance, transfer, acceptance and mitigation by controls.

The Group's policy framework provides the direction for delivering effective operational risk management and ensures the consistent identification, assessment, management, monitoring and reporting of operational risk across the Group.

Operational risk appetite, policy and frameworks are tabled regularly at the Executive Risk Committee to satisfy oversight responsibilities and, as appropriate, to other senior committees.

Pension risk

Pension risk is the risk to the Group arising from its contractual or other liabilities to, or with respect to, its pension schemes, whether established for its employees or for those of a related company.

The Group is exposed to risk from its defined benefit pension schemes to the extent that the assets of the schemes do not fully match the timing and amount of the schemes' liabilities. Pension scheme liabilities vary with changes to long-term interest rates, inflation, pensionable salaries and the longevity of scheme members as well as changes in legislation. Ultimate responsibility for the Group's pension schemes is separate from Group management. The Group is exposed to the risk that the market value of the schemes' assets, together with future returns and any additional future contributions could be considered insufficient to meet the liabilities as they fall due. In such circumstances, the Group could be obliged, or may choose, to make additional contributions to the schemes or be required to hold additional capital to mitigate such risk.

The Ulster Bank Pension Scheme and the Ulster Bank Pension Scheme (Republic of Ireland) (UBPSRI) are the largest of the schemes and the main sources of pension risk. They both operate under trust deeds under which the corporate trustees are wholly owned subsidiaries of the Group. Both trustee boards comprise six directors selected by the Group and three directors nominated by members.

Risk appetite and investment policy are agreed by the trustees with quantitative and qualitative input from the scheme actuaries and investment advisers. The trustees also consult with the Group to obtain its view on the appropriate level of risk within the pension funds. The Group independently monitors risk within its pension funds as part of the Internal Capital Adequacy Assessment Process.

The trustee boards are solely responsible for the investment of the schemes' assets which are held separately from the assets of the Group. The Group and the trustee board must agree on the investment principles and the funding plan. Investment Review Committees are in place for each of the schemes, comprising Bank and Trustee representatives, which have specific responsibility for scheme investment matters.

The schemes are invested in diversified portfolios of quoted and private equity, government and corporate fixed-interest and index-linked bonds, and other assets including property, derivatives and hedge funds.

In November 2009 both schemes were closed to new employees.

During 2013, new funding agreements were put in place for the UBPSRI and the First Active Pension Scheme under the revised Minimum Funding Standard framework which came into place in 2013 in the Republic of Ireland. These resulted in funding plans requiring contributions for UBPSRI of £14m p.a. until 2023 and for FAPS of £6m p.a. until 2020 (in both cases increasing in line with inflation each year). For both schemes contingent asset arrangements have been put in place to cover the Risk Reserve requirements arising under the Minimum Funding Standard framework.

During 2014, a funding valuation of the UBPS with an effective date of 31 December 2012 was finalised. Under the terms of the deficit Recovery Plan arising from this valuation, the Bank agreed to pay contributions of £38.6m until 2019 (increasing each year in line with inflation and with expenses payable in addition).

25. Memorandum items

Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2015. Although the Group is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of the Group's expectation of future losses.

	Group		Bank	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Contingent liabilities:				
Guarantees and assets pledged as collateral security	**133**	157	**26**	25
Other contingent liabilities	**203**	236	**43**	41
	336	393	**69**	66
Commitments:				
Documentary credits and other short-term trade related transactions	**4**	5	**1**	2
Commitments to lend:				
- less than one year	**1,469**	1,673	**687**	730
- one year and over	**1,637**	1,975	**1,270**	1,467
Other commitments	**73**	25	**6**	6
	3,183	3,678	**1,964**	2,205

Banking commitments and contingent obligations, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. The Group's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table. These commitments and contingent obligations are subject to the Group's normal credit approval processes.

Contingent liabilities
Guarantees - the Group gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that the Group will meet a customer's obligations to third parties if the customer fails to do so. The maximum amount that the Group could be required to pay under a guarantee is its principal amount as disclosed in the table above. The Group expects most guarantees it provides to expire unused.

Other contingent liabilities - these include standby letters of credit, supporting customer debt issues and contingent liabilities relating to customer trading activities such as those arising from performance and customs bonds, warranties and indemnities.

Commitments
Commitments to lend - under a loan commitment the Group agrees to make funds available to a customer in the future. Loan commitments, which are usually for a specified term may be unconditionally cancellable or may persist, provided all conditions in the loan facility are satisfied or waived. Commitments to lend include commercial standby facilities and credit lines, liquidity facilities to commercial paper conduits and unutilised overdraft facilities.

Other commitments - these include documentary credits, which are commercial letters of credit providing for payment by the Group to a named beneficiary against presentation of specified documents, forward asset purchases, forward deposits placed and undrawn note issuance and revolving underwriting facilities, documentary credits and other short-term trade related transactions.

The following table shows contractual obligations for future expenditure not provided for in the financial statements at the year end:

	Group		Bank	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Property, plant and equipment				
Other capital expenditure	**1**	-	**1**	-
Contracts to purchase goods or services	**8**	13	**4**	6
	9	13	**5**	6

25. Memorandum items (continued)

Litigation and investigations

The Group is involved in litigation, investigations and reviews in the United Kingdom and the Republic of Ireland. Other than as set out below, the litigation involves claims by and against Group companies which arise in the ordinary course of business. No material adverse effect on the net assets of the Group is expected to arise from the ultimate resolution of these claims. The material litigation, investigations and reviews involving the Group are described below. These matters could, individually or in the aggregate, have a material adverse effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

Taggart litigation

Two former shareholders of the Taggart group of companies have issued proceedings against the Group in Northern Ireland alleging that breach of contract and misrepresentation by the Group led to the administration of the group of companies and resulted in shareholder losses. The amount of the claim is c.£85m. The NI High Court rejected the plaintiffs' claim in a decision handed down in December 2015.

Interest rate hedging products redress programme and litigation

In June 2012, following an industry wide review, the FSA announced that RBS, including the Bank, and other UK banks had agreed to a redress exercise and past business review in relation to the sale of interest rate hedging products to some small and medium sized businesses who were classified as retail clients or private customers under FSA rules. On 31 January 2013, the FSA issued a report outlining the principles to which it wishes RBS and other UK banks to adhere in conducting the review and redress exercise. This exercise is being scrutinised by an independent reviewer, KPMG (appointed as a skilled person under section 166 of the UK Financial Services and Markets Act), who is reviewing and approving all outcomes, and the FCA (formerly the FSA) is overseeing this. RBS has reached agreement with KPMG in relation to redress determinations for all in scope customers. The review and redress exercise was closed to new entrants on 31 March 2015. RBS and KPMG are now focussing on securing a few remaining acceptances of redress offers and assessing consequential loss claims. In October 2015, RBS agreed with the FCA that its review was nearing completion, and on 31 October 2015 all customers who had received final redress offers but had not yet responded were informed that the final date for acceptance of those offers is 31 January 2016. Customers who have not yet received a final redress determination will be given three months to accept any redress offer before that offer lapses. As at the end of January 2016, 94 per cent of all review files have been closed.

RBS and the Group voluntarily agreed to undertake a similar exercise and past business review in relation to the sale of interest rate hedging products to retail designated small and medium sized businesses in the Republic of Ireland. The Group is engaged with the CBI and carried out a review of eligible Republic of Ireland customers, which is now complete.

In addition to the redress exercise that is being overseen by the FCA, RBS is also dealing with a number of active litigation claims in the UK in relation to the sale of interest rate hedging products. In general claimants allege that the relevant interest rate hedge products were mis-sold to them, with some also alleging that RBS made misrepresentations in relation to LIBOR. Claims have been brought by customers who are being considered under the FCA redress programme, as well as customers who were outside of the scope of that programme, which was closed to new entrants on 31 March 2015. RBS encouraged those customers that were eligible to seek redress under the FCA redress programme to participate in that programme. RBS remains exposed to potential claims from customers who were either ineligible to be considered for redress or who are dissatisfied with their redress offers.

In addition to claims alleging that interest rate hedging products were mis-sold, RBS has received a number of claims involving allegations that it breached a legal duty of care in its conduct of the FCA redress programme. These claims have been brought by customers who are dissatisfied with redress offers made to them through the FCA redress programme. The claims followed a preliminary decision against another UK bank. RBS has since been successful in opposing an application by a customer to amend its pleadings to include similar claims against RBS, on the basis that the bank does not owe a legal duty of care to customers in carrying out the FCA review. The customer has sought permission to appeal and this is being considered by the Mercantile Court. If the Mercantile Court does not allow this, the customer will need to formally apply for leave to appeal in the Court of Appeal.

The Group has provided £14m (2014: £33m) in respect of this matter. As the actual amount that the Group will be required to pay will depend on the facts and circumstances of each case, there is no certainty as to the eventual costs of redress.

Judicial Review of Skilled Person's role in interest rate hedging products review

RBS has been named as an interested party in a number of claims for judicial review of KPMG's decisions as Skilled Person in RBS's above-mentioned redress programme. This follows a similar claim from a customer of another UK bank, also against KPMG.

All of these claims have been stayed pending the outcome of the other bank's case, in which the customer has already received permission to proceed. That case, which went to trial on 25 January 2016, will decide whether a section 166-appointed Skilled Person is susceptible to judicial review. If so, the additional claims which seek to set aside the decisions of KPMG as Skilled Person on RBS's IRHP redress programme may then proceed to full hearing to assess the fairness of KPMG's role in the redress programme in those particular cases. If deemed unfair, this could have a consequential impact on the reasonableness of the methodology applied to reviewed and settled interest rate hedging products files generally.

25. Memorandum items (continued)

Litigation and investigations (continued)

As there remains considerable uncertainty and the judicial review is at an early stage, it is not practicable reliably to estimate the impact of such matters, if any, on RBS or the Group, which may be material.

CBI tracker mortgage review

The CBI has written to all Irish banks requiring lenders to conduct a complete review of their mortgage loan books (including redeemed or sold loans as required) to assess compliance with both contractual and regulatory requirements relating to tracker mortgages and in situations where customer detriment is identified from the review, provide appropriate redress and compensation in order to ensure fair outcomes for customers. The request for a review was received by Ulster Bank Ireland Limited in a formal letter from the CBI on 22 December 2015. The review requires a detailed plan to be submitted by 31 March 2016 followed by the completion of monthly data templates until end September 2016. In addition Ulster Bank Ireland Limited is required to submit a final report no later than 30 September 2016 that details the methodology used in conducting the review and includes assurance and sign off by an independent party on all aspects of the work carried out. The report must detail any findings on customer detriment and the proposals in respect of redress and compensation where relevant. The Group has booked an accrual of £4m based on the expected costs incurred in carrying out the review.

Anti-money laundering ("AML") remediation

Ulster Bank Ireland Limited is engaged with the CBI in relation to a long-running AML remediation project. It is likely that this will lead to a financial settlement with the CBI in due course, albeit the exact timing and quantum cannot be determined at this point.

The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort for customers of authorised financial services firms, pays compensation if a firm is unable to meet its obligations. The FSCS funds compensation for customers by raising management expenses levies and compensation levies on the industry. In relation to protected deposits, each deposit-taking institution contributes towards these levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year (which runs from 1 April to 31 March), subject to annual maxima set by the FCA. In addition, the FSCS has the power to raise levies on a firm that has ceased to participate in the scheme and is in the process of ceasing to be authorised for the costs that it would have been liable to pay had the FSCS made a levy in the financial year it ceased to be a participant in the scheme.

The FSCS has borrowed from HM Treasury to fund compensation costs associated with Bradford & Bingley, Heritable Bank, Kaupthing Singer & Friedlander, Landsbanki 'Icesave' and London Scottish Bank plc. The interest rate on these borrowings increased from 12 month LIBOR plus 30 basis points to 12 month LIBOR plus 100 basis points from April 2012. The FSCS and HM Treasury have agreed that the period of these loans will reflect the expected timetable for recoveries from the estates of Bradford & Bingley and the other failed banks. The FSCS expects to levy the deposit taking sector for the balance of the principal on the non-Bradford & Bingley loans over three scheme years to repay the principal by March 2016 with a first instalment of £363 million in the 2013/14 scheme year. The Group has accrued £1.17m for its share of estimated FSCS levies for the 2015/16 scheme year.

Capital Support Deed

The Bank, together with other members of RBS, is party to a capital support deed ("CSD"). Under the terms of the CSD, the Bank may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to the Bank's capital resources in excess of the capital and financial resources needed to meet its regulatory requirements. The Bank may also be obliged to make onward distribution to its ordinary shareholders of dividends or other capital distributions received from subsidiaries that are party to the CSD. The CSD also provides that, in certain circumstances, funding received by the Bank from other parties to the CSD becomes immediately repayable, such repayment being limited to the Bank's available resources.

26. Net cash flow from operating activities

	Group		Bank	
		Restated		Restated
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Operating profit before tax	**869**	1,762	**1,820**	1,748
Dividends received	**-**	-	**(31)**	-
Depreciation, amortisation and impairment of property, plant and equipment	**13**	15	**4**	4
Interest on subordinated liabilities	**11**	15	**6**	9
Charge for defined benefit pension schemes	**62**	36	**14**	10
Cash contribution to defined benefit pension schemes	**(70)**	(79)	**(43)**	(44)
Impairment gains on loans and advances and amounts written off	**(7,138)**	(2,693)	**(1,635)**	(379)
Reversal of impairment in Group undertakings	**-**	-	**(1,713)**	(1,609)
Elimination of foreign exchange differences	**(790)**	(883)	**(21)**	78
Other non-cash items	**(145)**	(153)	**10**	(2)
Net cash flows used in trading activities	**(7,188)**	(1,980)	**(1,589)**	(185)
Decrease in loans and advances to banks and customers	**10,926**	6,913	**1,729**	1,843
Decrease in debt securities	**66**	320	**1**	-
(Increase)/decrease in other assets	**(25)**	2	**(13)**	(5)
Decrease/(increase) in derivative assets	**30**	(96)	**2**	11
Changes in operating assets	**10,997**	7,139	**1,719**	1,849
Decrease in deposits by banks and customers	**(3,598)**	(3,599)	**(274)**	(1,166)
(Decrease)/increase in debt securities in issue	**(234)**	(201)	**(9)**	1
(Decrease)/increase in other liabilities	**(53)**	(33)	**(12)**	11
(Decrease)/increase in derivative liabilities	**(132)**	(135)	**(13)**	1
Changes in operating liabilities	**(4,017)**	(3,968)	**(308)**	(1,153)
Total taxes (paid)/received	**(78)**	196	**(66)**	191
Net cash (used in)/flows from operating activities	**(286)**	1,387	**(244)**	702

27. Interest received and paid

	Group		Bank	
		Restated		Restated
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Interest received	**688**	801	**197**	203
Interest paid	**(209)**	(302)	**(61)**	(91)
	479	499	**136**	112

28. Analysis of changes in financing during the year

	Group					
	Share capital and share premium		**Capital contribution reserve**		**Subordinated liabilities**	
	2015	2014	**2015**	2014	**2015**	2014
	£m	£m	**£m**	£m	**£m**	£m
At 1 January	**2,412**	2,412	**14,512**	14,512	**1,031**	1,175
Net cash flows from financing	**-**	-	**-**	-	**(20)**	(80)
Currency translation and other adjustments	**-**	-	**-**	-	**(51)**	(64)
At 31 December	**2,412**	2,412	**14,512**	14,512	**960**	1,031

	Bank					
	Share capital and share premium		**Capital contribution reserve**		**Subordinated liabilities**	
	2015	2014	**2015**	2014	**2015**	2014
	£m	£m	**£m**	£m	**£m**	£m
At 1 January	**2,412**	2,412	**14,512**	14,512	**883**	956
Net cash flows from financing	**-**	-	**-**	-	**(20)**	(20)
Currency translation and other adjustments	**-**	-	**-**	-	**(43)**	(53)
At 31 December	**2,412**	2,412	**14,512**	14,512	**820**	883

29. Analysis of cash and cash equivalents

	Group		Bank	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
At 1 January				
Cash	**884**	867	**647**	624
Cash equivalents	**6,313**	7,204	**3,506**	2,979
	7,197	8,071	**4,153**	3,603
Net cash (outflow)/inflow	**(16)**	(698)	**(235)**	681
Effect of exchange rate changes on cash and cash equivalents	**(184)**	(176)	**(22)**	(131)
At 31 December	**6,997**	7,197	**3,896**	4,153
Comprising:				
Cash and balances at central banks	**868**	884	**616**	647
Loans and advances to banks and debt securities	**6,129**	6,313	**3,280**	3,506

30. Divisional analysis

The Group operates in the financial services industry in the United Kingdom and the Republic of Ireland and provides an integrated service to its customers. The Group has separate management teams in Northern Ireland and the Republic of Ireland with each area being managed by class of business and the directors present the divisional analysis on that basis. Divisions charge market prices for services rendered to other parts of the Group; funding charges between divisions are determined by Treasury, having regard to commercial demands.

The Group reports on a divisional basis as follows:

The retail banking divisions provide loan and deposit products through a network of branches and direct channels to customers.

The commercial banking divisions provide services to commercial and corporate customers with CPB having an additional remit for private customers.

The Group's customer supporting divisions supported by finance, human resources, services and head office divisions.

Other is comprised of RCRI and central functions. RCRI consists of assets that the Group intends to run off or dispose of. Central functions comprise Group and corporate functions such as treasury, finance, risk management, legal, communications and human resources.

30. Divisional analysis (continued)

Divisional information by class of business and geographical area is set out below:

Class of Business

	Total income						
2015	**Net interest income £m**	**Non-interest income £m**	**Total £m**	**Operating expenses before depreciation £m**	**Depreciation and amortisation £m**	**Impairment gain/(loss) £m**	**Operating profit before tax £m**
Retail Banking ROI	251	70	321	(72)	-	81	330
Commercial Banking ROI	94	54	148	(43)	-	60	165
Retail Banking NI	97	35	132	(44)	-	(9)	79
Commercial Banking NI	38	14	52	(15)	-	10	47
Other	17	17	34	(362)	(13)	589	248
Total	**497**	**190**	**687**	**(536)**	**(13)**	**731**	**869**

Class of Business

	Total income						
2014	Net interest income £m	Non-interest income £m	Total £m	Operating expenses before depreciation £m	Depreciation and amortisation £m	Impairment gain/(loss) £m	Operating profit before tax £m
Retail Banking ROI	279	78	357	(80)	-	90	367
Commercial Banking ROI	104	60	164	(49)	-	63	178
Retail Banking NI	97	35	132	(44)	-	(9)	79
Commercial Banking NI	38	14	52	(15)	-	10	47
Other	60	127	187	(398)	(15)	1,317	1,091
Total	578	314	892	(586)	(15)	1,471	1,762

Class of business	**2015**		2014	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Retail Banking ROI	**13,415**	**7,280**	14,219	7,716
Commercial Banking ROI	**3,785**	**6,002**	4,075	6,365
Retail Banking NI	**2,718**	**3,782**	2,718	3,782
Commercial Banking NI	**1,524**	**2,044**	1,519	2,043
Other	**12,548**	**8,773**	15,021	12,229
Total	**33,990**	**27,881**	37,552	32,135

Geographical segments	**2015**			2014		
	United Kingdom £m	**Republic of Ireland £m**	**Total £m**	United Kingdom £m	Republic of Ireland £m	Total £m
Total Income	**178**	**509**	**687**	193	699	892
Operating profit/(loss) before tax	**103**	**766**	**869**	138	1,624	1,762
Net assets	**350**	**5,759**	**6,109**	309	5,108	5,417
Total assets	**11,484**	**22,506**	**33,990**	11,482	26,070	37,552

31. Transactions with directors

At 31 December 2015, the amounts outstanding in relation to transactions, arrangements and agreements entered into by authorised institutions in the Group, as defined in UK legislation, were £392,555 (2014: £446,646) in respect of loans to any persons who were directors at any time during the financial period.

32. Related parties

The Bank's immediate parent company is National Westminster Bank Plc, which is incorporated in Great Britain.

The Bank's ultimate holding company, and the parent of the largest group into which the Bank is consolidated, is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland. Copies of the accounts for The Royal Bank of Scotland Group plc can be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ, or at www.rbs.com.

The smallest subgroup into which the Bank is consolidated has as its parent company National Westminster Bank Plc, a company incorporated in Great Britain. Copies of the accounts for this subgroup can be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ, or at www.rbs.com.

UK Government

The UK Government through HM Treasury is the ultimate controlling party of The Royal Bank of Scotland Group plc. Its shareholding is managed by UK Financial Investments Limited, a company it wholly owns and as a result, the UK Government and UK Government controlled bodies are related parties of the Group.

The Funding for Lending Scheme

The Bank of England and HM Treasury launched the Funding for Lending Scheme ("FLS") on 13 July 2012. The FLS is designed to incentivise banks and building societies to boost their lending to the UK real economy. It does this by providing funding to banks and building societies for an extended period, with both the price and quantity of funding provided linked to their lending performance. The FLS allows participants to borrow UK Treasury Bills in exchange for eligible collateral, which consists of all collateral eligible in the Bank of England's Discount Window Facility.

The Bank of England and HM Treasury announced an extension to the FLS on 2 December 2014. This allows participants to borrow from the FLS until January 2016, with incentives to boost lending skewed towards small and medium sized enterprises (SMEs). As at 31 December 2015, the total funds allocated by the Group under the scheme was £247m (2014: £172m).

(a) Directors and key managers

The aggregate transactions between the Group and its directors, key managers, their close families and companies which they control were:

	Number of directors	Number of key managers	Connected parties	Transaction £
Transactions during the year				
Loans made during the year:				
– at a commercial rate	1	1	-	11,015
Balances outstanding at the end of the year				
Loans:				
- at a commercial rate	4	6	5	1,001,129
- at a preferential rate	-	3	-	356,541
Customer accounts:				
- Savings	4	11	26	2,012,298

32. Related parties (continued)

(b) Related party transactions

	Group		Bank	
	2015	2014	**2015**	2014
Assets	**£m**	£m	**£m**	£m
Loans and advances:				
Parent companies	**7,132**	7,049	**6,737**	6,495
Key management	**1**	2	**-**	-
Other related parties, including fellow subsidiaries	**25**	35	**96**	113
	7,158	7,086	**6,833**	6,608
Derivatives:				
Parent companies	**531**	501	**2**	4
Total assets	**7,689**	7,587	**6,835**	6,612
Liabilities				
Deposits:				
Parent companies	**3,998**	5,421	**3,982**	4,135
Key management	**2**	2	**1**	1
Other related parties, including fellow subsidiaries	**61**	480	**46**	89
	4,061	5,903	**4,029**	4,225
Subordinated loans:				
Parent companies	**893**	960	**820**	883
Derivatives:				
Parent companies	**410**	530	**34**	46
Total liabilities	**5,364**	7,393	**4,883**	5,154

(c) Compensation of key management

The aggregate remuneration of directors and other members of key management during the year was as follows:

	Group	
	2015	2014
	£	£
Short term benefits	**4,494,017**	4,746,469
Termination benefit	**300,000**	-
Long term benefits	**1,092,064**	700,535
	5,886,081	5,447,004

33. Post balance sheet events

During 2015 the Group acquired the asset financing business of Lombard Ireland Limited (“LIL”), a subsidiary of the RBS Group. As part of this transaction the Group agreed to assume the liabilities of LIL's pension scheme, subject to a s.50 amendment to bring the terms and conditions of the scheme in line with the Group’s other schemes. This s.50 amendment has been transacted subsequent to the balance sheet date and the scheme will transfer on completion of an IAS 19 valuation. There is no financial impact of this transaction as finalisation of the purchase consideration was subject to the IAS 19 valuation post the s.50 amendment.

34. Restatement

In 2015, the Group voluntarily changed its accounting policy for the recognition of surpluses in its defined benefit pension schemes: in particular, the policy for determining whether or not it has an unconditional right to a refund of surpluses in its employee pension funds. Where the Group has a right to a refund, this is not deemed unconditional if pension fund trustees can use a scheme surplus to enhance benefits for plan members. As a result of this change, a minimum funding requirement to cover an existing shortfall in a scheme may give rise to an additional liability and surpluses may not be recognised in full. The revised accounting policy, by taking account of the powers of pension trustees in assessing the economic benefit available as a refund, provides more relevant information about the effect on the Group’s financial position of its defined benefit pension schemes.

In accordance with IFRS, the amended policy has been applied retrospectively and prior periods restated.

As at 31 December 2015, the reported surplus on the Ulster Bank Pension Scheme has been reduced by £140m as a result of recognising a minimum funding requirement liability of £105m and a restriction on the recognition of an accounting surplus of £35m. There has been no impact on the Group's other defined benefit schemes.

CONSOLIDATED INCOME STATEMENT *for the year ended 31 December 2014*

	Group		
	Previously reported 2014 £m	Adjustment 2014 £m	Restated 2014 £m
Operating expenses	(596)	(5)	(601)
Tax credit	145	1	146
Profit for the year	1,912	(4)	1,908

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *for the year ended 31 December 2014*

	Group		
	Previously reported 2014 £m	Adjustment 2014 £m	Restated 2014 £m
Profit for the year	1,912	(4)	1,908
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses on defined benefit plans and other movements	(256)	(5)	(261)
Items that will be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	(276)	-	(276)
Other comprehensive loss after tax	(532)	(5)	(537)
Total comprehensive income for the year	1,380	(9)	1,371
Attributable to:			
Non-controlling interests	(33)	-	(33)
Ordinary shareholders	1,413	(9)	1,404
	1,380	(9)	1,371

34. Restatement (continued)

BALANCE SHEETS *as at 31 December 2014*

	Group			Bank		
	Previously reported 2014 £m	Adjustment 2014 £m	Restated 2014 £m	Previously reported 2014 £m	Adjustment 2014 £m	Restated 2014 £m
Assets						
Retirement benefit assets	119	(116)	3	119	(116)	3
Deferred taxation	224	-	224	1	(1)	-
Liabilities						
Deferred taxation	31	(23)	8	28	(24)	4
Equity						
Reserves	3,507	(93)	3,414	3,410	(93)	3,317

BALANCE SHEETS *as at 31 December 2013*

	Group			Bank		
	Previously reported 2013 £m	Adjustment 2013 £m	Restated 2013 £m	Previously reported 2013 £m	Adjustment 2013 £m	Restated 2013 £m
Assets						
Retirement benefit assets	77	(77)	-	77	(77)	-
Liabilities						
Retirement benefit liabilities	232	28	260	-	28	28
Deferred taxation	24	(21)	3	21	(21)	-
Equity						
Reserves	2,110	(84)	2,026	1,677	(84)	1,593

35. Capital resources

The Group operates in both the United Kingdom and the Republic of Ireland and is subject to regulatory oversight in both jurisdictions. The Bank is regulated by the PRA and the FCA in the United Kingdom and Ulster Bank Ireland Limited ("UBIL") is regulated by the CBI and the ECB in the Republic of Ireland under the Single Supervisory Mechanism. Capital resources disclosures are provided separately in respect of each licensed institution.

Ulster Bank Limited
The Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR) are being implemented on a phased basis from 1 January 2014, with full implementation from 1 January 2019. The capital resources disclosures for 2015 below reflect the transition arrangements of the legislation together with the PRA guidance as implemented in the UK by PRA policy statement PS7/13 (PRA transitional rules).

	Bank	
	Unaudited [1]	Unaudited [1]
	2015	2014
	£m	£m
Shareholders' equity (excluding non-controlling interests)		
Shareholders' equity	**6,620**	4,931
Preference shares - equity	**(659)**	(659)
	5,961	4,272
Regulatory adjustments and deductions		
Defined benefit pension fund adjustment	**(16)**	(119)
Deferred tax assets	**(31)**	-
Instruments of financial sector entities where the institution has a significant investment	**(3,269)**	(1,944)
Excess of expected losses over impairment provisions	**(13)**	-
	(3,329)	(2,063)
Core 1 tier capital	**2,632**	2,209
Other tier 1 capital		
Qualifying Tier 1 capital and related share premium subject to phase out from AT1 capital	**659**	659
Tier 1 deductions		
Instruments of financial sector entities where the institution has a significant investment	**(68)**	(80)
Total tier 1 capital	**3,223**	2,788
Qualifying tier 2 capital		
Undated subordinated debt	**-**	-
Dated subordinated debt - net of amortisation	**-**	-
Qualifying items and related share premium	**607**	736
	607	736
Tier 2 deductions		
Instruments of financial sector entities where the institution has a significant investment	**(227)**	(200)
Other adjustments for regulatory purposes	**68**	80
	(159)	(120)
Total tier 2 capital	**448**	616
Total regulatory capital	**3,671**	3,404
Key capital ratios	**%**	%
CET1	**17.5**	15.7
Tier 1	**21.5**	19.8
Total capital	**24.5**	24.2
Risk weighted assets by risk	**£m**	£m
Credit risk	**14,661**	13,624
Counterparty risk	**2**	2
Market risk	**2**	7
Operational risk	**343**	412
Total risk weighted assets	**15,008**	14,045

[1] The capital metrics included in the above table have not been audited for the financial years ended 31 December 2015 and 31 December 2014.

35. Capital resources (continued)

The capital resources for the Bank have not been restated in the prior year for the effects of the change in accounting policy for the recognition of pension scheme surpluses (Note 34).

Capital Management

The objectives of the Bank's capital management framework are to at all times comply with the regulatory capital requirements and to ensure that the Bank has sufficient capital to cover the current and future risk inherent in its business and to support its future development. Capital planning is a key part of the Group Capital Management Framework. The annual strategic planning process drives the levels of required capital to support growth plans and meet regulatory requirements. A base capital plan over a 5 year timeframe is produced as part of the integrated strategic planning process and is monitored on a monthly basis. The Bank's current and future capital requirements are captured as part of the annual RBS Internal Capital Adequacy Assessment Process ("ICAAP"), which is subject to supervisory review and evaluation.

Ulster Bank Ireland Limited

The Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV - which was enacted in Irish law by S.I. No. 158 of 2014 and S.I. No. 159 of 2014) requirements are being implemented on a phased basis from 1 January 2014, with full implementation from 1 January 2019. The capital resources disclosures for 2014 below reflect the transition arrangements of the legislation together with the CBI guidance (Implementation of Competent Authority Discretions and Options in CRD IV and CRR) on the application of transitional rules in Ireland.

The 2014 information has been updated to reflect the full year profits of UBIL.

	Ulster Bank Ireland Limited	
	Unaudited[(1)]	Unaudited[(1)]
	2015	2014
	€m	€m
Shareholders' equity (excluding non-controlling interests)	**7,835**	6,527
Non-controlling interests		
Non-controlling interests per balance sheet	**1**	29
Adjustments to non-controlling interests for regulatory purposes	**(1)**	(29)
	-	-
Regulatory adjustments and deductions		
Defined benefit pension fund adjustment	**193**	410
Deferred tax assets	**(28)**	-
Qualifying deductions exceeding AT1 capital	**(9)**	(6)
Other adjustments for regulatory purposes	**(230)**	(360)
Excess of expected losses over impairment provisions	**(12)**	(3)
	(86)	41
Core tier 1 capital	**7,749**	6,568
Deductions		
Excess of expected losses over impairment provisions	**(9)**	(6)
Qualifying deductions exceeding AT1 capital	**9**	6
Total tier 1 capital	**7,749**	6,568
Qualifying tier 2 capital		
Qualifying items and related share premium	**670**	679
Tier 2 deductions		
Excess of expected losses over impairment provisions	**(9)**	(6)
Total tier 2 capital	**661**	673
Total regulatory capital	**8,410**	7,241
Key capital ratios	**%**	%
Tier 1	**29.6**	21.1
Total capital	**32.1**	23.3

(1) For note relating to this table refer to page 104.

35. Capital resources (continued)

	Ulster Bank Ireland Limited	
	Unaudited[1]	Unaudited[1]
	2015	2014
	€m	€m
Risk weighted assets by risk		
Credit risk	**24,143**	28,856
Counterparty risk	**470**	436
Market risk	**10**	41
Operational risk	**1,563**	1,732
Total risk weighted assets	**26,186**	31,065

[1]The capital metrics included in the above table have not been audited for the financial years ended 31 December 2015 and 31 December 2014.

In the management of capital resources, UBIL is governed by the Ulster Bank Ireland Group and RBS policies which are to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business.

In carrying out these policies UBIL has regard to and has complied with the capital supervisory requirements of the ECB and CBI throughout the financial year.

ULSTER BANK LIMITED

DIRECTORS AND EXECUTIVES

Chairman

Christopher Campbell (57)

Mr Campbell joined RBS Group in August 2005 as Deputy General Counsel and Director, Group Legal and became Group General Counsel in May 2010. Prior to joining RBS Group, he was a partner for 18 years in Scotland's largest law firm, Dundas & Wilson, and was Managing Partner from 1996 until he joined RBS Group in 2005. In his role as Group General Counsel, Mr Campbell had overall responsibility for advising the RBS Group Board and Executive Committee and for the provision of legal support to all of RBS's businesses globally. Mr Campbell retired as Group Counsel as of 31st December 2014. Mr Campbell was appointed as Chairman of Ulster Bank Limited in October 2015 and is also a Non Executive Director with RBS N.V. and Scottish Equitable Policyholders Trust Limited.

EXECUTIVE DIRECTORS

Chief Executive Officer

Les Matheson (56)

Mr Matheson was appointed CEO Personal and Business Banking in February 2014 and CEO of Ulster Bank Limited in October 2015. He joined RBS in 2010 as Managing Director of Products and added responsibility for Marketing in 2011. Prior to joining RBS, Les served as Group Executive at St George Bank, part of the Westpac Group. Before becoming Head of the Retail Bank at St George, Mr Matheson held a series of senior roles at Citibank where he spent 11 years. These included Head of Wealth Management and Marketing for Asia Pacific, General Manager for the Retail Business in Japan, CEO for Citibank Australia and finally Group CEO of Consumer Business for Central Asia. Mr Matheson began his career at Procter & Gamble following the completion of his Bachelor of Commerce at the University of Edinburgh in 1982 where he achieved Honours in Marketing. Mr Matheson is a former Deputy Chairman of the Australian Bankers' Association, a past member of the Edinburgh University Court and is currently a Board member of Visa Europe.

Chief Financial Officer

Mike Larkin (46)

Mr Larkin joined RBS from GE Capital in 2001. He initially joined the Group Financial Planning & Analysis team focusing on reviewing the performance of Ulster Bank and Wealth Management. Over the years he looked after the majority of the divisions in the Group, then in 2007 moved to Retail to be the FD for the mortgage business. His role expanded taking on additional products and in 2010 was promoted to Head of Products for Retail Finance. He began his current role as Finance Director for Personal & Business Banking in April 2014 and CFO of Ulster Bank Limited in October 2015.

NON-EXECUTIVE DIRECTORS

Ellvena Graham (52)

Ms Graham was appointed as a Non-Executive Director to the Board of Ulster Bank in February 2016. Ms Graham is also the Chairman of Electricity Supply Board (ESB), one of the major state-owned utilities in Ireland and also Chairman of the Economic Advisory Group (EAG) in Northern Ireland. She is a Board member of NI Chamber of Commerce & Industry and a member of the WXN Advisory Board in Ireland. Ms Graham has over 30 years experience in Banking, most recently at Executive Management level within Ulster Bank where she was Head of Ulster Bank in Northern Ireland & MD of SME Banking across the island of Ireland. Ms Graham has global experience within the wider RBS Group, having managed large scale Operations in EMEA for Royal Bank of Scotland. Ms Graham was a Board member of Barretstown, a charity helping children with serious illnesses, up until June 2012.

Christopher Gregory Michael Mills (68)

Mr Mills retired as Group Chief Executive Officer of Ulster Carpet Mills where he played a leadership role since 1988. He began his career with Esso Petroleum, spending 18 years in a variety of management positions. He has been President of the Northern Ireland Chamber of Commerce, Chairman of Business in the Community and President of the European Carpet Manufacturers Association.

Sir Nigel Hamilton (67)

Sir Nigel joined the Ulster Bank Board in April 2009, after retiring from his role as Head of the Northern Ireland Civil Service in July 2008. During his time as Head of the Northern Ireland Civil Service he was also Head of the Office of the First Minister and Deputy First Minister and Secretary to the Northern Ireland Executive. He has previously served as a non-executive director of Belfast City Airport, and Chairman of Bryson Charitable Group and is currently Chairman of the Northern Ireland Council of the Prince's Trust and Chairman of New Irish Arts, Vice Lord Lieutenant for the City and Borough of Belfast. He is also the Chair of the Belfast Boys Model Bursary Fund.

ULSTER BANK LIMITED

DIRECTORS AND EXECUTIVES

NON-EXECUTIVE DIRECTORS

Bridget Rosewell (64)

Ms Rosewell is an economist with degrees from Oxford University, where she also taught until 1984. She has founded two economics consultancies, and is an advisor to Volterra Partners. She has advised the Chancellor of the Exchequer, Treasury Select Committee and the Mayor of London. She has been responsible for the economic analysis of major infrastructure projects and is currently a Non-Executive Director of Network Rail, Atom Bank and in October 2015 was appointed as Commissioner to the UK Independent National Infrastructure Commission. In December 2015 she joined the Economic Advisory Group NI as a senior advisor.

Des O'Shea (59)

Mr O'Shea was appointed to the Board of Ulster Bank in November 2012. He is also a Non-Executive Director of Byblos Bank S.A.L and Pepper Group Limited. In November 2011 he retired from GE Capital after 14 years during which he held a variety of senior roles including Chief Risk Officer, Chief Commercial Officer and Head of Mergers & Acquisitions for GE Money Europe which was GE Capital's largest, most successful and profitable business in Europe. In the period 2008-2011 he was responsible for GE's investments and partnerships in banks in high growth emerging markets such as Turkey, Thailand, Taiwan, Central America and Colombia and served on the Boards of these Banks. He also led a major divestment programme for GE Capital Global Banking. From 1981 to 1991 Des worked for Ulster Investment Bank Limited in Corporate Banking and headed up its IFSC activities. He also worked with Woodchester Investments plc, Cambridge Group and Arthur Andersen. Des has a B.Comm Degree from UCC and is a Fellow of the Institute of Chartered Accountants.

Rosemary Quinlan (46)

Ms Quinlan is an Independent Non Executive Director with a career in financial services spanning 24 years. She has been a board director since 2006. She is currently an INED of Ulster Bank Limited and Ulster Bank Ireland Limited, is a member of the Risk and Audit Committees of both companies and chairs the UBIL Remuneration Committee. She is also an INED with Royal Sun Alliance Insurance Ireland Limited and is the Chair of their Remuneration Committee, Nominations Committee and Risk Committee as well as being a member of the Audit Committee for this Board. She was previously the Deputy CEO for HSBC Bank plc in Ireland and the CEO of HSBC Securities Services Ireland Limited. Prior to this, Ms Quinlan held senior executive roles with ABN AMRO, Citigroup and NatWest Bank plc in the Netherlands, the United States and the United Kingdom. Ms Quinlan holds a B.Comm from University College Cork, has completed the Chartered Director Programme in Ireland and is a Certified Bank Director.

ULSTER BANK LIMITED

DIRECTORS AND EXECUTIVES

GROUP AUDIT COMMITTEE
Des O'Shea, Chairman
Bridget Rosewell
Rosemary Quinlan

DIVISIONAL HEADS

L Matheson	Chief Executive Officer
M Larkin	Chief Finance Officer
A Haines	Chief Risk Officer
R Donnan	Managing Director Retail Banking and Corporate & SME NI
C O'Brien	Chief Administrative Officer
L Haggerty	Head of Human Resources

COMPANY SECRETARIES

S Anderson	(Secretary)
E Dignam	(Deputy)

HEAD OFFICE
11-16 Donegall Square East, Belfast, BT1 5UB