Company Registered Number: R0000733

ULSTER BANK LIMITED

REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS

31 December 2014

ULSTER BANK LIMITED

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ULSTER BANK LIMITED

BOARD OF DIRECTORS AND SECRETARIES

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

ULSTER BANK LIMITED

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 2014. 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 both its Retail Banking and Corporate Banking divisions. Retail Banking provides loan and deposit products through a network of branches and direct channels, including telephony, the internet and mobile apps. Corporate Banking provides services to business and corporate customers, including small and medium enterprises.

Business review

The Group's ambition is to become the number one bank for customer service, trust and advocacy across the island of Ireland whilst dealing with its legacy issues. In October 2014 The Royal Bank of Scotland ("RBS") announced the conclusion of an extensive strategic review of Ulster Bank. RBS confirmed Ulster Bank as a good strategic fit with RBS' retail and commercial banking strategy and confirmed its core status within RBS. With the continued support of RBS the directors will drive forward the Group's dual strategy of building a challenger bank to the domestic banks in the Republic of Ireland and strengthening its market leading position in Northern Ireland through greater alignment with RBS.

The Group returned to profitability in 2014 reporting a total profit after tax for the year ended 31 December 2014 of £1,912m (2013: £4,193m loss). The turnaround in the Group's performance was driven primarily by a net impairment gain of £1,471m versus an impairment loss of £4,794m in 2013. The major contributor to the 2013 impairment charge was the strategic decision to establish RBS Capital Resolution Ireland ("RCRI") to manage the accelerated reduction in the Group's non-performing capital intensive assets. A portfolio of £4.8 billion of net assets was identified to be managed by RCRI. In order to recognise the reduction in the value of the anticipated recoveries over a compressed timeframe, an additional impairment charge of £2.8 billion was recognised in 2013 which, together with other provisions, resulted in the total impairment charge of £4.8 billion.

In 2014 RCRI was successful in deleveraging the Group's balance sheet ahead of expectations, both in terms of volume of assets sold and prices realised. In addition to normal course sales, four portfolio sales (Projects Button, Achill, Swallowtail and Nadal) were transacted in 2014, contributing to a reduction of approximately £2.2 billion in the £4.8 billion of net assets transferred to RCRI in December 2013. A strong improvement in commercial real estate values and yields combined with RCRI's strong execution process resulted in significantly higher than anticipated cash realisations being achieved for the asset disposals during 2014. The improved market conditions also facilitated the release of certain latent provisions relating to the remaining RCRI assets. The 2014 impairment gain should be viewed in the context of the overall impairment charges which have been taken since 2008. However prices achieved did represent a significant discount to the total gross value of the loans sold, resulting in a partial utilisation of the significant impairment provision accumulated since 2008.

In addition, a 16.3% increase in the Republic of Ireland Residential Property Price Index in 2014 and the improvement in the commercial property market resulted in a considerable increase in collateral values for loans held by the Retail and Corporate Banking divisions. A strong collections performance across the mortgages and SME portfolios was also achieved. These factors, combined with the RCRI performance, significantly contributed to the net impairment gain of £1,471m resulting from the review of the level of credit provisions held on the Group's balance sheet.

The Group has continued to focus on the needs of its customers and in 2014 grew its lending to both new and existing customers. During 2014, the 'Big Yes' mortgages campaign contributed to the drawdown of £590m of new mortgage lending and resulted in the approval of 9 out of 10 mortgage applications in Northern Ireland and 8 out of 10 applications in the Republic of Ireland. The Group provided £1.1 billion of funds in 2014 to its SME Banking and Corporate and Institutional Banking ("CIB") customers seeking finance to support their growth plans through the 'Ahead for Business' programme. In addition to providing new lending, the Group has continued to work closely with its customers in financial difficulty; active engagement with customers has resulted in a reduction in the number of mortgage customers more than 90 days in arrears for 20 consecutive months to December 2014 whilst the recoveries on SME problem debts increased by 35% during the year.

The directors continue to reinforce the values of serving customers, working together, doing the right thing and thinking long term to underpin the delivery of the Group's strategy and to sustain an enhanced focus on customer service throughout the Group.

Business review (continued)

The Group has continued to deal with legacy issues during 2014. During the year, the Group's regulators concluded their investigations into the Group's IT systems incident in 2012. Ulster Bank Ireland Limited was fined €3.5m by the Central Bank of Ireland (CBI) and the directors have accepted in full the findings of the investigation. RBS, National Westminster Bank plc ("NatWest") and Ulster Bank Limited were jointly fined £42m by the Financial Conduct Authority (FCA) and £14m by the Prudential Regulatory Authority (PRA). The FCA and PRA fines have been borne by RBS and are not reflected in Ulster Bank Limited's results. The Group has invested in systems to significantly improve IT resilience and dedicated separate batch schedulers for Ulster Bank Limited and Ulster Bank Ireland Limited which will ensure that a problem with one RBS Group brand should not affect another. The Group has also established a mirror bank system so that in the event of a service outage, transactions can still be processed during systems recovery.

The directors have noted rapid changes in customer behaviour in how they choose to bank with the Group, with the percentage of transactions conducted via digital channels increasing to 55% in 2014. The Group has continued the process of reshaping its retail distribution network in response to changes in customer behaviour. Thirty nine branch closures were announced mitigated by enhancing alternative points of contact for customers, for example the provision of banking services via Post Office branches for Retail and Business Banking customers in Northern Ireland; and the launch of the 'Bank on Wheels' service in Northern Ireland to complement the Group's existing telephone, internet and mobile banking offering. The directors also announced plans to concentrate the Group's Business Direct operations in two hubs in Belfast and Galway. These strategies will assist the directors in transitioning the Group into a simpler, more agile business that will be better shaped to deliver for customers and stakeholders.

The directors have taken a number of actions to reduce the Group's cost base during 2014. A review of the Group's Dublin property portfolio resulted in office space being consolidated and some staff being relocated. This is expected to drive cost savings of £9m per annum. To facilitate and complement the property strategy, the directors took steps to implement a cultural change towards more flexible working patterns, including home working, variable hours and part time working for employees. The location and working pattern flexibility allows the Group to make more efficient use of its buildings as well as delivering an improved customer experience, through more flexible service options and a higher level of employee engagement as a result of improved work life balance opportunities.

As a significant European credit institution, the Group's principal subsidiary, Ulster Bank Ireland Limited ("UBIL") was subject to the European Central Bank (ECB) Comprehensive Assessment during 2014. This Comprehensive Assessment comprised an Asset Quality Review ("AQR") and stress testing. The AQR was an in-depth assessment of UBIL's balance sheet at 31 December 2013. The stress test assessed the impact of economic shocks in a baseline and an adverse scenario on UBIL's capital positions. The results were published by the ECB in October 2014 and the directors note that there were no adjustments required to provisioning levels as a result of any element of the AQR. UBIL's Common Equity Tier 1 (CET1) ratio was above the minimum limits set under the baseline and adverse stress scenarios. The increase in the UBIL CET1 ratio from 11.5% as at 31 December 2013 to 17.3% as at 31 December 2014, along with the increase on the CET1 ratio of the Bank from 10.7% at 31 December 2013 to 19.8% at 31 December 2014, confirms that the Group has continued to make progress in strengthening the capital position.

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

	Target	**2014**	2013
Loan:deposit ratio	100%	**119%**	129%
Net interest margin	2.15%	**1.18%**	1.19%
Cost:income ratio	50%	**67%**	80%*
Transactions through digital channels**	70%	**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 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 and loan amortisation.

The drivers of the changes in 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 11.

The Group returned to profitability in 2014, reporting a total profit after tax for the year ended 31 December 2014 of £1,912m (2013: £4,193m loss) driven primarily by a net impairment release of £1,471m (2013: £4,794m charge).

Business review (continued)

Financial performance (continued)

Net interest income decreased by 11% to £578m due to a large movement of loans into the non-performing book at the end of 2013, continued reduction in 2014 in the loan book from asset sales and loan amortisation, the impact of the reductions in the European Central Bank (ECB) headline rate on the Group's Republic of Ireland tracker mortgage book and reduced discount unwind due to the accelerated realisation of RCRI assets. These were partially offset by actions taken on deposits pricing.

Non-interest income decreased from £493m in 2013 to £314m as the effect of a one-off £239m gain on redemption of own debt in 2013 was offset by a £53m increase in income from trading activities in 2014, primarily as a result of the impact of the reduction in variable interest rates on the mark-to-market of interest rate swaps and better cash realisations on RCRI derivatives disposals.

Operating expenses decreased by 17% to £596m year on year. As well as the continued focus on the cost base, the Group incurred £90m of one-off costs in 2013 associated with legacy issues, specifically interest rate hedging products and payment protection insurance redress.

Impairments moved to a £1,471m gain from a £4,794m loss in 2013 as a result of RCRI asset sales and improved commercial and residential property market conditions, as previously discussed.

The Group's tax credit has decreased from £181m in 2013 to £145m in 2014. The UK current tax for the year has moved from a £185m credit to a £14m charge which has been partly offset by the recognition of an additional £149m deferred tax asset on tax losses in UBIL based on current business forecasts, updated to reflect the improvement in economic conditions.

The £256m actuarial loss (2013: £12m) on defined benefit pension plans recognised in other comprehensive income was driven by a reduction in the discount rate as a result of significant falls in yields on both UK and Eurozone corporate bonds.

At the year end the total assets of the Group were £37,668m (2013: £40,182m). Return on total assets for 2014 was 4.9% (2013: (9.9)%).

Risk management

The major risks associated with the Group's businesses are market, liquidity, credit, 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, 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 23 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 23 to 25.

Outlook

The directors note that the most recent releases of economic data for Ulster Bank Group's core markets continue to be positive. For the Republic of Ireland, the Group's largest market, the latest Central Statistics Office reports show annual economic growth of 3.6%, a 16.3% annual increase in residential property prices and a reduction in the rate of unemployment to 10.6% from 12.2% compared to December 2013. This is against a backdrop of multiple macro-economic risks, including uncertainty over the Greek economy, a low rate of average growth in the Eurozone and the continuing conflict in Ukraine.

The recovery has been slower in Northern Ireland but the more recent indicators are again positive. The Department of Employment, Trade and Industry reported a reduction in the rate of unemployment in Northern Ireland to 5.8%, the lowest rate recorded since November 2008. The 2013 Quarter 4 Northern Ireland Housing Executive/University of Ulster quarterly house price index reported an annual increase of 5.2% in average house prices.

Business review (continued)

Outlook (continued)

The directors believe that these positive economic indicators, along with the actions being taken to build a "really good bank", focussed on the customer while dealing with legacy issues should lead to a continuing strong financial performance whilst being cognisant of the macroeconomic risks outlined above.

Share capital

Details of share capital can be found in Note 20 to the financial statements.

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.

Directors' indemnities

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

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 contributes 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.

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 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 2014, 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 (2013: £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 8, 23 and 24 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 improved, and will continue to significantly improve, the liquidity position of the Group. The Group's assets as at 31 December 2014 contain £2.6 billion of short term liquidity instruments.

The Group's capital position strengthened during the year, as evidenced by the increase in the Bank's and UBIL's CET1 ratios. The Bank's CET1 ratio increased from 10.7% at 31 December 2013 to 19.8% at 31 December 2014. UBIL's CET1 ratio increased from 11.5% at 31 December 2013 to 17.3% at 31 December 2014.

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

Dividends

The directors do not recommend the payment of a dividend on ordinary shares (2013: £nil).

Post balance sheet events

In January 2015 an agreement was reached on the sale of Jury's Inn Holdings Limited, in which the Group has an equity shareholding and a loan receivable. At 31 December 2014 the equity shareholding was valued at £20m (2013: £nil). The transaction is subject to approval from the Competition and Consumer Protection Commission in Ireland and is expected to be completed in H1 2015.

On 16 December 2014 the Group announced that it had reached agreement to sell a portfolio of Irish real estate loans to an entity controlled by Cerberus Capital Management L.P. The amount paid for the loans is up to £1.1 billion. More than 80% of the proceeds were received on 12 February and the remaining proceeds will be received through the first half of H1 2015.

By order of the Board:

Robert Bergin
Secretary
11-16 Donegall Square East
Belfast
BT1 5UB

19 February 2015

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 97 to 98. From 1 January 2014 to date the following changes have taken place:

	Appointed	Resigned
Directors		
A McLaughlin	-	19 April 2014

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.

Auditors

The auditors Deloitte & Touche have indicated their willingness to continue in office as auditors.

By order of the Board:

Robert Bergin
Secretary
11-16 Donegall Square East
Belfast
BT1 5UB

19 February 2015

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:

Robert Bergin
Secretary
11-16 Donegall Square East
Belfast
BT1 5UB

19 February 2015

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 2014 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Balance Sheets, the Statements of Changes in Equity, the Cash Flow Statements, the accounting policies and the related notes 1 to 33. 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 parent company 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 auditors

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. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

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 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Bank's financial statements have been properly prepared in accordance with IFRS 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 matter prescribed by the Companies Act 2006

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ULSTER BANK LIMITED (continued)

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 returns adequate for our audit have not been received from branches not visited by us; or
- the Bank's 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 & Touche
Chartered Accountants and Statutory Audit Firm
Dublin

25 February 2015

ULSTER BANK LIMITED

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

	Note	Group 2014 £m	2013 £m
Interest receivable		**772**	999
Interest payable		**(194)**	(350)
Net interest income	1	**578**	649
Fees and commission receivable		**163**	154
Fees and commission payable		**(15)**	(8)
Income from trading activities		**150**	97
Gain on redemption of own debt		**-**	239
Other operating income		**16**	11
Non-interest income	2	**314**	493
Total income		**892**	1,142
Operating expenses	3	**(596)**	(722)
Operating profit before impairment		**296**	420
Impairment gain/(loss)	9	**1,471**	(4,794)
Operating profit/(loss) before tax		**1,767**	(4,374)
Tax credit	6	**145**	181
Profit/(loss) for the year		**1,912**	(4,193)
Profit/(loss) attributable to:			
Ordinary shareholders		**1,912**	(4,193)
		1,912	(4,193)

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

The financial statements were approved by the Board of Directors on 19 February 2015 and signed on its behalf by:

Philip Nolan Chairman	James Brown Group Chief Executive	Paul Stanley Chief Financial Officer

Ulster Bank Limited is registered in Northern Ireland No. R0000733

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

	Group	
	2014	2013
	£m	£m
Profit/(loss) for the year	**1,912**	(4,193)
Items that will not be reclassified subsequently to profit or loss:		
Actuarial losses on defined benefit plans and other movements	**(256)**	(12)
Items that will be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(276)**	185
Other comprehensive (loss)/income after tax	**(532)**	173
Total comprehensive income/(loss) for the year	**1,380**	(4,020)
Attributable to:		
Non-controlling interests	**(33)**	11
Ordinary shareholders	**1,413**	(4,031)
	1,380	(4,020)

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

ULSTER BANK LIMITED

BALANCE SHEETS *as at 31 December 2014*

		Group		Bank	
		2014	2013	**2014**	2013
	Note	**£m**	£m	**£m**	£m
Assets					
Cash and balances at central banks	8	**884**	867	**647**	624
Loans and advances to banks	8	**8,925**	9,752	**6,897**	7,236
Loans and advances to customers	8	**24,467**	28,263	**4,340**	4,930
Debt securities	8,10	**2,059**	9	**6**	9
Equity shares	8,11	**26**	9	**-**	-
Investments in Group undertakings	8,12	**-**	-	**4,719**	3,110
Derivatives	8,15	**657**	561	**5**	16
Property, plant and equipment	8,14	**266**	333	**47**	56
Prepayments, accrued income and other assets	8,16	**41**	236	**8**	194
Retirement benefit assets	4,8	**119**	77	**119**	77
Deferred taxation	8,18	**224**	75	**1**	1
Total assets		**37,668**	40,182	**16,789**	16,253
Liabilities					
Deposits by banks	8	**6,336**	8,661	**4,159**	4,485
Customer accounts	8	**21,024**	22,298	**5,978**	6,818
Debt securities in issue	8	**1,707**	1,908	**10**	9
Derivatives	8,15	**609**	744	**48**	47
Accruals, deferred income and other liabilities	8,17	**962**	1,008	**752**	735
Retirement benefit liabilities	4,8	**458**	232	**-**	-
Deferred taxation	8,18	**31**	24	**28**	21
Subordinated liabilities	8,19	**1,031**	1,175	**883**	956
Total liabilities		**32,158**	36,050	**11,858**	13,071
Equity					
Non-controlling interests		**482**	517	**-**	-
Shareholders' equity:					
Called up share capital	20	**1,521**	1,505	**1,521**	1,505
Reserves		**3,507**	2,110	**3,410**	1,677
Total equity	8	**5,510**	4,132	**4,931**	3,182
Total liabilities and equity		**37,668**	40,182	**16,789**	16,253

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

The financial statements were approved by the Board of Directors on 19 February 2015 and signed on its behalf by:

Philip Nolan Chairman	James Brown Group Chief Executive	Paul Stanley Chief Financial Officer

Ulster Bank Limited is registered in Northern Ireland No. R0000733

STATEMENTS OF CHANGES IN EQUITY *for the year ended 31 December 2014*

	Group		Bank	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Called up share capital				
At 1 January	**1,505**	1,505	**1,505**	1,505
Share transfer	**16**	-	**16**	-
At 31 December	**1,521**	1,505	**1,521**	1,505
Share premium account				
At 1 January	**907**	907	**907**	907
Share transfer	**(16)**	-	**(16)**	-
At 31 December	**891**	907	**891**	907
Available-for-sale reserve				
At 1 January	**-**	-	**-**	-
Unrealised gains in the year	**-**	5	**-**	-
Exchange losses in the year	**-**	(5)	**-**	-
At 31 December	**-**	-	**-**	-
Foreign exchange reserve				
At 1 January	**5**	(169)	**(260)**	(260)
Retranslation of net assets	**(243)**	174	**-**	-
At 31 December	**(238)**	5	**(260)**	(260)
Retained earnings				
At 1 January	**(13,314)**	(9,109)	**(13,482)**	(12,642)
Actuarial (losses)/gains on defined benefit plans and other movements	**(256)**	(12)	**3**	10
Profit/(loss) attributable to ordinary shareholders	**1,912**	(4,193)	**1,746**	(850)
At 31 December	**(11,658)**	(13,314)	**(11,733)**	(13,482)
Capital contribution				
At 1 January	**14,512**	13,507	**14,512**	13,507
Capital contribution	**-**	1,005	**-**	1,005
At 31 December	**14,512**	14,512	**14,512**	14,512
Shareholders' equity at 31 December	**5,028**	3,615	**4,931**	3,182
Non-controlling interests				
At 1 January	**517**	500	**-**	-
Increase in loan classed as equity	**8**	6	**-**	-
Equity disposals	**(10)**		**-**	
Currency translation and other adjustments	**(33)**	11	**-**	-
At 31 December	**482**	517	**-**	-
Total equity at 31 December	**5,510**	4,132	**4,931**	3,182

Total comprehensive income/(loss) recognised in the Statement of Changes in Equity is attributable as follows:

Non-controlling interests	**(33)**	11	**-**	-
Ordinary shareholders	**1,413**	(4,031)	**1,749**	(841)
	1,380	(4,020)	**1,749**	(841)

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

ULSTER BANK LIMITED

CASH FLOW STATEMENTS *for the year ended 31 December 2014*

		Group		Bank	
		2014	2013	**2014**	2013
	Note	**£m**	£m	**£m**	£m
Operating activities					
Operating profit/(loss) before tax		**1,767**	(4,374)	**1,753**	(1,026)
Adjustments for:					
Depreciation, amortisation and impairment of property, plant and equipment		**15**	43	**4**	12
Interest on subordinated liabilities		**15**	26	**9**	15
Gain on redemption of own debt		**-**	(239)	**-**	-
Charge for defined benefit pension schemes		**31**	32	**5**	6
Cash contribution to defined benefit pension schemes		**(79)**	(73)	**(44)**	(39)
Impairment (gains)/losses on loans and advances and amounts written off		**(2,693)**	4,085	**(379)**	581
Impairment of investments in Group undertakings		**-**	-	**(1,636)**	277
Elimination of foreign exchange differences		**(883)**	242	**105**	(13)
Other non-cash items		**(153)**	(110)	**(2)**	(75)
Net cash flows from trading activities	26	**(1,980)**	(368)	**(185)**	(262)
Changes in operating assets and liabilities		**3,171**	1,819	**696**	185
Net cash flows from operating activities before tax		**1,191**	1,451	**511**	(77)
Income taxes received		**196**	88	**191**	86
Net cash flows from operating activities	26	**1,387**	1,539	**702**	9
Investing activities					
Sale and maturity of securities		**257**	17	**3**	17
Purchase of debt securities		**(2,303)**	-	**-**	-
Purchase of equity shares		**(2)**	-	**-**	-
Sale of equity shares		**3**	-	**-**	-
Purchase of property, plant and equipment		**(11)**	(10)	**(2)**	(4)
Sale of property, plant and equipment		**66**	-	**7**	-
Investment in subsidiary undertakings		**-**	-	**-**	(834)
Net cash flows from investing activities		**(1,990)**	7	**8**	(821)
Financing activities					
Purchase of own debt		**-**	(1,040)	**-**	-
Capital contribution		**-**	1,005	**-**	1,005
Repayment of subordinated loans		**(80)**	-	**(20)**	-
Interest on subordinated liabilities		**(15)**	(26)	**(9)**	(15)
Net cash flows from financing activities		**(95)**	(61)	**(29)**	990
Effect of exchange rate changes on cash and cash equivalents		**(176)**	61	**(131)**	21
Net (decrease)/increase in cash and cash equivalents		**(874)**	1,546	**550**	199
Cash and cash equivalents 1 January	29	**8,071**	6,525	**3,603**	3,404
Cash and cash equivalents 31 December	29	**7,197**	8,071	**4,153**	3,603

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

ACCOUNTING POLICIES

1. 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.

IFRS 10 'Consolidated Financial Statements' ("IFRS 10") replaces SIC-12 Consolidation - 'Special Purpose Entities' and the consolidation elements of the existing IAS 27 'Consolidated and Separate Financial Statements'. IFRS 10 adopts a single definition of control: a reporting entity control another entity when the reporting entity has the power to direct the activities of the other entity so as to vary returns for the reporting entity. Adoption of IFRS 10 has not had any effect on the financial statements of the Group or Bank.

IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 27 'Separate Financial Statements' also came into effect during the year. Adoption of these has not had any effect on the financial statements of the Group or Bank.

2. 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.

3. Revenue recognition

Interest income 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.

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.

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.

3. Revenue recognition (continued)

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.

4. 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 service costs is recognised on the balance sheet as an asset (surplus) or liability (deficit).

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

5. Intangible assets and goodwill

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

6. Property, plant and equipment

Items of property, plant and equipment (except investment properties – see accounting policy 8) 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.

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. 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.

7. 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. If an asset does not generate cash flows that are independent from those of other assets or groups of assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. 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.

8. 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.

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.

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.

9. 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

10. 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.

10. Leases (continued)

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 6). 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.

11. 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.

12. 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 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.

13. 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.

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.

13. Financial assets (continued)

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 3) 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 3). 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.

14. 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.

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.

14. Impairment of financial assets (continued)

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.

15. 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 3).

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.

16. 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.

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.

17. 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.

17. Sale and repurchase transactions (continued)

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.

18. 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.

19. 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. The components of a compound financial instrument issued by the Group are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate.

20. 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. The Group does not apply debt valuation adjustments.

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 hedges of changes in the fair value of a recognised asset or liability or firm commitment (fair value hedges). 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.

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. The fair value of the hedging instrument and the associated hedged item were immaterial as at 31 December 2014 and 2013.

21. Share-based payments

RBS awards options over shares to its employees and employees of subsidiary companies (including Ulster Bank 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. Ulster Bank Group recognises the cost based on these recharges.

22. 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.

23. Investments in Group undertakings

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

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.

At 31 December 2014, gross loans and advances to customers totalled £35,793m (2013: £43,029m) and customer loan impairment provisions amounted to £11,326m (2013: £14,766m).

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. 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 – this consists of loan losses that have been incurred but have not been separately identified at the balance sheet date. 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 that 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.

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

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.

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, 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 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.

Deferred tax assets of £223m were recognised as at 31 December 2014 (2013: £74m) in respect of tax losses and net deferred tax liabilities of £30m (2013: £23m) in respect of short term temporary differences. Business projections indicate that there will be sufficient future taxable income to offset the deferred tax assets representing the carry forward of unused tax losses within 7 years. Deferred tax assets of £852m (2013: £1,369m) have not been recognised in respect of the balance of tax losses carried forward.

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.

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

Pensions (continued)

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 4 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.

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.

A negligible proportion of the Group's trading derivatives are valued directly from quoted prices, the remaining majority being valued using appropriate valuation techniques. 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 8.

Provisions for liabilities

As set out in Note 17, at 31 December 2014 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.

ACCOUNTING POLICIES

Accounting developments

International Financial Reporting Standards
A number of IFRS and amendments to IFRS were in issue at 31 December 2014 that would affect the Group from 1 January 2015 or later.

Effective for 2015
IAS 19 ‘Defined Benefit Plans: Employee Contributions’ was issued in November 2013. This amendment distinguishes the accounting for employee contributions that are related to service from that for those that are independent of service.

Annual Improvements to IFRS 2010 - 2012 and 2011 - 2013 cycles were issued in December 2013 making a number of minor amendments to IFRS.

Implementation of these changes is not expected to have a material effect on the Group’s financial statements.

Effective after 2015
In July 2014, IFRS 9 ‘Financial Instruments’ was finalised. The Group continues to assess the effect of the major changes IFRS 9 will introduce to the framework for financial instrument accounting.

The classification and measurement of liabilities do not differ significantly from those in IAS 39 except for the treatment of changes in the fair value of financial liabilities that are designated as at fair value through profit or loss attributable to own credit; these must be presented in other comprehensive income.

The IFRS 9 requirements for classification and measurement of unimpaired assets are similar to those in IAS 39; however, loans not held to realise their inherent cash flows and more complex loans will be carried at fair value rather than amortised cost.

Financial asset impairments are measured having regard to expected losses instead of the incurred loss approach of IAS 39.

IFRS 9 relaxes some of the hedging conditions in IAS 39 although the ability to discontinue hedging at will has been removed.

The effective date for IFRS 9 is 1 January 2018.

The Group is assessing the effects of these new standards:

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 2017.

‘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. Its effective date is 1 January 2016.

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 December 2014 to clarify the application of the investment entity consolidation exception. Their effective date 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.

1. Net interest income

	Group	
	2014	2013
	£m	£m
Loans and advances to customers	**708**	932
Loans and advances to banks	**64**	67
Interest receivable	**772**	999
Customer accounts	**(130)**	(270)
Deposits by banks	**(40)**	(41)
Debt securities in issue	**(9)**	(13)
Subordinated liabilities	**(15)**	(26)
Interest payable	**(194)**	(350)
Net interest income	**578**	649

Included within net interest income is £98m (2013: £210m) of interest on impaired loans.

2. Non-interest income

	Group	
	2014	2013
	£m	£m
Fees and commission receivable	**163**	154
Fees and commission payable	**(15)**	(8)
Income from trading activities[(1)]:		
Foreign exchange	**64**	40
Interest rates	**86**	57
Gain on redemption of own debt [(2)]	**-**	239
Other operating income	**16**	11
Non-interest income	**314**	493

(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.

(2) During the year ended 31 December 2013 the Group bought back certain externally issued mortgage securitisation bonds at a discount to par and realised a gain of £239m. There were no buy backs transacted during the year ended 31 December 2014.

3. Operating expenses

	Group	
	2014	2013
	£m	£m
Wages, salaries and other staff costs	**233**	248
Social security costs	**24**	23
Pension costs:		
- defined benefit schemes (see Note 4)	**31**	32
- defined contribution schemes (see Note 4)	**4**	4
Restructure costs	**5**	14
Staff costs	**297**	321
Premises and equipment	**140**	121
Administration	**144**	237
Other expenses	**284**	358
Property, plant and equipment depreciation (see Note 14)	**15**	24
Impairment of property, plant and equipment (see Note 14)	**-**	19
Depreciation, amortisation and impairment	**15**	43
Operating expenses	**596**	722

The average number of persons employed by the Group during the year, excluding temporary staff, was 5,192 (2013: 5,484). The average number of temporary employees during 2014 was 311 (2013: 347). The number of persons employed by the Group at 31 December, excluding temporary staff, was as follows:

	Group	
	2014	2013
Employee numbers	**Number**	Number
Retail Banking	**2,112**	2,164
Corporate Banking	**862**	892
Other	**2,033**	2,321
	5,007	5,377

	Group	
	2014	2013
Auditors' remuneration	**£'000**	£'000
Audit of the Bank's individual and Group accounts	**861**	908
Assurance services	**24**	9
	885	917

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 was charged at a rate of 0.156% on chargeable liabilities in excess of £20 billion (2013: 0.13%). Levy costs in respect of the Bank will be borne by RBS for 2014.

4. 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.

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 5 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 Pension Schemes, the costs of which are accounted for as defined contributions. The Group made contributions of £3,584k to its own defined contribution schemes in 2014 (2013: £3,673k). The Bank made contributions of £987k to its own defined contribution schemes in 2014 (2013: £796k).

Interim valuations of the Group's schemes were prepared to 31 December 2014 by independent actuaries, using the following assumptions:

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

4. Pension costs (continued)

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	**2014**	2013
Quoted assets		
Quoted equities	**32%**	35%
Index-linked bonds	**13%**	6%
Government fixed interest bonds	**5%**	1%
Corporate and other bonds	**31%**	22%
Other quoted secuties	**1%**	-
Unquoted assets		
Private equity	**-**	1%
Hedge funds	**-**	5%
Real estate	**3%**	5%
Derivatives	**5%**	1%
Cash and other assets	**10%**	24%

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

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

4. Pension costs (continued)

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

Group (all schemes)

Changes in value of net pension liability	**Fair value of plan assets £m**	**Present value of defined benefit obligations £m**	**Net pension liability £m**
At 1 January 2014	1,463	(1,618)	**(155)**
Currency translation and other adjustments	(54)	78	**24**
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**
	62	(93)	**(31)**
Statement of comprehensive income:			
Actuarial gains and losses due to experience gains	205	15	**220**
Actuarial gains and losses due to changes in financial assumptions	-	(467)	**(467)**
Actuarial gains and losses due to changes in demographic assumptions	-	(9)	**(9)**
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	1,719	(2,058)	**(339)**

4. Pension costs (continued)

Group (all schemes)

Changes in value of net pension liability	Fair value of plan assets £m	Present value of defined benefit obligations £m	Net pension liability £m
At 1 January 2013	1,331	(1,511)	(180)
Currency translation and other adjustments	14	(18)	(4)
Income statement:			
Return on plan assets above recognised interest income	59	-	59
Interest cost	-	(65)	(65)
Current service cost	-	(39)	(39)
Contributions by other scheme members	-	3	3
Past service gain	-	10	10
	59	(91)	(32)
Statement of comprehensive income:			
Actuarial gains and losses due to experience gains	20	53	73
Actuarial gains and losses due to changes in financial assumptions	-	(71)	(71)
Actuarial gains and losses due to changes in demographic assumptions	-	(14)	(14)
Contributions by employer	73	-	73
Contributions by other scheme members	3	(3)	-
Contributions by plan participants	3	(3)	-
Benefits paid	(38)	38	-
Expenses included in service cost	(2)	2	-
At 31 December 2013	1,463	(1,618)	(155)

Net pension deficit comprises	2014 £m	2013 £m
Net assets of schemes in surplus	**119**	77
Net liabilities of schemes in deficit	**(458)**	(232)
	(339)	(155)

Of the expense for the year, £31m (2013: £32m) has been included in the income statement within staff costs (see Note 3). Actuarial losses of £256m (2013: £12m) have been recognised in the Statement of Comprehensive Income. The past service gain of £8m (2013: £10m) relates to the pension levy.

The Group expects to contribute £74m to its defined benefit pension schemes in 2015.

The weighted average duration of the Group's defined benefit obligation is 24 years.

4. Pension costs (continued)

Bank

Changes in value of net pension asset	**Fair value of plan assets £m**	**Present value of defined benefit obligations £m**	**Net pension asset £m**
At 1 January 2014	731	(654)	**77**
Income statement:			
Return on plan assets above recognised interest income	33	-	**33**
Interest cost	-	(30)	**(30)**
Current service cost	-	(9)	**(9)**
Contributions by other scheme members	-	1	**1**
	33	(38)	**(5)**
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)**
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	889	(770)	**119**

Bank

Changes in value of net pension asset	Fair value of plan assets £m	Present value of defined benefit obligations £m	Net pension asset £m
At 1 January 2013	649	(616)	33
Income statement:			
Return on plan assets above recognised interest income	30	-	30
Interest cost	-	(27)	(27)
Current service cost	-	(12)	(12)
Contributions by other scheme members	-	3	3
	30	(36)	(6)
Statement of comprehensive income:			
Actuarial gains and losses due to experience gains and losses	28	7	35
Actuarial gains and losses due to changes in financial assumptions	-	(10)	(10)
Actuarial gains and losses due to changes in demographic assumptions	-	(14)	(14)
Contributions by employer	39	-	39
Contributions by other scheme members	3	(3)	-
Contributions by plan participants	1	(1)	-
Benefits paid	(18)	18	-
Expenses included in service cost	(1)	1	-
At 31 December 2013	731	(654)	77

Of the expense for the year, £5m (2013: £6m) has been included in the income statement within staff costs.

The Bank expects to contribute £41m to its defined benefit pension schemes in 2015.

4. Pension costs (continued)

History of defined benefit schemes (Group)	**2014 £m**	2013 £m	2012 £m	2011 £m	2010 £m
Present value of defined benefit obligations	**(2,058)**	(1,618)	(1,511)	(1,195)	(1,179)
Fair value of plan assets	**1,719**	1,463	1,331	1,162	1,146
Net deficit	**(339)**	(155)	(180)	(33)	(33)
Experience gains on plan liabilities	**15**	53	31	12	137
Experience gains/(losses) on plan assets	**205**	20	55	(70)	53
Actual return on pension scheme assets	**267**	79	117	(6)	100

History of defined benefit schemes (Bank)	**2014 £m**	2013 £m	2012 £m	2011 £m	2010 £m
Present value of defined benefit obligations	**(770)**	(654)	(616)	(552)	(527)
Fair value of plan assets	**889**	731	649	555	525
Net surplus/(deficit)	**119**	77	33	3	(2)
Experience gains on plan liabilities	**6**	7	28	5	54
Experience gains/(losses) on plan assets	**99**	28	22	(21)	28
Actual return on pension scheme assets	**132**	58	50	8	53

The table below sets 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	
	2014 £m	2013 £m	**2014 £m**	2013 £m
0.25% increase in the discount rate	**(6)**	(6)	**(112)**	(84)
0.25% increase in inflation	**4**	4	**69**	61
0.25% additional rate of increase in pensions in payment	**3**	3	**67**	50
0.25% additional rate of increase in deferred pensions	**1**	-	**24**	16
0.25% additional rate of increase in salaries	**2**	3	**26**	21
Longevity increase of 1 year	**2**	2	**56**	37

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

4. Pension costs (continued)

In the Republic of Ireland, the Finance (No.2) Act 2011 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 2014, an amount of £5.3m (excluding Additional Voluntary Contributions) was deducted from the asset value of the Group's two Republic of Ireland pension schemes within the statutory deadlines (2013: £4.2m).

5. Emoluments of directors

	2014	2013
	£	£
Emoluments for the provision of directors' services:		
Non-executive directors - emoluments	**270,000**	335,085
Chairman and executive directors - emoluments	**2,415,267**	1,654,028
Total emoluments received	**2,685,267**	1,989,113

Two of the non-executive directors of the Bank, Andrew McLaughlin (resigned as a director of Ulster Bank Limited on 19 April 2014) and Christopher Campbell, are employed by The Royal Bank of Scotland plc and are remunerated for their services to RBS as a whole.

No retirement benefits are accruing to directors under either defined contribution or defined benefit schemes at year end (2013: £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 (2013: £nil).

During the year the highest paid director received emoluments of £1,166,507 (2013: £701,857). 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.

6. Taxation

	Group	
	2014	2013
Current taxation:	**£m**	£m
United Kingdom corporation tax at 21.5% (2013: 23.25%)		
(Charge)/credit for the year	**(14)**	185
Over/(under) provision in respect of prior periods	**12**	(4)
	(2)	181
Overseas tax at 12.5% (2013: 12.5%)		
(Charge)/credit for the year	**(7)**	3
Over provision in respect of prior periods	**2**	2
Total current taxation	**(7)**	186
Deferred taxation:		
Charge for the year	**(13)**	(11)
Over provision in respect of prior periods	**165**	6
Total deferred taxation	**152**	(5)
Tax credit for the year	**145**	181

6. Taxation (continued)

The actual tax credit differs from the expected tax (charge)/credit computed by applying the standard rate of UK Corporation Tax of 21.5% (2013: 23.25%) as follows:

	2014	2013
	£m	£m
Operating profit/(loss) before tax	**1,767**	(4,374)
Expected tax (charge)/credit	**(380)**	1,017
Factors affecting the (charge)/credit for the year:		
Tax arising at rates other than the standard rate of tax	**151**	(413)
Non-deductible items	**(3)**	(2)
Other temporary differences	**(7)**	52
Losses brought forward and utilised	**205**	-
Unrecognised losses	**-**	(477)
Increase in deferred tax asset in respect of losses	**159**	-
Adjustments to tax credit in respect of prior periods	**20**	4
Actual tax credit for the year	**145**	181

The effective tax rate for the year was (8.2)% (2013: 4.1%).

7. Profit/(loss) 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 2014 was £1,746m (2013: £850m loss).

8. Financial instruments

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

	Group						
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[(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	-	-	-	-	-	119	119
Deferred taxation	-	-	-	-	-	224	224
	657	20	2,065	34,276	-	650	37,668
Liabilities							
Deposits by banks[(4)]	49	-	-	-	6,287	-	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	-	-	-	-	-	962	962
Retirement benefit liabilities	-	-	-	-	-	458	458
Deferred taxation	-	-	-	-	-	31	31
Subordinated liabilities	-	-	-	-	1,031	-	1,031
	658	1,837	-	-	28,212	1,451	32,158
Equity							5,510
							37,668

For notes relating to this table refer to page 38.

8. 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
2013	£m	£m	£m	£m	£m	£m	£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
Retirement benefit asset	-	-	-	-	-	77	77
Deferred taxation	-	-	-	-	-	75	75
	561	2	16	38,882	-	721	40,182
Liabilities							
Deposits by banks(4)	42	-	-	-	8,619	-	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	-	-	-	-	-	1,008	1,008
Retirement benefit liability	-	-	-	-	-	232	232
Deferred taxation	-	-	-	-	-	24	24
Subordinated liabilities	-	-	-	-	1,175	-	1,175
	786	2,174	-	-	31,826	1,264	36,050
Equity							4,132
							40,182

(1) Cash and balances at central banks includes Bank of England notes held in respect of notes in circulation in Northern Ireland.
(2) Includes reverse repurchase agreements of £495m (2013: £nil) and items in the course of collection from other banks of £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 2014. As at 31 December 2014 £8,593m (2013: £9,308m) is included in loans and advances to customers. There are no gross loans subject to enforceable offset arrangements included within Loans and advances to customers (2013: £1m). No netting has taken place therefore the net effective Balance Sheet value is equal to the gross amount.
(4) Includes repurchase agreements of £nil (2013: £1,874m) and items in the course of transmission to other banks of £24m (2013: £273m). There are no gross amounts relating to reverse repurchase agreements included within Deposits by banks (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 £49m more (2013: £3m less) than the principal amount.
(6) Comprises bonds and medium term notes of £1,697m (2013: £1,890m) and certificates of deposit and other commercial paper of £10m (2013: £18m).

8. 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
2014	£m	£m	£m	£m	£m	£m	£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
Investment 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	-	-	-	-	-	119	119
Deferred taxation	-	-	-	-	-	1	1
	5	-	6	11,884	-	4,894	16,789
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	-	-	-	-	-	752	752
Deferred taxation	-	-	-	-	-	28	28
Subordinated liabilities	-	-	-	-	883	-	883
	48	265	-	-	10,765	780	11,858
Equity							4,931
							16,789

For notes relating to this table refer to page 40.

8. Financial instruments (continued)

	Bank						
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	-	-	-	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
Retirement benefit assets	-	-	-	-	-	77	77
Deferred taxation	-	-	-	-	-	1	1
	16	-	9	12,790	-	3,438	16,253
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	-	-	-	-	-	735	735
Deferred taxation	-	-	-	-	-	21	21
Subordinated liabilities	-	-	-	-	956	-	956
	47	312	-	-	11,956	756	13,071
Equity							3,182
							16,253

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

8. Financial instruments (continued)

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

	Group							
	2014				2013			
	Level 1 [(1)]	**Level 2 [(2)]**	**Level 3 [(3)]**	**Total**	Level 1	Level 2	Level 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Assets								
Debt securities	**2,053**	**6**	**-**	**2,059**	-	9	-	9
Equity shares	**-**	**-**	**26**	**26**	2	-	7	9
Derivatives	**-**	**657**	**-**	**657**	-	561	-	561
Total	**2,053**	**663**	**26**	**2,742**	2	570	7	579
Liabilities								
Deposits by banks	**-**	**49**	**-**	**49**	-	42	-	42
Customer accounts	**-**	**1,837**	**-**	**1,837**	-	2,174	-	2,174
Derivatives	**-**	**609**	**-**	**609**	-	744	-	744
Total	**-**	**2,495**	**-**	**2,495**	-	2,960	-	2,960

	Bank							
	2014				2013			
	Level 1 [(1)]	**Level 2 [(2)]**	**Level 3 [(3)]**	**Total**	Level 1	Level 2	Level 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Assets								
Debt securities	**-**	**6**	**-**	**6**	-	9	-	9
Derivatives	**-**	**5**	**-**	**5**	-	16	-	16
Total	**-**	**11**	**-**	**11**	-	25	-	25
Liabilities								
Customer accounts	**-**	**265**	**-**	**265**	-	312	-	312
Derivatives	**-**	**48**	**-**	**48**	-	47	-	47
Total	**-**	**313**	**-**	**313**	-	359	-	359

(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 collaterised 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.

8. Financial instruments (continued)

Level 3 portfolio movement tables

Equity shares	2014 £m	2013 £m
At 1 January	**7**	7
Additions	**2**	4
Disposals	**(3)**	(4)
Fair value adjustment	**20**	-
At 31 December	**26**	7

The following tables show the carrying values and the fair values of financial instruments on the balance sheet carried at amortised cost: all assets and liabilities carried at amortised cost on the balance sheet fall within level 3 of the valuation methodologies, as set out on page 41.

	Group			
	2014	**2014**	2013	2013
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets				
Cash and balances at central banks	**884**	**884**	867	867
Loans and advances to banks	**8,925**	**8,910**	9,752	9,752
Loans and advances to customers	**24,467**	**21,853**	28,263	22,643
Financial liabilities				
Deposits by banks	**6,287**	**6,287**	8,619	8,619
Customer accounts	**19,187**	**19,215**	20,124	20,175
Debt securities in issue	**1,707**	**1,567**	1,908	1,575
Subordinated liabilities	**1,031**	**872**	1,175	1,175

8. Financial instruments (continued)

	Bank			
	2014	**2014**	2013	2013
	Carrying value	**Fair value**	Carrying value	Fair value
	£m	**£m**	£m	£m
Financial assets				
Cash and balances at central banks	**647**	**647**	624	624
Loans and advances to banks	**6,897**	**6,897**	7,236	7,236
Loans and advances to customers	**4,340**	**4,127**	4,930	4,496
Financial liabilities				
Deposits by banks	**4,159**	**4,159**	4,485	4,485
Customer accounts	**5,713**	**5,714**	6,506	6,508
Debt securities in issue	**10**	**10**	9	9
Subordinated liabilities	**883**	**740**	956	956

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.

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. As a wide range of valuation techniques are available, it may be inappropriate to compare the Group's fair value information to independent markets or other financial institutions' fair values.

The assumptions and methodologies underlying the calculation of fair values of financial instruments at the balance sheet date are set out below:

The fair value of financial instruments that are of short maturity (3 months or less) approximates their carrying value. This applies mainly to 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 and demand deposits.

The Group uses a number of methodologies to determine the fair values of financial instruments for which observable prices in active markets for identical instruments are not available. These techniques include: relative value methodologies based on observable prices for similar instruments; present value approaches where future cash flows from the asset or liability are estimated and then discounted using a risk-adjusted interest rate; option pricing models (such as Black-Scholes or binomial option pricing models) and simulation models such as Monte-Carlo.

8. Financial instruments (continued)

The principal inputs to these valuation techniques are listed below. Values between and beyond available data points are obtained by interpolation and extrapolation. When utilising valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk.

- Bond prices - quoted prices are generally available for government bonds, certain corporate securities and some mortgage-related products.
- Credit spreads - where available, these are derived from prices of credit default swaps or other credit based instruments, such as debt securities. For others, credit spreads are obtained from pricing services.
- Interest rates - these are principally benchmark interest rates such as the London Inter-Bank Offered Rate (LIBOR) and quoted interest rates in the swap, bond and futures markets.
- Foreign currency exchange rates - there are observable markets both for spot and forward contracts and futures in the world's major currencies.

Loans and advances to banks and customers
Fair value is estimated by grouping loans into homogeneous portfolios and applying a discount rate to the cash flows. The discount rate is based on the market rate applicable at the balance sheet date for a similar portfolio with similar maturity and credit risk characteristics. Where no similar market rates are available, values have been estimated based on expected future cash flows and other valuation techniques which involve uncertainties and require assumptions and judgements covering credit risk and observable market data.

Debt securities
Fair values are determined using quoted prices where available or by reference to quoted prices of similar instruments.

Deposits by banks and customer accounts
The 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 where available or by reference to valuation techniques, adjusting for own credit spreads where appropriate.

Remaining maturity

	Group		
	Less than 12 months	**More than 12 months**	**Total**
2014	**£m**	**£m**	**£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**
Subordinated liabilities	**20**	**1,011**	**1,031**

8. 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
Subordinated liabilities	81	1,094	1,175

	Bank		
	Less than 12 months	**More than 12 months**	**Total**
2014	**£m**	**£m**	**£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**
Subordinated liabilities	**20**	**863**	**883**

	Bank		
	Less than 12 months	More than 12 months	Total
2013	£m	£m	£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
Subordinated liabilities	20	936	956

9. Financial assets - impairments

The following table shows 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 2014	**11,059**	**2,774**	**933**	**14,766**
Currency translation and other adjustments	**(471)**	**(145)**	**(33)**	**(649)**
Amounts written-off [(1)]	**(1,094)**	**(128)**	**-**	**(1,222)**
Credit 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**

	Group			
	Individually assessed	Collectively assessed	Latent	Total
	£m	£m	£m	£m
At 1 January 2013	7,691	2,272	811	10,774
Currency translation and other adjustments	70	35	12	117
Amounts written-off [(1)]	(617)	(92)	-	(709)
Charge to the income statement	4,083	601	110	4,794
Unwind of discount	(168)	(42)	-	(210)
At 31 December 2013 [(2)]	11,059	2,774	933	14,766

	Bank			
	Individually assessed	**Collectively assessed**	**Latent**	**Total**
	£m	**£m**	**£m**	**£m**
At 1 January 2014	**2,135**	**366**	**76**	**2,577**
Other adjustments	**18**	**2**	**(4)**	**16**
Amounts written-off [(1)]	**(245)**	**(39)**	**-**	**(284)**
Credit 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**

	Bank			
	Individually assessed	Collectively assessed	Latent	Total
	£m	£m	£m	£m
At 1 January 2013	1,650	302	80	2,032
Other adjustments	(5)	-	(1)	(6)
Amounts written-off [(1)]	(146)	(29)	-	(175)
Charged to the income statement	661	98	(3)	756
Unwind of discount	(25)	(5)	-	(30)
At 31 December 2013 [(2)]	2,135	366	76	2,577

(1) Amounts written off do not include any loans and advances to banks.
(2) Impairment losses at 31 December 2014 and 31 December 2013 do not include any loans and advances to banks.

9. 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:

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

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

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

The following assets were past due at the balance sheet date but not considered impaired:

Group	**Past due 1–29 days**	**Past due 30–59 days**	**Past due 60–89 days**	**Past due more than 90 days**	**Total**
2014	**£m**	**£m**	**£m**	**£m**	**£m**
Loans and advances to customers	**690**	**312**	**325**	**124**	**1,451**
2013					
Loans and advances to customers	856	427	393	226	1,902

9. Financial assets - impairments (continued)

Bank

2014	**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**
Loans and advances to customers	**59**	**18**	**11**	**30**	**118**
2013					
Loans and advances to customers	71	19	9	61	160

The Group holds collateral in respect of certain loans and advances to banks and 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**	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Other property	**3**	13	**-**	-

10. Debt securities

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

	Bank							
	2014				2013			
	Other central and local government £m	**Bank and building society £m**	**Mortgage backed securities £m**	**Total £m**	Other central and local government £m	Bank and building society £m	Mortgage backed securities £m	Total £m
Available-for-sale	**-**	**-**	**6**	**6**	-	-	9	9

11. Equity shares

	Group					
	2014			2013		
	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	**-**	**6**	**6**	-	7	7
	-	**26**	**26**	2	7	9

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

12. Investments in Group undertakings

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

	Bank	
	2014	2013
	£m	£m
At 1 January	**3,110**	2,544
Exchange adjustment	**(27)**	9
Additional investments in Group undertakings	-	834
Impairment reversal/(loss)	**1,636**	(277)
At 31 December	**4,719**	3,110

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 (1)	Banking services, corporate and investment banking, foreign exchange services	Republic of Ireland

(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 with the UK 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.

13. Intangible assets

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

14. Property, plant and equipment

	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	149	43	83	188	**635**
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**	**143**	**41**	**78**	**111**	**508**
Accumulated impairment, depreciation and amortisation:						
At 1 January 2014	-	96	24	36	146	**302**
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	**-**	**93**	**24**	**39**	**86**	**242**
Carrying amount at 31 December 2014	**135**	**50**	**17**	**39**	**25**	**266**

	Group					
2013	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 2013	145	147	42	80	237	651
Currency translation and other adjustments	3	2	-	2	2	9
Additions	16	2	1	3	1	23
Disposals	(1)	(2)	-	(2)	(52)	(57)
Revaluation	9	-	-	-	-	9
At 31 December 2013	172	149	43	83	188	635
Accumulated impairment, depreciation and amortisation:						
At 1 January 2013	-	77	20	30	183	310
Currency translation and other adjustments	-	1	-	-	2	3
Disposals	-	(1)	-	(2)	(51)	(54)
Impairments	-	15	3	1	-	19
Depreciation charge for the year	-	4	1	7	12	24
At 31 December 2013	-	96	24	36	146	302
Carrying amount at 31 December 2013	172	53	19	47	42	333

14. Property, plant and equipment (continued)

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

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

	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	54	22	11	84	**171**
Additions	1	-	-	1	**2**
Disposals	-	-	-	(31)	**(31)**
At 31 December 2014	**55**	**22**	**11**	**54**	**142**
Accumulated impairment, depreciation and amortisation:					
At 1 January 2014	28	8	5	74	**115**
Disposals	-	-	-	(24)	**(24)**
Depreciation charge for the year	1	-	1	2	**4**
At 31 December 2014	**29**	**8**	**6**	**52**	**95**
Carrying amount at 31 December 2014	**26**	**14**	**5**	**2**	**47**

	Bank				
2013	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 2013	51	21	11	108	191
Additions	3	1	-	-	4
Disposals	-	-	-	(24)	(24)
At 31 December 2013	54	22	11	84	171
Accumulated impairment, depreciation and amortisation:					
At 1 January 2013	24	7	4	92	127
Disposals	-	-	-	(24)	(24)
Impairments	3	1	-	-	4
Depreciation charge for the year	1	-	1	6	8
At 31 December 2013	28	8	5	74	115
Carrying amount at 31 December 2013	26	14	6	10	56

There have been no disposals of freehold land and building during the year (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 8.

15. 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					
	2014			2013		
	Notional amounts	**Assets**	**Liabilities**	Notional amounts	Assets	Liabilities
	£m	**£m**	**£m**	£m	£m	£m
Over-the counter derivaties						
Foreign exchange contracts:						
Spot, forwards and futures	**2,887**	**51**	**51**	1,789	24	28
Currency swaps	**1,355**	**41**	**128**	1,379	61	189
Interest rate contracts:						
Interest rate swaps	**39,979**	**428**	**428**	46,532	324	525
Options purchased	**177**	**2**	**-**	1,948	3	-
Options written	**175**	**-**	**2**	242	-	2
Equity and commodity contracts	**1,560**	**135**	**-**	1,961	149	-
	46,133	**657**	**609**	53,851	561	744

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

16. Prepayments, accrued income and other assets

	Group		Bank	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Prepayments	**13**	12	**3**	3
Accrued income	**12**	12	**3**	3
Other assets	**16**	212	**2**	188
	41	236	**8**	194

17. Accruals, deferred income and other liabilities

	Group		Bank	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Notes in circulation	**674**	635	**674**	635
Accruals	**144**	181	**39**	50
Deferred income	**4**	1	**-**	-
Other liabilities	**140**	191	**39**	50
	962	1,008	**752**	735

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

Provisions of £101m (2013: £159m) for the Group and £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**

	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**

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.

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.

There has been significant progress during 2014 in relation to the project established to assess and pay redress to customers. This has resulted in actual redress payments of £4m during 2014. As a result of a legal case ruling in 2014 and a re-assessment of the non-sophisticated customer listing utilising project testing rules; the non-sophisticated customer listing has been reduced which resulted in a provision release of £19m during the year.

As the redress and review exercise progresses it is likely that the level of the provision will change. There remain significant uncertainties over the number of transactions that will qualify for redress and the nature and cost of that redress.

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.

18. Deferred taxation

Provision for deferred taxation has been made as follows:

	Group		Bank	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Deferred tax asset	**224**	75	**1**	1
Deferred tax liability	**(31)**	(24)	**(28)**	(21)
Net deferred tax asset/(liability)	**193**	51	**(27)**	(20)

	Group						
	Pension	Accelerated capital allowances	Deferred gains	Fair value on financial instruments	Other	Tax losses	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2013	(8)	1	(7)	1	(4)	73	56
(Charge)/credit to income statement	(5)	(1)	2	(1)	-	-	(5)
Charge to equity directly	(2)	-	-	-	-	-	(2)
Other	-	-	-	-	1	1	2
At 1 January 2014	(15)	-	(5)	-	(3)	74	51
(Charge)/credit to income statement	(7)	-	1	-	-	158	152
Charge to equity directly	(1)	-	-	-	-	-	(1)
Other	-	-	-	-	-	(9)	(9)
At 31 December 2014	**(23)**	**-**	**(4)**	**-**	**(3)**	**223**	**193**

A deferred tax asset of £223m (2013: £74m) has been recognised in respect of £1,784m (2013: £592m) of total tax losses of £8,599m (2013: £11,546m) carried forward at 31 December 2014. These losses arose principally from significant impairment losses reflecting weak economic conditions in the Republic of Ireland. Impairment losses are falling as the Irish economy continues 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 company by the end of 2021. Under Irish tax legislation, tax losses do not expire and can be carried forward indefinitely.

Deferred tax liabilities of £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	Fair value on financial instruments	Total
	£m	£m	£m	£m	£m
At 1 January 2013	(8)	1	(7)	1	(13)
(Charge)/credit to income statement	(5)	(1)	2	(1)	(5)
Charge to equity directly	(2)	-	-	-	(2)
At 1 January 2014	(15)	-	(5)	-	(20)
(Charge)/credit to income statement	(8)	1	1	-	(6)
Charge to equity directly	(1)	-	-	-	(1)
At 31 December 2014	**(24)**	**1**	**(4)**	**-**	**(27)**

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted in July 2013 now standing at 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015. The closing deferred tax assets and liabilities have been calculated at 20% in accordance with the rates enacted at the balance sheet date.

19. Subordinated liabilities

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

	Group		Bank	
	2014	2013	**2014**	2013
	£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 plc	**100**	100	**100**	100
€400m floating rate loan capital repayable 2017				
- held by RBS plc	**311**	334	**311**	333
€180m floating rate loan capital repayable 2020				
- held by RBS plc	**140**	150	**140**	150
€380m floating rate loan capital repayable 2022				
- held by RBS plc	**296**	316	**219**	233
	867	940	**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 plc	**93**	100	**93**	100
€38m 11.375% perpetual tier two capital	**44**	47	**-**	-
£20m 11.75% perpetual tier two capital	**25**	25	**-**	-
£1.3m floating rate perpetual tier two capital	**2**	2	**-**	-
	164	174	**93**	100
Total	**1,031**	1,175	**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 fellow subsidiary undertakings, the immediate parent company and the ultimate holding company are 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.

Dated subordinated bonds
The Sterling fixed subordinated bonds due to mature on 4 April 2018 were called during the year.

19. Subordinated liabilities (continued)

Undated loan capital
The €120m loan note is held by RBS plc and is 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.

20. Share capital

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

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

21. Leases

Amounts receivable under finance lease and hire purchase agreements:

	Group					
	2014			2013		
Year in which receipt will occur:	**Gross amounts £m**	**Present value adjustments £m**	**Present value £m**	Gross amounts £m	Present value adjustments £m	Present value £m
Within 1 year	**53**	**(5)**	**48**	59	(7)	52
After 1 year but within 5 years	**72**	**(6)**	**66**	71	(6)	65
After 5 years	**1**	**-**	**1**	-	-	-
	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 qualify as finance leases.

Minimum amounts payable under non–cancellable leases:

	Group							
	2014				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**	Within 1 year £m	After 1 year but within 5 years £m	After 5 years £m	Total £m
Operating lease obligations:								
Premises	**18**	**55**	**122**	**195**	19	65	135	219
Equipment	**1**	**-**	**-**	**1**	1	1	-	2
	19	**55**	**122**	**196**	20	66	135	221

	Bank							
	2014				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**	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**	1	3	88	92

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

22. 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.

The fair value (and carrying value) of securities transferred under repurchase transactions included within debt securities on the balance sheet were £nil (2013: £nil). Securities received as collateral under reverse repurchase agreements amounted to £nil (2013: £nil).

Other collateral given

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

	Group	
	2014	2013
Liabilities secured by charges on assets	**£m**	£m
Debt securities in issue	**1,697**	1,890
Deposits by banks	**-**	1,889
Derivatives	**33**	25
	1,730	3,804

Of the assets above, £8.6 billion (2013: £9.3 billion) relates to securitisations.

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. Note 23 aims to address the significant exposures which arise from the Group's activities through specific types of SPEs.

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.

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

23. Risk management

The major risks associated with the Group's businesses are market, liquidity, credit, 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.

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. RBS 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.

At an RBS level, the 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 assumes a time horizon of one trading day and confidence level of 99% as it is considered that this provides greater clarity in respect of more severe potential economic outcomes. The Group's VaR model is based on a historical simulation model utilising data from the previous two years' trading results.

The Group calculates VaR using historical simulation models but does not make any assumption about the nature or type of underlying loss distribution other than implied by history. The methodology uses the previous 500 trading days of market data and 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 money market portfolios at the close of business. Treasury 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 currency risk. Non-trading risk is managed by both the Money Market Desk and Treasury, and arises from mismatches between the repricing of assets and liabilities in its wholesale markets, retail business and corporate bank.

23. Risk management - market risk (continued)

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

	31 December 2013 £m	Maximum £m	Minimum £m	Average £m
Value-at-Risk	0.7	1.7	0.5	0.9

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

	31 December 2013 £m	Maximum £m	Minimum £m	Average £m
Value-at-Risk	0.7	1.7	0.5	0.9

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 relevant division through 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.

23. Risk management – market risk (continued)

Treasury interest rate risk (continued)
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.

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 2014:

	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**

	2013					
	Net assets of overseas investment	Minority interest	Net investments	Currency borrowings	Economic hedges	Structural foreign currency exposures
	£m	£m	£m	£m	£m	£m
Euro	4,090	(26)	4,064	(416)	(1,660)	1,988

At 31 December 2014, a 5% strengthening of foreign currencies would result in a structural foreign currency gain of £184m in equity (2013: £99m) and a 5% weakening of foreign currencies would result in a structural foreign currency loss of £184m in equity (2013: £99m).

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 2014, exchange losses of £276m (2013: gains £185m) have been charged to reserves.

23. Risk management (continued)

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.

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.

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 sooner if the Group's own liquidity position changes, or if market conditions and/or regulatory rules warrant further amendment or refinement.

Policy, framework and governance
The Group has in place a robust and comprehensive set of policies and procedures for assessing, measuring and managing the liquidity risk within the Group. This ensures that the Group always maintains sufficient eligible and appropriate financial resources to meet its forward looking financial commitments as they fall due.

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 the Treasury which monitors and controls the Group's funding and liquidity position.

Similar provisions and requirements exist for each entity within the Group, whereby they must comply with both internal standards and local regulatory frameworks.

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 PRA and the FCA. The PRA is the consolidated supervisor of RBS and is responsible for promoting the safety and soundness of systemically important financial institutions in the UK. The FCA provide 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 level, the rules focus on the UK Defined Liquidity Group (a subset comprising the RBS's five UK banks, The Royal Bank of Scotland plc, National Westminster Bank Plc, 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 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 CBI.

Liquidity measurement and monitoring
Liquidity risk is measured and assessed on a daily basis at an RBS level in compliance with requirements laid out by the FCA. The Group uses a set of internal metrics and analysis to assess liquidity risk.

The Group uses limits to manage and control the overall extent of liquidity risk within the balance sheet. Limits will focus on the aggregate amount and composition of particular sources of liabilities, asset liability mismatches and third party counterparty concentrations.

As further described herein, 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.

23. Risk management – liquidity risk (continued)

Liquidity measurement and monitoring (continued)
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 control functions such as Internal Audit. The Group is also subject to regulatory review and challenge.

Stress testing
In determining the adequacy of the Group's liquidity resources as part of the RBS UK Defined Liquidity Group, the Group evaluates its ability to survive when subjected to simulated stress conditions.

Simulated liquidity stress testing is regularly performed. Stress tests are designed to look at the impact of a variety of firm-specific and market-related scenarios on the adequacy of the Group's liquidity resources at various points in time. 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 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 informs 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.

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 and receives ongoing capital, funding and liquidity resources which, coupled with other sources of funding and liquidity, enable the Group to meet its obligations as they fall due. Other sources of funding and liquidity include retail, wholesale and central bank liquidity facilities.

23. Risk management – liquidity risk (continued)

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					
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
Finance leases	6	16	25	4	-	-
Total maturing assets	7,320	2,094	1,736	833	-	1
Loans and advances to customers	3,675	2,839	4,011	3,450	6,237	7,745
Total assets	**10,995**	**4,933**	**5,747**	**4,283**	**6,237**	**7,746**
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	**(9,843)**	**333**	**2,982**	**3,337**	**5,269**	**7,254**
Cumulative maturity gap	**(9,843)**	**(9,510)**	**(6,528)**	**(3,191)**	**2,078**	**9,332**

	Group					
2013	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	867	-	-	-	-	-
Loans and advances to banks	7,333	349	1,099	971	-	-
Finance leases	7	18	28	4	-	-
Total maturing assets	8,207	367	1,127	975	-	-
Loans and advances to customers	4,158	3,817	4,607	3,693	6,498	8,722
Total assets	12,365	4,184	5,734	4,668	6,498	8,722
Liabilities by contractual maturity						
Deposits by banks	5,908	776	1,953	57	1	-
Debt securities in issue	53	126	289	246	466	519
Subordinated liabilities	23	9	44	415	716	68
Other liabilities	846	-	-	-	-	-
Total maturing liabilities	6,830	911	2,286	718	1,183	587
Customer accounts	16,706	3,188	1,238	1,034	191	-
Total liabilities	23,536	4,099	3,524	1,752	1,374	587
Maturity gap	(11,171)	85	2,210	2,916	5,124	8,135
Cumulative maturity gap	(11,171)	(11,086)	8,876	(5,960)	(836)	7,299

23. 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	1,079	520	697	624	1,102	1,163
Total assets	**5,413**	**800**	**2,408**	**1,453**	**1,551**	**1,164**
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	**(3,903)**	**31**	**1,400**	**1,288**	**1,094**	**1,164**
Cumulative maturity gap	**(3,903)**	**(3,872)**	**(2,472)**	**(1,184)**	**(90)**	**1,074**

	Bank					
2013	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	624	-	-	-	-	-
Loans and advances to banks	4,387	350	1,099	971	429	-
Total maturing assets	5,011	350	1,099	971	429	-
Loans and advances to customers	1,171	662	712	777	973	13,330
Total assets	6,182	1,012	1,811	1,748	1,402	13,330
Liabilities by contractual maturity						
Deposits by banks	2,961	723	752	50	-	-
Debt securities in issue	3	3	4	-	-	-
Subordinated liabilities	20	-	20	333	583	-
Other liabilities	822	-	-	-	-	-
Total maturing liabilities	3,806	726	776	383	583	-
Customer accounts	5,536	687	328	258	10	-
Total liabilities	9,342	1,413	1,104	641	593	-
Maturity gap	(3,160)	(401)	707	1,107	809	13,330
Cumulative maturity gap	(3,160)	(3,561)	(2,854)	(1,747)	(938)	392

23. Risk management - liquidity risk (continued)

Contractual maturity (continued)

Other contractual cash obligations

	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**

	Group					
2013	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	15	36	30	31	18
Contractual obligations to purchase goods or services	1	2	3	6	-	-
	6	17	39	36	31	18

	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**

	Bank					
2013	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	2	1	1	2
Contractual obligations to purchase goods or services	-	1	1	3	-	-
	-	2	3	4	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.

23. 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. 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.

Objectives, organisation and governance
The existence of a strong credit risk management function is vital to support the ongoing profitability of the Group. The potential for loss through economic cycles is mitigated through the embedding of a robust credit risk culture within the business units and through a focus on the importance of sustainable lending practices. The credit risk management function is responsible for credit approval, concentration and credit risk control frameworks and acts as the ultimate authority for the approval of credit. This, together with strong independent oversight and challenge, enables the business to maintain a sound lending environment.

Responsibility for development of RBS wide policies, credit risk frameworks, RBS wide portfolio management and assessment of provision adequacy resides with the RBS Credit Risk ("RBS CR") function under the management of the RBS Chief Credit Officer ("RBS CCO"). Responsibility for application of these policies within the Group resides with the Ulster Bank Group Chief Risk Officer ("UB CRO").

Ulster Bank Credit Risk ("UB CR") works together with RBS CR to ensure that the expressed risk appetite is met, within a clearly defined and managed control environment. UB CR operates under the management of the Ulster Bank Retail and Wholesale Chief Credit Officers who also have matrix responsibility to the RBS CCO

Material aspects of the RBS credit risk management framework, such as credit risk appetite and limits for portfolios of strategic significance, are considered and approved by the RBS Executive Risk Forum ("ERF"). The ERF has delegated authority to the RBS Credit Risk Committee to act on credit risk matters. These include, but are not limited to, credit risk appetite and limits (within the overall risk appetite set by the Board and the ERF), credit risk strategy and frameworks, credit risk policy and the oversight of the credit profile across RBS.

In the Group material sector concentrations are reviewed by the Executive Risk Committee while other sector limits are approved by the Concentration Risk Committee.

The Prudential Regulation Authority (PRA) has highlighted the shortcomings of the Commercial Real Estate models used by all UK regulated entities. It has advised the Group to adopt the "Specialised Lending" approach to determine capital requirements. This approach was introduced in 2013 and is now fully operational.

The Group's Audit Committee provides oversight of the Group's provision adequacy. The Ulster Bank Retail and Wholesale Chief Credit Officers are accountable to the Audit Committee for the adequacy of the Group's provisions, both individual and collective. The Ulster Bank Provisions Committee is chaired by the RBS CCO and approves provisions recommended to it by the business functions.

Credit risk management framework
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. The Group also manages its exposures to counterparty credit risk closely, using portfolio limits and specific tools to control more volatile or capital intensive business areas.

23. Risk management – credit risk (continued)

Risk appetite
Of particular relevance in the management of credit risk are the targets for earnings volatility, economic capital and capital adequacy. The Group's credit risk framework has therefore been designed around the factors that influence the Group's ability to meet these targets. These include the limiting of excess credit risk concentrations which generate higher volatility under stress and, if not adequately controlled, can undermine capital adequacy.

Wholesale
Four formal frameworks are used to manage wholesale credit concentration risk. The Group continually reassesses its frameworks to ensure that they remain appropriate for its varied business franchises, current economic conditions and to reflect further refinements in the Group's risk measurement models.

Concentration risk management: The Group's credit concentration frameworks are designed to limit concentration by product/asset class, industry sector, customer or counterparty (i.e. single name) and country. The frameworks are supported by a suite of policies that set out the risk parameters within which business units may operate.

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 settlement, wrong-way risk and products such as long-dated derivatives and securitisation. These product and asset classes may require formal policies, expertise, tailored monitoring and reporting measures. In some cases, specific limits and thresholds are deployed to ensure that the credit risk inherent in these lines of business and products is adequately controlled. Product and asset classes are reviewed regularly. The reviews consider the risks inherent in each product or asset class, the risk controls applied, monitoring and reporting of the risk, the client base, and any emerging risks to ensure risk appetite remains appropriate.

Sector concentration: Exposures are assigned to, and reviewed in the context of, a defined set of industry sectors. Risk appetite and portfolio strategies are set either at the sector or sub-sector level, depending on where exposures may result in excessive concentration or where trends in both external factors and internal portfolio performance give cause for concern. Regular formal reviews are undertaken at Group or divisional level depending on materiality. Reviews may include an assessment of the Group's franchise in a particular sector, an analysis of the outlook, identification of key vulnerabilities and stress testing

As a result of the reviews carried out in 2014 and the implementation of the RCRI deleveraging strategy, the Group further reduced its risk appetite in the commercial real estate and retail sectors. Other reviews undertaken throughout the year included the leisure, agriculture, food & consumer and healthcare wholesale portfolios. In all cases a review of existing risk appetite parameters and strategy was undertaken.

Following approval of the revised RBS sector concentration framework in August 2014, sectors will be classified going forward based on their position relative to:

- Other sectors, in terms of size (measured as a percentage of overall exposure) and riskiness (measured using the total losses under stress using Economic Capital measures)
- A benchmark portfolio, which is defined as a portfolio that satisfies earnings volatility targets from a credit loss point of view

Single name concentration: A 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. If the Group decides that its exposure is too high, it may decide to sell excess exposures. Alternatively, it may decide to take additional security or guarantees such as cash, bank or government guarantees or credit default swaps. Credit risk mitigants must be effective in terms of legal certainty and enforceability. In addition, maturity or expiry dates must be the same, or later, than the underlying obligations.

23. Risk management – credit risk (continued)

Risk appetite and concentration risk management (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 CCO 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 a framework set out in the RBS Credit Risk Policy, which is dependent on their experience and expertise. Only a small number of senior executives hold the highest authority provided under the framework. While both parties are accountable for the quality of 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 Group and/or divisional credit policies;
- The customer's ability to meet obligations based on an analysis of financial information and a review of payment and covenant compliance history;
- The source of repayment and the customer's risk profile, including sector analysis and sensitivity to economic and market developments, and credit risk mitigation;
- Refinancing risk - the risk of loss arising from the failure of a customer to settle an obligation on expiry of a facility through the drawdown of another credit facility provided by the Group or by another lender;
- Consideration of all 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 or agreed divisional risk appetite.

At a minimum, credit relationships are reviewed and re-approved annually. The renewal process addresses: borrower performance, including reconfirmation or adjustment of risk parameter estimates; the adequacy of security; and compliance with terms and conditions. For certain counterparties, early warning indicators are also in place to detect deteriorating trends in limit utilisation or account performance, and to prompt additional oversight.

Since 2009, the Group has been managing its corporate exposures to reduce concentrations and align its appetite for future business to the Group's broader strategies for its large corporate franchises. The Group is continually reviewing its single name concentration framework to ensure that it remains appropriate for current economic conditions and in line with improvements in the Group's risk measurement models.

In 2014 revised RBS Large Corporate Single Name Concentration (SNC) exposure controls were introduced to coincide with the implementation of a new Credit Grading model. The RBS SNC exposure control limits were recalibrated in line with the new PD model to maintain risk appetite and ensure RBS remains in line with peers.

As part of the RBS SNC Framework review the Group also recalibrated its own control limits on a pro-rated basis. The Framework review is on-going with a conclusion expected in 2015, key objectives to include:

- Simplifying the framework to encourage efficiencies and ensure it remains fit for purpose
- Further embedding the framework as a risk appetite tool
- Ensuring the limits are sized appropriately for the Group's core customer base and future strategy

In 2014 the Group continued to implement further refinements to the sector, single name and product and asset class exposure management controls that were already in place to be more closely aligned with market best practice and to allow the Group to differentiate more consistently between the different risk types.

Significant progress has continued on embedding the necessary risk management frameworks to monitor and manage the risk inherent in the portfolios. The implementation of the RCRI strategy of accelerated deleveraging and the ongoing recovery in the Commercial Real Estate market in Ireland has improved the overall risk profile of the balance sheet. While there remains further improvement to be delivered and the overall portfolio remains outside the desired risk appetite, the position has materially improved during 2014. The RCRI accelerated disposal of a significant portfolio of legacy wholesale assets has delivered ahead of expectations and represents an important step towards bringing the credit risk profile back within the desired appetite. Successful execution of the remainder of the deleverage strategy will represent very material progress towards the desired goal.

23. Risk management – credit risk (continued)

Risk appetite and concentration risk management (continued)

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 their other lenders. The Group then uses the results of these analyses to set its lending rules, developing different rules for different products. The resulting credit decision-making process is then largely automated, 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, including some residential mortgage lending, specialist credit managers make the final lending decisions.

General
The Group's business and credit teams are supported by specialist in-house documentation teams. The Group uses industry-standard loan and security documentation wherever possible. However, when the Group uses non-standard documentation, external lawyers prepare it on a case-by-case basis.

Country
Country risk arises from sovereign events (for example, default or restructuring); economic events (for example, contagion of sovereign default to other parts of the economy or cyclical economic shock); political events (for example, convertibility restrictions and expropriation or nationalisation); and natural disaster or conflict. Such events have the potential to impact elements of the Group's credit portfolio that are directly or indirectly linked to the affected country and can also give rise to market, liquidity, operational and franchise risk related losses. Sovereign risk is discussed on page 85.

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.

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.

23. Risk management – credit risk (continued)

Forbearance (continued)

Types of retail forbearance (continued)

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

	2014		2013	
	Balance	**Provisions**	Balance	Provisions
Arrears status and provisions	**£m**	**£m**	£m	£m
No missed payments	**2,231**	**299**	1,362	166
1-3 months in arrears	**689**	**110**	631	76
>3 months in arrears	**960**	**267**	789	323
Total	**3,880**	**676**	2,782	565

The incidence of the main types of retail forbearance on the balance sheet as at 31 December 2014 is analysed below. Definitions are based on those used within the FCA forbearance guidelines. For a small proportion of mortgages, more than one forbearance type applies.

	2014	2013
	£m	£m
Interest only	**346**	512
Term extensions – capital repayment & interest only	**501**	325
Payment concession/holidays	**2,305**	1,567
Capitalisation of arrears	**1,364**	493
Total	**4,516**	2,897
% of total mortgage stock	**25.8**	15.2

Provisioning methodology

If there is 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 to assess impaired assets in provisioning differs from that taken in Collections and Recoveries.

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. The provision also incorporates any adjustments that may be deemed appropriate given current economic conditions. Such adjustments may be determined based on a review of the latest cash collections profile; and operational processes used in managing exposures.

Latent loss provisions

In the performing portfolio, provisions are held against losses incurred but not identified before the balance sheet date.

Latent loss provisions reflect probability of default ("PD") and loss given default ("LGD") as well as emergence periods. The emergence period is defined as the period between the occurrence of the impairment event and a loan being identified and reported as impaired.

23. Risk management – credit risk (continued)

Provisioning for retail customers
Provisions are assessed in accordance with the Group's provisioning policies which comply with IAS 39. For the non-performing population, a collective assessment is made. Within the performing book, latent loss provisions are held for those loans that are impaired but not yet identified.

Mortgage accounts with active forbearance arrangements in place may be classified in either the performing or non-performing book depending on the arrangement type, date 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. This rate is significantly higher than 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.

Controls and assurance
The Group's credit control and assurance framework comprises three key components: credit policy, policy compliance assurance and independent assurance.

The foundation is the RBS Credit Policy Standard, which as part of the RBS Policy Framework ("RBS PF"), sets out the rules the RBS's businesses must follow to ensure that credit risks are identified and effectively managed through the credit lifecycle. During 2012, a major revision of the RBS key credit policies was completed. This revision has provided support in ensuring that the Group's control environment is appropriately aligned to the approved risk appetite, and provides a sound basis for the Group's independent audit and assurance activities across the credit risk function.

The second component is a policy assurance activity that RBS CR undertakes to provide the RBS CCO with evidence of the effectiveness of the controls in place across the Group to manage credit risk. The results of these reviews are presented to the RBS Credit Risk Committee on a regular basis in support of the self-certification that RBS CR is obliged to complete under the RBS PF.

Lastly, a strong, robust and independent assurance function is an important element of a sound control environment. During 2011, RBS PF took the decision to strengthen its Risk Assurance ("RA") activities and transferred all divisional RA resources, including RA resources within the Group, to a centralised operating model under the management of RBS CR. The benefits of this action have been tangibly reflected in greater independence, efficiency and improved governance of the RA function. RA Activities reflect an improved consistency of standards and cross-utilisation of resources from across RBS, ensuring that subject matter experts bring their expertise to bear where relevant.

Reviews undertaken consistently address the four underlying risk pillars of: risk management, risk appetite, ratings and data integrity, and asset quality. Appropriate identification, escalation, remediation and related tracking of control breaches and improvements in operational processes are firmly embedded in the assurance process to ensure that divisions act upon review findings.

Credit risk measurement
Credit risk models are used throughout the Group to support the quantitative risk assessment element within the credit approval process, ongoing credit risk management, monitoring and reporting and portfolio analytics.

The Group is continuing a significant programme of updates and improvements to its wholesale credit risk models, including the incorporation of more recent data and reflecting updated regulatory requirements applying to some aspects of wholesale Internal Ratings Based ("IRB") modelling. Material updates to certain models, notably those used in the corporate asset class (specifically large corporates with turnover greater than £50m), have been implemented and are reflected in measures of risk reported in the Group's disclosures. Further updates are planned. In addition, in accordance with the instruction from the PRA, the Group has begun to transition relevant performing income producing real estate assets to the slotting approach, under which regulatory prescribed weights are used to determine risk weighted assets and capital requirements.

The model updates are generally in segments of the portfolio where risk experience has remained limited even in recent periods and primarily result in increases to measures that still remain within ranges representing lower risk business relative to the Group's broader risk profile; in terms of probability of default models, for example, the changes occur largely within ranges equivalent to investment grade ratings.

Material aspects of these changes have been anticipated in risk frameworks and in other areas that are dependent on these measures, notably including the Group's risk appetite framework. In some portfolios the anticipated impact on risk weighted assets has been realised, as part of a process defined with regulators, prior to introduction of the updated models.

23. Risk management – credit risk (continued)

Credit risk measurement (continued)

These models assess the probability that a customer will fail to make full and timely repayment of its obligations. The probability of a customer failing to do so is measured over a one year period through the economic cycle, although certain retail scorecards use longer periods for business management purposes.

Wholesale businesses **-** As part of the credit assessment process, each counterparty is assigned an internal credit grade derived from a default probability. There are a number of different credit grading models in use across the Group, each of which considers risk characteristics particular to that type of customer. The credit grading models score a combination of quantitative inputs (for example, recent financial performance) and qualitative inputs (for example, management performance or sector outlook).

Retail businesses **-** Each customer account is separately scored using models based on the most material drivers of default. In general, scorecards are statistically derived using customer data. Customers are assigned a score, which in turn is mapped to a PD. The PD are used to support automated credit decision making and to group customers into risk pools for regulatory capital calculations.

Exposure at default

Facility usage models estimate the expected level of utilisation of a credit facility at the time of a borrower's default. For revolving and variable draw-down type products which are not fully drawn, the exposure at default ("EAD") will typically be higher than the current utilisation. The methodologies used in EAD modelling provide an estimate of potential exposure and recognise that customers may make more use of their existing credit facilities as they approach default.

Counterparty credit risk exposure 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 and excess management.

Loss given default

These models estimate the economic loss that may be experienced (the amount that cannot be recovered) by the Group on a credit facility in the event of default. The Group's loss given default models take into account both borrower and facility 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.

Credit risk assets

In the tables and commentary below, exposure refers to 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.

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.

23. Risk management - credit risk (continued)

Asset quality (continued)

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					
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	258	4
AQ2	-	159	20	33	423	1
AQ3	-	1,066	4	14	456	25
AQ4	-	246	1,763	57	526	158
AQ5	-	-	7,008	5	599	85
AQ6	-	-	5,085	1	364	48
AQ7	-	-	1,381	1	181	51
AQ8	-	-	730	-	75	6
AQ9	-	-	2,785	-	26	1
AQ10	-	-	-	35	260	15
Accruing past due	-	-	1,451	-	-	-
Non–accrual	-	-	15,345	-	-	-
Impairment provisions	-	-	(11,326)	-	-	-
Total	**884**	**8,925**	**24,467**	**657**	**3,168**	**394**

23. Risk management - credit risk (continued)

Asset quality (continued)

	Group					
2013	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	624	9,543	142	358	238	34
AQ2	-	-	29	69	208	75
AQ3	-	18	73	2	37	48
AQ4	243	189	837	57	697	47
AQ5	-	2	2,022	6	719	55
AQ6	-	-	4,060	5	673	56
AQ7	-	-	5,701	8	415	50
AQ8	-	-	767	18	131	9
AQ9	-	-	8,284	38	56	3
AQ10	-	-	-	-	460	71
Accruing past due	-	-	1,902	-	-	-
Non–accrual	-	-	19,212	-	-	-
Impairment provisions	-	-	(14,766)	-	-	-
Total	867	9,752	28,263	561	3,634	448

	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	46	-
AQ2	-	-	-	-	47	-
AQ3	-	1	2	-	1,169	-
AQ4	-	-	913	-	102	4
AQ5	-	-	1,343	-	339	13
AQ6	-	-	607	-	149	12
AQ7	-	-	447	1	94	34
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**	**2,068**	**67**

23. Risk management - credit risk (continued)

Asset quality (continued)

	Bank					
2013	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	624	7,180	358	15	49	-
AQ2	-	-	10	-	3	-
AQ3	-	2	21	-	6	3
AQ4	-	2	264	-	88	7
AQ5	-	-	992	1	453	8
AQ6	-	-	860	-	183	7
AQ7	-	-	461	-	109	35
AQ8	-	-	210	-	49	1
AQ9	-	-	987	-	13	1
AQ10	-	-	-	-	114	16
Accruing past due	-	-	160	-	-	-
Non–accrual	-	-	3,184	-	-	-
Impairment provisions	-	52	(2,577)	-	-	-
Total	624	7,236	4,930	16	1,067	78

Loans and advances to customers, past due at balance sheet date but not considered impaired, are shown in Note 9.

23. Risk management – credit risk (continued)

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 table below analyses 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]
2014	£m	£m	£m	£m	£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.

23. Risk management – credit risk (continued)

Credit risk assets by industry and geography (continued)

	Group				
2013	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	-	-	-	-	-
Manufacturing	345	-	1	346	8
Construction	324	-	-	324	18
Finance	7,781	9	349	8,139	-
Service industries and business activities	870	-	1	871	49
Agriculture, forestry and fishing	267	-	-	267	54
Property	4,582	-	-	4,582	21
Individuals					
Home mortgages	2,256	-	-	2,256	-
Other	394	-	-	394	-
Interest accruals	10	-	-	10	-
Total UK	16,829	9	351	17,189	150
Republic of Ireland					
Central and local government	56	-	-	56	-
Manufacturing	756	-	17	773	8
Construction	452	-	-	452	20
Finance	426	7	72	505	-
Service industries and business activities	4,460	2	94	4,556	59
Agriculture, forestry and fishing	888	-	2	890	30
Property	11,304	-	25	11,329	5
Individuals					
Home mortgages	16,791	-	-	16,791	-
Other	783	-	-	783	1
Interest accruals	36	-	-	36	-
Total Republic of Ireland	35,952	9	210	36,171	123
Total					
Central and local government	56	-	-	56	-
Manufacturing	1,101	-	18	1,119	16
Construction	776	-	-	776	38
Finance	8,207	16	421	8,644	-
Service industries and business activities	5,330	2	95	5,427	108
Agriculture, forestry and fishing	1,155	-	2	1,157	84
Property	15,886	-	25	15,911	26
Individuals					
Home mortgages	19,047	-	-	19,047	-
Other	1,177	-	-	1,177	1
Interest accruals	46	-	-	46	-
	52,781	18	561	53,360	273

(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.

23. Risk management – credit risk (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]
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	-
Total UK	**13,443**	**6**	**5**	**13,454**	**139**
Republic of Ireland					
Central and local government	-	-	-	-	-
Manufacturing	-	-	-	-	-
Construction	-	-	-	-	-
Finance	-	-	-	-	-
Service industries and business activities	-	-	-	-	-
Agriculture, forestry and fishing	-	-	-	-	-
Property	-	-	-	-	-
Individuals					
Home mortgages	-	-	-	-	-
Other	-	-	-	-	-
Interest accruals	-	-	-	-	-
Total Republic of Ireland	**-**	**-**	**-**	**-**	**-**
Total					
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.

23. Risk management – credit risk (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)
2013	£m	£m	£m	£m	£m
UK					
Central and local government	-	-	-	-	-
Manufacturing	279	-	1	280	8
Construction	320	-	-	320	18
Finance	7,583	9	14	7,606	-
Service industries and business activities	710	-	1	711	49
Agriculture, forestry and fishing	267	-	-	267	54
Property	2,987	-	-	2,987	21
Individuals					
Home mortgages	2,256	-	-	2,256	-
Other	334	-	-	334	-
Interest accruals	7	-	-	7	-
Total UK	14,743	9	16	14,768	150
Republic of Ireland					
Central and local government	-	-	-	-	-
Manufacturing	-	-	-	-	-
Construction	-	-	-	-	-
Finance	-	-	-	-	-
Service industries and business activities	-	-	-	-	-
Agriculture, forestry and fishing	-	-	-	-	-
Property	-	-	-	-	-
Individuals					
Home mortgages	-	-	-	-	-
Other	-	-	-	-	-
Interest accruals	-	-	-	-	-
Total Republic of Ireland	-	-	-	-	-
Total					
Central and local government	-	-	-	-	-
Manufacturing	279	-	1	280	8
Construction	320	-	-	320	18
Finance	7,583	9	14	7,606	-
Service industries and business activities	710	-	1	711	49
Agriculture, forestry and fishing	267	-	-	267	54
Property	2,987	-	-	2,987	21
Individuals					
Home mortgages	2,256	-	-	2,256	-
Other	334	-	-	334	-
Interest accruals	7	-	-	7	-
	14,743	9	16	14,768	150

(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.

23. 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 arms 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.

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.

23. Risk management – credit risk (continued)

Credit risk mitigation (continued)

Corporate exposures (continued)
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.

Residential Mortgages
Ulster Bank's residential mortgage portfolio was £17.5 billion at 31 December 2014, with 87% in the Republic of Ireland and 13% in Northern Ireland. At constant exchange rates, the portfolio decreased 2.4% from 31 December 2013 as a result of amortisation and limited growth due to low market demand.

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	
	2014	2013
Residential mortgages – distribution by average LTV (1) indexed	**%**	%
<=50%	**34.6**	30.1
>50% and <=60%	**7.5**	6.5
>60% and <=70%	**7.5**	6.3
>70% and <=80%	**7.8**	6.3
>80% and <=90%	**8.0**	6.8
>90% and <=100%	**7.1**	6.4
>100%	**27.5**	37.6
Total portfolio average LTV at 31 December	**71.9**	82.9
Average LTV on new originations during the year	**75.2**	69.0

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

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

	Group	
	2014	2013
Personal	**%**	%
Mortgages	**10.2**	12.1

Collateral and other credit enhancements received
The Group's financial performance has reflected the turnaround in the Commercial Real Estate market with material recoveries in impairment provisions being achieved through write backs, arising from the disposal of real estate assets at prices ahead of expectations at year end 2013. Consequently, 87% (£8.8bn) of the Commercial Real Estate portfolio is actively managed by RCRI, of which £8.6bn is categorised Risk elements in Lending ("REiL") with a provision coverage of 82.3% Mortgages of £3.4bn have also been categorised as REiL.

	2014		2013	
Non-performing corporate loans (excluding commercial real estate)	**Loans** **£m**	**Provisions** **£m**	Loans £m	Provisions £m
Secured	**2,659**	**2,121**	3,075	2,266
Unsecured	**91**	**71**	299	220

23. Risk management – credit risk (continued)

Credit risk mitigation (continued)

Retail exposures
All borrowing applications, whether secured or not, are subject to appropriate credit risk underwriting processes including affordability assessments. 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 (Nationwide House Price Index in Northern Ireland and Central Statistics Office Residential Property Price Index in the Republic of Ireland).

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 by average loan to value (LTV)	**2014 £m**	2013 £m
<70%	**391**	366
>70% and <=90%	**276**	288
>90% and <=110%	**377**	344
>110% and <=130%	**512**	461
>130%	**1,022**	1,775
Total	**2,578**	3,234
Total portfolio average by LTV	**115.0%**	130.0%

Performing residential mortgages by average loan to value (LTV)	**2014 £m**	2013 £m
<70%	**4,842**	3,862
>70% and <=90%	**2,856**	2,325
>90% and <=110%	**2,810**	2,515
>110% and <=130%	**2,382**	2,509
>130%	**2,035**	4,586
Total	**14,925**	15,797
Total portfolio average by LTV	**88.0%**	102.7%

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.

	2014 £m	2013 £m
Derivative assets gross exposure	**27**	25

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. Regulatory Affairs & Compliance underpin a range of other policies and processes that address on-going compliance with regulatory obligations.

23. Risk management (continued)

Regulatory risk (continued)

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. 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).

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.
- Regulatory Affairs & Compliance 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.

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.

23. Risk management (continued)

Conduct risk (continued)

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.

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.

During 2014, significant developments have been made to improve and embed the outsourcing framework with a key focus on Technology risk. In addition, a comprehensive training programme was rolled out to Board and Senior Leaders within the Group.

Since the restructure of Risk in 2012, which established Risk Management Support Units in the business, there has been a focus on embedding a three lines of defence culture within the Group. During 2014 a number of first line activities have been transitioned to the front line businesses to strengthen their ability to manage operational risk.

The standards, which are incorporated in the Group's policy framework, provide the direction for delivering effective operational risk management and are designed to allow 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 ERC to satisfy oversight responsibilities and, as appropriate, to other senior committees.

Sovereign risk

The Group's sovereign portfolio comprises central governments, central banks and sub-sovereigns such as local authorities. Exposure predominantly comprises cash balances placed with central banks such as the Bank of England and the Central Bank of Ireland and German and French debt securities. Consequently the asset quality of the portfolio is high. Exposure to sovereigns fluctuates according to the Group's liquidity requirements and cash positions.

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 (UBPS) 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.

23. Risk management (continued)

Pension risk (continued)

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. In April 2010 the Group confirmed that it was making changes to the both of the schemes and the Group's other defined benefit scheme, the First Active Pension Scheme ("FAPS"). For some members, the Group has limited the amount by which pensionable salary increases (the "annual limit") to 2% per annum (or CPI inflation, if lower). For those who decided not to accept terms which included the pensionable salary cap, and were not in the Provident Fund sections of the schemes, the Group agreed with the trustees of the schemes a reduction in the accrual rate from 60ths to 80ths for future service, in return for improvements in future funding of the schemes. In 2012 a further contract offer was made and this has reduced the number of employees who are subject to the lower accrual rate and increased the number subject to the pensionable earnings cap.

During 2013, new funding agreements were put in place for the UBPSRI and FAPS 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).

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.

24. Capital resources

The Group operates in both the United Kingdom and the Republic of Ireland and is subject to regulatory oversight in both jurisdictions. Ulster Bank Limited is regulated by the PRA and the FCA in the United Kingdom and Ulster Bank Ireland Limited 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 2014 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).

24. Capital resources (continued)

	Bank	
	2014	2013
	£m	£m
Shareholders' equity (excluding non-controlling interests)		
Shareholders' equity	**4,272**	2,223
Regulatory adjustments and deductions		
Defined benefit pension fund adjustment	**(119)**	(77)
CET1 instruments of financial sector entities where the institution has a significant investment	**(1,944)**	(1,769)
	2,209	377
Other tier 1 capital		
Qualifying Tier 1 capital	**659**	959
Tier 1 deductions		
Transfer of traditional adjustment / excess from Tier 2	**(80)**	(895)
Total tier 1 capital	**2,788**	441
Qualifying tier 2 capital		
Undated subordinated debt	**-**	100
Dated subordinated debt - net of amortisation	**-**	755
Paid up capital instruments and subordinated loans	**735**	-
Surplus provision	**1**	20
	736	875
Tier 2 deductions		
Instruments of financial sector entities where the institution has a significant investment	**(200)**	(1,770)
Transfer transitional adjustment / excess to Tier 1	**80**	895
	(120)	(875)
Total tier 2 capital	**616**	-
Total regulatory capital	**3,404**	441
Key capital ratios	**%**	%
Tier 1	**19.8**	10.7
Total capital	**24.2**	10.7
Risk weighted assets by risk	**£m**	£m
Credit risk	**13,624**	3,579
Counterparty risk	**2**	13
Market risk	**7**	5
Operational risk	**412**	519
Total risk weighted assets	**14,045**	4,116

In the management of capital resources, the Bank is governed by the Ulster Bank 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 the Bank has regard to and has complied with the supervisory requirements of the PRA. This includes the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (Basel III).

24. Capital resources (continued)

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.

	Ulster Bank Ireland Limited	
	2014	2013
	€m	€m
Shareholders' equity (excluding non-controlling interests)	**6,527**	4,611
Non-controlling interests		
Non-controlling interests per balance sheet	**29**	31
Other adjustments to non-controlling interests for regulatory purposes	**(29)**	(31)
	-	-
Regulatory adjustments and deductions		
Defined benefit pension fund adjustment	**410**	218
Expected losses less impairment provisions	**(3)**	(3)
Other regulatory adjustments	**(1,563)**	(334)
	(1,156)	(119)
Core tier 1 capital	**5,371**	4,492
Deductions		
50% of material holdings	**-**	(18)
Total tier 1 capital	**5,371**	4,474
Qualifying tier 2 capital		
Undated subordinated debt	**-**	114
Dated subordinated debt - net of amortisation	**-**	697
Paid up capital instruments and subordinated loans	**679**	-
	679	811
Tier 2 deductions		
Expected losses less impairment provisions	**(6)**	(3)
50% of material holdings	**-**	(18)
	(6)	(21)
Total tier 2 capital	**673**	790
Total regulatory capital	**6,044**	5,264
Key capital ratios	**%**	%
Tier 1	**17.3**	11.5
Total capital	**19.5**	13.6
Risk weighted assets by risk		
Credit risk	**28,856**	35,876
Counterparty risk	**436**	592
Market risk	**41**	577
Operational risk	**1,732**	1,741
Total risk weighted assets	**31,065**	38,786

24. Capital resources (continued)

In the management of capital resources, Ulster Bank Ireland Limited 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 Ulster Bank Ireland Limited has regard to and has complied with the supervisory requirements of the ECB and CBI.

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 2014. 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	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Contingent liabilities:				
Guarantees and assets pledged as collateral security	**157**	201	**25**	25
Other contingent liabilities	**237**	247	**42**	53
	394	448	**67**	78
Commitments:				
Documentary credits and other short-term trade related transactions	**5**	5	**2**	3
Commitments to lend:				
- less than one year	**2,057**	2,517	**822**	966
- one year and over	**1,106**	1,112	**1,244**	98
	3,168	3,634	**2,068**	1,067

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.

25. Memorandum items (continued)

Contingent liabilities and commitments (continued)

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	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Property, plant and equipment				
Contracts to purchase goods or services	**13**	12	**6**	5

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 Group considers that it has substantial and credible legal and factual defences and is defending the claim vigorously.

Interest rate hedging products

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, who is reviewing and approving all redress outcomes, and the FCA (formerly the FSA) is overseeing this. RBS has reached agreement with the independent reviewer in relation to redress outcomes for almost all in scope customers. RBS and the independent reviewer are now focussing on customer responses to review outcomes, securing acceptance of offers and assessing ancillary issues such as consequential loss claims. The FCA has announced that the review and redress exercise will be closed to new entrants on 31 March 2015.

RBS and UBL 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 is carrying out a review of eligible Republic of Ireland customers which is expected to be completed during 2015.

In addition to the redress exercise that is being overseen by the FCA, RBS is also dealing with a large 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 are outside of the scope of that programme. RBS is encouraging those customers that are eligible to seek redress under the FCA redress programme to participate in that programme.

Ulster Bank Group has provided £33m (2014: £59m) in respect of this matter. As the actual amount that the Group will be required to pay, if any, will depend on the facts and circumstances of each case, there is no certainty as to the eventual costs of redress.

25. Memorandum items (continued)

Litigation and investigations (continued)

Technology incident in June 2012
On 19 June 2012 RBS, including Ulster Bank Limited, was affected by a technology incident, as a result of which the processing of certain customer accounts and payments were subject to considerable delay. The Group agreed to reimburse customers for any loss suffered as a result of the incident.

On 9 April 2013 the FCA announced that it had commenced an enforcement investigation into the incident. This was a joint investigation conducted by the FCA together with the UK Prudential Regulation Authority (PRA). Enforcement proceedings were then commenced. On 20 November 2014, RBS announced that it had reached agreement with the FCA and the PRA over failings in relation to the incident. RBS agreed a penalty of £42 million with the FCA and £14 million with the PRA. Separately the Central Bank of Ireland initiated an investigation and issued enforcement proceedings against Ulster Bank Ireland Limited. On 12 November 2014, the CBI announced that it had fined Ulster Bank Ireland Limited €3.5m in relation to its investigation.

Tomlinson Report
In November 2013 a report by Lawrence Tomlinson, entrepreneur in residence at the UK Government's Department for Business Innovation and Skills, was published ("Tomlinson Report"). The Tomlinson Report was critical of the Global Restructuring Group, a division of both RBS and Ulster Bank Group, with regard to the treatment of small to medium enterprises. The Tomlinson Report was passed to the PRA, FCA and the CBI.

The principal allegation made in the Tomlinson Report was that the Global Restructuring Group was alleged to be culpable of systemic and institutional behaviour in artificially distressing otherwise viable businesses and through that putting businesses into insolvency. RBS instructed the law firm Clifford Chance to conduct an independent review into the principal allegation made in the Tomlinson Report with respect to GRG UK. Their report was completed in April 2014, and they concluded that there was no evidence to support the principal allegation.

In June 2014, RBS instructed the law firm Mason Hayes & Curran to conduct a separate independent review of the principal allegation into practices at Ulster Bank's Global Restructuring Group in the Republic of Ireland. Mason Hayes & Curran published its report on 19 December 2014 and concluded that there was no evidence to support the principal allegation.

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 £1.5m for its share of estimated FSCS levies for the 2013/14 and 2014/15 scheme years

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	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Operating profit/(loss) before tax	**1,767**	(4,374)	**1,753**	(1,026)
Depreciation, amortisation and impairment of property, plant and equipment	**15**	43	**4**	12
Interest on subordinated liabilities	**15**	26	**9**	15
Gain on redemption of own debt	**-**	(239)	**-**	-
Charge for defined benefit pension schemes	**31**	32	**5**	6
Cash contribution to defined benefit pension schemes	**(79)**	(73)	**(44)**	(39)
Impairment (gains)/losses on loans and advances and amounts written off	**(2,693)**	4,085	**(379)**	581
Impairment of investments in Group undertakings	**-**	-	**(1,636)**	277
Elimination of foreign exchange differences	**(883)**	242	**105**	(13)
Other non-cash items	**(153)**	(110)	**(2)**	(75)
Net cash flows from trading activities	**(1,980)**	(368)	**(185)**	(262)
Decrease in loans and advances to banks and customers	**6,913**	1,986	**1,843**	535
Decrease in debt securities	**320**	-	**-**	-
Decrease/(increase) in other assets	**2**	(15)	**(5)**	(9)
(Increase)/decrease in derivative assets	**(96)**	163	**11**	21
Changes in operating assets	**7,139**	2,134	**1,849**	547
Decrease in deposits by banks and customers	**(3,599)**	(6)	**(1,166)**	(391)
(Decrease)/increase in debt securities in issue	**(201)**	(67)	**1**	7
(Decrease)/increase in other liabilities	**(33)**	6	**11**	53
(Decrease)/increase in derivative liabilities	**(135)**	(248)	**1**	(31)
Changes in operating liabilities	**(3,968)**	(315)	**(1,153)**	(362)
Total taxes received	**196**	88	**191**	86
Net cash flows from operating activities	**1,387**	1,539	**702**	9

27. Interest received and paid

	Group		Bank	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Interest received	**744**	1,012	**214**	306
Interest paid	**(245)**	(417)	**(102)**	(160)
	499	595	**112**	146

28. Analysis of changes in financing during the year

	Group					
	Share capital and share premium		**Capital contribution reserve**		**Subordinated liabilities**	
	2014	2013	**2014**	2013	**2014**	2013
	£m	£m	**£m**	£m	**£m**	£m
At 1 January	**2,412**	2,412	**14,512**	13,507	**1,175**	1,157
Net cash flows from financing	**-**	-	**-**	1,005	**(80)**	-
Currency translation and other adjustments	**-**	-	**-**	-	**(64)**	18
At 31 December	**2,412**	2,412	**14,512**	14,512	**1,031**	1,175

	Bank					
	Share capital and share premium		**Capital contribution reserve**		**Subordinated liabilities**	
	2014	2013	**2014**	2013	**2014**	2013
	£m	£m	**£m**	£m	**£m**	£m
At 1 January	**2,412**	2,412	**14,512**	13,507	**956**	939
Net cash inflows from financing	**-**	-	**-**	1,005	**(20)**	-
Currency translation and other adjustments	**-**	-	**-**	-	**(53)**	17
At 31 December	**2,412**	2,412	**14,512**	14,512	**883**	956

29. Analysis of cash and cash equivalents

	Group		Bank	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
At 1 January				
Cash	**867**	725	**624**	545
Cash equivalents	**7,204**	5,800	**2,979**	2,859
	8,071	6,525	**3,603**	3,404
Net cash (outflow)/inflow	**(698)**	1,485	**681**	178
Effect of exchange rate changes on cash and cash equivalents	**(176)**	61	**(131)**	21
At 31 December	**7,197**	8,071	**4,153**	3,603
Comprising:				
Cash and balances at central banks	**884**	867	**647**	624
Loans and advances to banks and debt securities	**6,313**	7,204	**3,506**	2,979

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 directors manage the Group primarily by class of business and 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:

Retail Banking provides loan and deposit products through a network of branches and direct channels.

Corporate Banking provides services to business and corporate customers.

Both Retail Banking and Corporate Banking are supported by business services, finance, human resources 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

2014	**Total income** Interest income £m	Non-interest income £m	Total £m	**Operating expenses before depreciation £m**	**Depreciation and amortisation £m**	**Impairment gains £m**	**Operating profit before tax £m**
Retail Banking	324	77	401	(103)	-	152	450
Corporate Banking	157	107	264	(67)	-	213	410
Other	97	130	227	(411)	(15)	1,106	907
Total	**578**	**314**	**892**	**(581)**	**(15)**	**1,471**	**1,767**

Class of Business

2013	Total income Interest income £m	Non-interest income £m	Total £m	Operating expenses before depreciation £m	Depreciation and amortisation £m	Impairment losses £m	Operating loss before tax £m
Retail Banking	290	118	408	(150)	-	(258)	-
Corporate Banking	178	117	295	(123)	-	(1,528)	(1,356)
Other	181	258	439	(425)	(24)	(3,008)	(3,018)
Total	649	493	1,142	(698)	(24)	(4,794)	(4,374)

Class of business	**2014** Assets £m	**2014** Liabilities £m	2013 Assets £m	2013 Liabilities £m
Retail Banking	**16,919**	**10,359**	18,401	10,713
Corporate Banking	**6,225**	**10,646**	8,798	10,308
Other	**14,524**	**11,153**	12,983	15,029
Total	**37,668**	**32,158**	40,182	36,050

Geographical segments	**2014** United Kingdom £m	**2014** Republic of Ireland £m	**2014** Total £m	2013 United Kingdom £m	2013 Republic of Ireland £m	2013 Total £m
Total Income	**194**	**698**	**892**	274	868	1,142
Operating profit/(loss) before tax	**133**	**1,634**	**1,767**	(1,410)	(2,964)	(4,374)
Net assets	**2,423**	**3,087**	**5,510**	2,853	1,279	4,132
Total assets	**11,754**	**25,914**	**37,668**	12,188	27,994	40,182

31. Transactions with directors

At 31 December 2014, the amounts outstanding in relation to transactions, arrangements and agreements entered into by authorised institutions in the Group, as defined in UK legislation, were £446,646 (2013: £664,454) 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 2014, the total funds allocated by the Group under the scheme was £172m (2013: £84m).

(a) Directors and key managers

At 31 December 2014, amounts advanced by the Group were £446,646 in respect of loans to 5 persons who served as directors during the financial period.

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	-	11,675
Balances outstanding at the end of the year				
Loans:				
- at a commercial rate	5	6	6	1,139,962
- at a preferential rate	-	4	1	543,537
Customer accounts:				
- Savings	5	10	25	2,252,102

32. Related parties (continued)

(b) Related party transactions

	Group		Bank	
	2014	2013	**2014**	2013
Assets	**£m**	£m	**£m**	£m
Loans and advances:				
Parent companies	**7,049**	9,161	**6,495**	6,855
Key management	**2**	2	**-**	-
Other related parties, including fellow subsidiaries	**35**	13	**113**	293
	7,086	9,176	**6,608**	7,148
Derivatives:				
Parent companies	**501**	349	**4**	15
Total assets	**7,587**	9,525	**6,612**	7,163
Liabilities				
Deposits:				
Parent companies	**5,421**	6,253	**4,135**	4,456
Key management	**2**	3	**1**	-
Other related parties, including fellow subsidiaries	**480**	467	**89**	272
	5,903	6,723	**4,225**	4,728
Subordinated loans:				
Parent companies	**960**	1,040	**883**	956
Other related parties, including fellow subsidiaries	**71**	135	**-**	-
	1,031	1,175	**883**	956
Derivatives:				
Parent companies	**530**	696	**46**	47
Total liabilities	**7,464**	8,594	**5,154**	5,731

(c) Compensation of key management

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

	Group	
	2014	2013
	£	£
Short term benefits	**4,746,469**	4,653,539
Long term benefits	**700,535**	385,136
	5,447,004	5,038,675

33. Post balance sheet events

In January 2015 an agreement was reached on the sale of Jury's Inn Holdings Limited, in which the Group has an equity shareholding and a loan receivable. At 31 December 2014 the equity shareholding was valued at £20m (2013: £nil). The transaction is subject to approval from the Competition and Consumer Protection Commission in Ireland and is expected to be completed in H1 2015.

On 16 December 2014 the Group announced that it had reached agreement to sell a portfolio of Irish real estate loans to an entity controlled by Cerberus Capital Management L.P. The amount paid for the loans is up to £1.1 billion. More than 80% of the proceeds were received on 12 February and the remaining proceeds will be received through the first half of H1 2015.

ULSTER BANK LIMITED

DIRECTORS AND EXECUTIVES

Chairman

Dr Philip Nolan (61)

was educated at Queen's University Belfast where he graduated with a PhD in Geology. Beginning his career as a Geology Lecturer, he joined British Petroleum as a Geologist in 1981. He spent 15 years with the company before joining British Gas (BG) in 1996 where he subsequently became Chief Executive of Lattice Group, which de-merged from BG in 1999. He was Chief Executive Officer at Eircom Group from 2002 to 2006 and Chairman of Infinis Limited and Sepura plc from 2007 to 2010. He is currently Chairman of John Laing plc and Affinity Water. He is also a non-executive director of Providence Resources and EnQuest plc.

EXECUTIVE DIRECTORS

Group Chief Executive

Jim Brown (54)

was appointed Chief Executive Officer of Ulster Bank Group in April 2011. Prior to taking up his role in Ulster Bank, Jim was Chief Executive Officer for Retail and Commercial Markets in Asia and Middle East with responsibility for the RBS retail and commercial banking franchise in nine markets. He formerly worked in ABN AMRO holding a variety of senior positions including Head of Consumer Clients Asia and Country Manager for Taiwan. He also worked in Citibank holding various key positions in retail and consumer banking in Taiwan, Australia and New Zealand.

Chief Risk Officer

Stephen Bell (50)

was appointed Chief Risk Officer in March 2012. He joined from PwC from where he was most recently seconded to the role of Chief Risk Officer at Allied Irish Banks plc in the aftermath of the substantial nationalisation of the bank. Prior to that he established and ran the Business Support & Recoveries operation for Barclays Western Europe, based in Madrid. Before that he was Strategy & Change Director at Royal & Sun Alliance. He joined R&SA from Transamerica Commercial Finance where he was Vice President & Managing Director, EMEA. Earlier in his career he was Chief Risk Officer in GE's Auto Financial Services business. He started his career with National & Provincial Building Society and over a 9 year period held a variety of senior risk and collection roles. He is a member of the Ulster Bank Executive Committee and all relevant sub-committees, the UBL and UBIL Boards, and is a member of the RBS Risk Executive Committee.

Chief Financial Officer

Paul Stanley (51)

joined Ulster Bank from AIB in August 2013. Previously he was the Acting CFO for AIB and a member of its Leadership Team from 2011. He joined AIB's Branch banking division in 1980 before moving to the Group's Financial Control department. He spent two years as a senior risk analyst in the Group's Capital Markets division, treasury operations, before he took up a three year role as Head of Treasury Finance and Risk in AIB's Poland Division (Bank Zachodni WBK) in 2000. He returned to Ireland in 2003 as Head of Asset Liability Management until he was appointed Group Financial Controller in 2010.

NON-EXECUTIVE DIRECTORS

Christopher Mills (67)

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.

ULSTER BANK LIMITED

DIRECTORS AND EXECUTIVES

NON-EXECUTIVE DIRECTORS

Sir Nigel Hamilton (66)

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. He is also Vice Lord Lieutenant for the City and Borough of Belfast.

Christopher Campbell (56)

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 General Counsel as of 31st December 2014 and is now a Consultant to his successor. He is also an Honorary Professor in Commercial Law at the University of Glasgow.

Bridget Rosewell (63)

Bridget 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 and Atom Bank, currently applying for a Banking Licence.

Des O'Shea (58)

was appointed to the Board of Ulster Bank in November 2012. He is also a Non Executive Director of OJSC Orient Express Bank, Byblos Bank S.A.L, Pepper Australia Pty Limited and GTLK Europe. 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. In 1981-1991 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 in Ireland.

Rosemary Quinlan (45)

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 for both Boards and chairs the UBIL Remuneration Committee.

She is also an INED with Royal Sun Alliance Insurance Ireland Limited and is a member of the Risk, Audit and Remuneration Committees, and chairs the Nominations 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, Rosemary held senior executive roles with ABN AMRO, Citigroup and NatWest Bank plc in the Netherlands, the United States and the United Kingdom. Rosemary holds a BComm 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
Christopher Campbell
Bridget Rosewell
Rosemary Quinlan

DIVISIONAL HEADS

S Bell	Chief Risk Officer
R Donnan	Managing Director, Retail Banking
E Cullen	Managing Director, Corporate & Institutional Banking
K Keegan	Head of Human Resources
E Graham	Managing Director, SME Banking and Head of NI
C Davis	Chief Operating Officer
R Bergin	Director Communications & Corporate Affairs
P Sullivan	Head of RCR Ireland
P Stanley	Chief Financial Officer

COMPANY SECRETARIES

R Bergin	
E Dignam	(Deputy)
S Anderson	(Joint secretary)

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