Bank of Ireland (UK) plc Annual Report

For the year ended
31 December 2015

Bank of Ireland UK

Bank of Ireland (UK) plc
Annual Report

For the year ended 31 December 2015

Company Number: 07022885

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Contents

Bank of Ireland (UK) plc (the 'Bank'), together with its subsidiary undertakings (which together comprise the 'Group') is the principal United Kingdom retail and commercial banking business of the Governor and Company of the Bank of Ireland (the 'Parent').

Percentages throughout the document are calculated on the absolute underlying figures and so may differ from the percentages calculated on the rounded numbers presented.

Key highlights

'We made strong progress against our strategic priorities during 2015, achieving an underlying profit before taxation of £183 million and customer net lending growth of nearly £1 billion. Our successful approach to partnership is helping to establish Bank of Ireland (UK) plc as a long term partner of choice for leading trusted brands, as they expand and develop their presence in the UK financial services market.

The momentum in our business supports confidence in our ability to continue to meet the needs of our customers and our partners, invest in building capability and to deliver sustainable returns for our shareholder.'

Des Crowley, BoI (UK) plc Chief Executive Officer

Business highlights

Customers

- Established relationship with the Post Office with financial products offered through more than 11,600 Post Office branches.
- Complementary new long-term financial services partnership with the AA launched in July 2015.
- £17 billion Post Office savings balances at 31 December 2015.
- Foreign exchange joint venture has c. 24% of UK retail foreign exchange market.
- 76% increase in mortgage completions year on year with £3.3 billion of new lending in the year.
- Expanded network of successful new intermediary mortgage partnerships throughout the UK.
- Strong asset finance partnerships between our Northridge Finance proposition and leading market dealerships, franchises and intermediaries.

Profitability

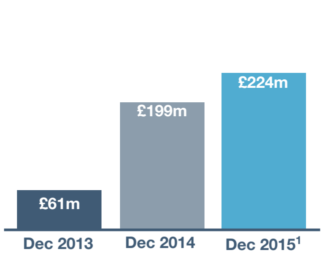
- Underlying profit before taxation of £183 million.
- Net interest margin 2.11%.
- Significant reduction in impairment charges of £17 million (28%).

Capital & Balance Sheet

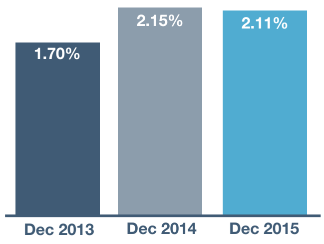
- Total tier 1 capital increased to 19.3% and total capital ratio to 22.7%.
- Loan to deposit ratio 89%.

Financial highlights

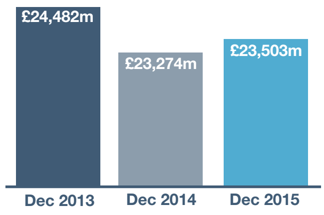
Profit before taxation £m



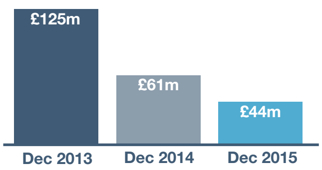
Net interest margin %



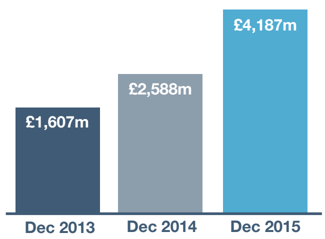
Average interest earning assets £m



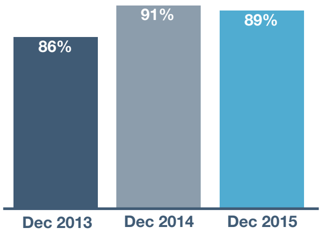
Impairment charges £m



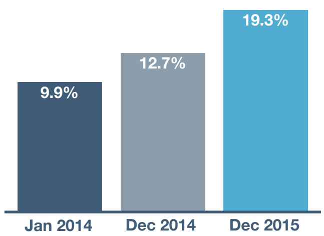
Gross new lending volumes £m



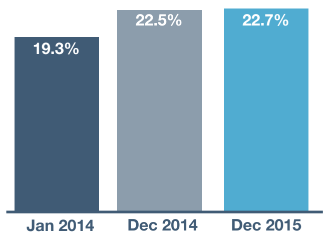
Loan to deposit ratio %



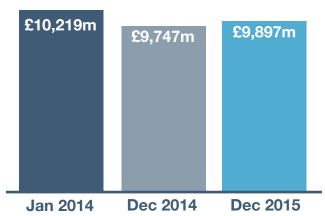
Core tier 1 ratio[2] %



Total capital ratio[2] %



Risk weighted assets[2] £m



[1] *2015 results include a profit on disposal of business activities of £41 million.*
[2] *From 1 January 2014 onwards reported on a CRD IV transitional basis. 2015 capital ratios and risk weighted assets are the same on a CRD IV transitional and fully loaded basis.*

Chairman's statement

In my review last year I reported on the Group's progress against the strategic priorities we had set the year before. I am pleased to report that 2015 has been a year of further significant progress, with the Group's strengths and prospects becoming increasingly apparent. While inevitably more remains to be done, our financial performance has been strong, our balance sheet is more efficient, important business milestones have been achieved and we have identified those areas which need further attention and investment.

Performance during 2015

Our reported profit before tax grew to £224 million compared with £199 million in 2014. Within these figures our 2015 result benefitted from a one-off gain of £41 million arising from a business disposal while the 2014 result benefitted from the receipt of £30 million under an intra-group transfer pricing mechanism since discontinued. Removing these two items, the underlying growth in pre-tax profit was from £169 million to £183 million, an increase of £14 million or 8%.

This increase reflected the net effects of a very competitive market in new retail lending and savings, with our net interest margin falling slightly to 2.11%, success in new asset origination combined with improved retention rates in savings and mortgages, increased expenditure on new partnerships and product development, while benefitting from a further reduction in impairment charges.

Our strategic partnerships

Partnership is a distinctive characteristic of our business through relationships with our external partners, our internal partners, and our customers. A key strategic priority for 2015 was to develop existing and new strategic partnerships.

Our well established relationship with the Post Office continues to be a very highly valued part of our business with a shared strategy to achieve further growth through the new Post Office Money brand, providing easy access to a full range of innovative retail products including savings, mortgages, loans, credit cards, current accounts and ATM facilities.

Our foreign exchange joint venture with the Post Office remains the largest provider of consumer foreign exchange in the UK and has had another successful year with continuing innovation in the products and services provided.

In September 2015 the Post Office exercised an option it held to acquire our interest in the Post Office insurance business, resulting in a gain on disposal of £41 million. We will be working closely with the Post Office in the period ahead to further develop the performance of our continuing interests, as we see scope to secure significant shared benefits.

To complement our relationship with the Post Office, in July 2015 we announced the formation of a new long term partnership with the AA, covering credit cards, personal loans, savings and mortgages under the AA brand. This partnership, which has a minimum life of 10 years, will offer an enhanced range of products combining our proven product development capabilities and the strength of the AA brand. Inevitably we are currently going through a phase of investment in this new venture, but we have considerable confidence in its future prospects.

Growing our mortgage business

Following our successful re-entry into the mortgage market in 2014, we made significant progress during 2015 by establishing a wide network of distribution partnerships, offering our products under both the Bank of Ireland and Post office brands. As a result, new mortgage origination increased significantly in the year.

Mortgage redemptions during 2015 were below that of the prior year reflecting the Group's strategy of an enhanced proposition for mortgage customers.

Our net mortgage growth has been supported by our experienced staff and investment in technology. Our award winning new online application system, Rome, is now recognised as one of the best available service platforms in the market.

Building successful, sustainable businesses in Northern Ireland

While it is an inherently challenging retail banking environment in which to operate, our full service banking operation in Northern Ireland, which serves both retail and business customers, continued to be profitable during the year. There was a 16% increase in account openings in the small business segment and lending approvals in the small business and agricultural sector also experienced significant year on year growth. Both indicators are encouraging given that the Northern Ireland local economy has been growing at a slower rate than that of the UK as a whole.

Our car and asset finance subsidiary, based in Northern Ireland but increasingly addressing the whole of the UK market under the Northridge brand, had another good year. It continues to grow market share, reflecting in part its partnership approach.

Great Britain (GB) Business Banking

The business banking operation in Great Britain, which is being wound down, continued its deleverage programme with a reduced level of impairment charges.

Balance Sheet

A restructuring exercise was undertaken during the year which has strengthened the Group's capital position and at 31 December 2015 the Group's Total tier 1 capital ratio was 19.3%, and total capital ratio was 22.7%.

In 2016 we will consider our future dividend policy.

Strong customer focus, delivered through our people

Our progress would not be possible without our partners, the support of our customers and the commitment of our employees.

I would like to thank our partners and customers for their loyalty and business, and to assure them that we continue to focus on delivering innovative products and services to meet their financial requirements, thereby establishing lasting relationships with them.

We would also like to thank our employees for their professionalism, dedication, and commitment to the Group, its businesses and customers. We continue to invest in our employees' personal development through skills training, supporting professional qualifications, and career management.

The Board fully appreciates the importance of culture in all that we do. A partnership approach is central to this and informs our approach to all aspects of conduct, product development, business development and risk management.

Board membership

Our Board has gone through a phase of renewal over the last year.

As noted in my report last year, David Bennett stood down as an independent Non-executive Director in March and Laurel Powers-Freeling retired as another independent Non-executive Director in September, in order to take up an external appointment as her term on our Board drew to a close. I would like to thank both David and Laurel who have made a very important contribution to our affairs during their time with us.

By way of replacement I am pleased to report that we have recruited three new independent non-executive Directors during the year, namely David Weymouth, Susan Harris and John Maltby, who bring considerable experience of the financial services sector and who have already demonstrated their ability to contribute positively to our affairs.

In the executive team, David McGowan retired as Chief Risk Officer (CRO) in October, completing a distinguished career with the Group spanning 35 years. We offer David our sincerest thanks for his invaluable experience and contribution to the Group and wish him well in his retirement. I am pleased to be able to report that we have made a strong replacement appointment in recruiting Neil Fuller to join us.

Amongst Group nominated non-executive Directors, Senan Murphy stood down after his decision to take up an appointment outside the Group and we gained Donal Collins who serves as the Parent's Group Strategy Director. We thank Senan for his contribution and welcome Donal.

For my part, my own six year term as a Board member is nearly complete. Arrangements for the appointment of my successor are well advanced and I expect to step down shortly. I have very much enjoyed my role with the Group and am delighted with the progress we have achieved since 2010 and I would like to thank all my colleagues for the support and encouragement I have received.

Outlook

In 2016 and beyond we must continue to build on the momentum achieved to date while investing in capability including new consumer propositions and distribution channels. The regulatory and consumer landscape in which we operate continues to evolve, requiring the Group to adapt within a rapidly changing competitive environment. There will be challenges as well as opportunities ahead, so we must continue to work effectively with our partners in optimising our distribution channels, managing our risks, enhancing operational resilience, controlling our costs, maintaining our performance and above all, enhancing our capabilities and keeping our customers at the centre of everything we do.

Christopher Fisher

Christopher Fisher
Chairman
2 March 2016

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Strategic report

1.1 Purpose of the strategic report

The strategic report is a statutory requirement under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, and is intended to be fair and balanced, and to provide information that enables the Directors to be satisfied that they have complied with Section 172 of the Companies Act 2006 (which sets out the Directors' duty to promote the success of the Company).

The strategic report has been presented on a consolidated basis for the years ended 31 December 2015 and 31 December 2014.

1.2 Group key performance summary

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Operating profit before impairment charges on financial assets	**192**	**225**
Impairment charges on financial assets	(44)	(61)
Share of profit after tax of joint venture	35	35
Underlying profit before taxation[1]	**183**	199
Profit on disposal of business activities	41	-
Profit before taxation	**224**	**199**
Performance measures		
Net interest margin (%)	2.11%	2.15%
Average interest earning assets	23,503	23,274
Cost income ratio (%)	61%	56%
Segmental operating profit / (loss) before taxation[2]		
Great Britain (GB) Consumer Banking	214	243
Northern Ireland (NI)	7	14
Great Britain (GB) Business Banking	29	-
Group Centre	(67)	(58)
Underlying profit before taxation	**183**	**199**
Impairment (charges) / releases on loans and advances to customers		
Consumer	(11)	(12)
Residential mortgages	(5)	2
Non-property SME and corporate	(2)	(17)
Commercial property and construction	(26)	(34)
Total impairment charges on financial assets	**(44)**	**(61)**

[1] Underlying profit before taxation excludes non-core items, which are those items that the Group believes obscure the underlying performance trends in the business. See page 18 for further information.
[2] Operating segments are defined on page 116.

1.2 Group key performance summary (continued)

Consolidated balance sheet and key metrics	**31 December 2015 £m**	31 December 2014 £m
Shareholders' equity	2,104	1,767
Total assets	27,939	29,209
Loans and advances to customers (after impairment provisions)	19,255	18,301
Customer accounts	21,574	20,180
Return on assets (%)	0.67%	0.59%

	CRD IV	
Capital	**31 December 2015 %**	31 December 2014 %
Common equity tier 1 capital ratio	16.3%	12.7%
Total tier 1 capital ratio	19.3%	12.7%
Total capital ratio	22.7%	22.5%
Leverage ratio	6.4%	4.0%
Risk weighted assets (RWAs) (£m)	9,897	9,747

Liquidity	**31 December 2015 %**	31 December 2014 %
Liquidity coverage ratio[1]	194%	n/a
Net stable funding ratio (NSFR)	145%	141%
Loan to deposit ratio	89%	91%

[1] *The Group's Liquidity coverage ratio (LCR) is calculated based on the Commission Delegated Regulation (EU) 2015/61 which came into force on 1 October 2015. At 31 December 2014 a different basis of calculation was used based on draft legislation and therefore is not reported.*

Definition of Key Performance Measures

Net interest margin – is defined as net interest income for the year ended 31 December divided by average interest earning assets, net of specific provisions.

Average interest earning assets – is defined as the twelve months average of total loans and advances to customers, cash placements, securities balances and net balances owed by the Parent (the Governor and Company of the Bank of Ireland).

Cost income ratio – is defined as operating expenses expressed as a percentage of total operating income.

Return on assets – is calculated as profit after tax for the year ended 31 December divided by total assets, in line with the requirement in the European Union (Capital Requirements) Regulations (CRR) 2014.

Capital ratios – capital ratios express the Group's capital as a percentage of its risk weighted assets and are calculated on a fully loaded basis.

Leverage ratio – is calculated as the Tier 1 capital divided by a measure of on balance sheet assets and off balance sheet exposures.

Risk weighted assets (RWAs) – on and off balance sheet assets are risk weighted based on the amount of capital required to support the assets. The Group adopts a standardised approach for calculating RWAs.

Liquidity coverage ratio (LCR) – is calculated as the high quality liquid assets, divided by net cash outflows over the next 30 days, expressed as a percentage.

Net stable funding ratio (NSFR) – is defined as the total amount of available stable funding divided by the total amount of required stable funding, expressed as a percentage.

Loan to deposit ratio – is defined as loans and advances to customers expressed as a percentage of customer deposits as at 31 December, after excluding balances with the Parent and other Bank of Ireland Group entities.

In addition to the key performance measures set out in this section, other key performance measures are discussed in section 1.6.

1.3 Group structure

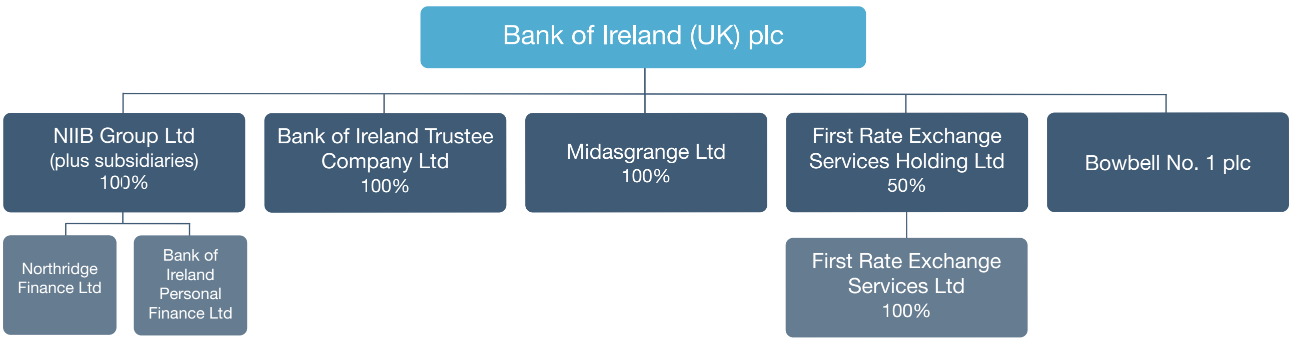
At 31 December 2015 the Group consisted of Bank of Ireland (UK) plc (the 'Bank') and its share of the following entities:

- 100% of NIIB Group Limited (NIIB) – an asset finance and consumer lending group. On 15 January 2016 the trade of Northridge Finance Ltd was transferred to NIIB Group Ltd, which will continue to trade using the Northridge Finance brand. On 22 January 2016 the trade of Bank of Ireland Personal Finance Ltd was transferred to the Bank;
- 50% of First Rate Exchange Services Holdings Limited (FRESH), a joint venture, which, via its wholly owned subsidiary, First Rate Exchange Services Limited (FRES), is a wholesale and retail provider of foreign exchange with retail distribution primarily via the Post Office;
- 100% of Bank of Ireland Trustee Company Limited – this company ceased trading in February 2014 and previously operated as a multi-restricted intermediary providing advice to clients on financial services products operating in the Northern Ireland market;
- 100% of Midasgrange Limited – this company traded as Post Office Financial Services (POFS) until 3 September 2012 when the trade, assets and liabilities transferred to the Bank; and
- Bowbell No. 1 plc (Bowbell) - an entity which acquires mortgage loans and issues mortgage backed securities. The Bank does not own more than half of the voting power in the company but it is deemed a subsidiary in accordance with IFRS 10 (Refer to note 38).

The Group's immediate and ultimate parent is the Governor and Company of the Bank of Ireland (the Parent).

The Bank is a public limited company incorporated in England and Wales and domiciled in the UK.

The Group is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).



1.4 UK economic and market environment

Despite a weakening in global economic activity the domestic UK economy recorded another solid performance in 2015, presenting a favourable backdrop to the further expansion of the Group's consumer financial services business in the UK through strategic partnerships and across distribution channels.

Consumer Confidence
Consumer spending continued to be the mainstay for UK growth in 2015, supported by a number of favourable tailwinds. Consumer price inflation (CPI) remained at or close to zero during the year helped by significant year-on-year falls in essential items such as food and fuel costs while steady wage growth of 1.9% year on year in the three months to December helped contribute to significant improvements in household finances.

The labour market also remained relatively robust with total employment rising above 31 million for the first time with the employment rate reaching 74%, the highest since comparable records began in 1971. The unemployment rate also fell to 5.1% in the three months to December compared to 5.7% for the same period in 2014, the lowest rate in more than decade. This helped support a buoyancy in consumer confidence and an acceleration in unsecured borrowing, led by growing usage and spending on credit cards while British Banking Association data indicated that borrowing on personal loans and overdrafts was growing at a rate of almost 6% in the year to December.

The Mortgage Market
For the most part, market interest rates for lending remained low during the year, reflecting the relatively relaxed liquidity conditions and intensified competition to attract new business. This was a particular feature of the secured lending market where new mortgage rates fell to multi-year lows and almost 90% of new lending was on fixed rate products, according to the Council of Mortgage Lenders.

1.4 UK economic and market environment (continued)

After a moderation in activity levels in 2014, consistent with the transition to the new regulatory framework and specific policy interventions by the Financial Policy Committee (FPC), the UK housing and mortgage markets regained some momentum in 2015, although transaction volumes were still well below pre-recession peaks.

Average house prices increased again in 2015 although with some variation recorded in the commonly used benchmark indices ranging from +4.5% (Nationwide), + 7.7% (Office of National Statistics) and +9.5% (Halifax). With house price inflation outpacing earnings growth and buyer demand outstripping instructions to sell, further upward pressure on house prices seems likely in 2016.

Regulatory change, new entrants and re-entrants to the market combined to stimulate increased mortgage origination via the intermediary channel during the year, reaching a new record of almost 70% of all new lending in quarter two, a trend supportive of the Group's strategy of widening distribution via new partnerships.

Commercial Lending

The UK commercial property market remained robust in 2015 with CBRE indicating total returns of c. 13%, lower than the c. 18% of 2014. The continued recovery in UK real estate has been clearly reflected in significant improvements in both the Group's credit quality and its credit management of loan books.

Increased activity has been supported by the greater depth and liquidity in credit markets with a range of bank and non-bank lenders seeking opportunities across prime and secondary markets, alongside domestic and foreign institutions and funds and UK property companies. The market overall continued to improve with rental growth spreading out from London into some of the regions and office and industrial property out-performing regional retail property.

While the outlook remains broadly positive, overall returns in 2016 are not expected to match those of recent years, against a more uncertain global backdrop and in light of the significant recovery in capital values already recorded. There is some expectation that performance over the medium term will be increasingly driven by rental growth with yield compression, with capital appreciation less dominant.

Northern Ireland

In the regional market of Northern Ireland, the economic recovery continued in 2015 although on a lower trajectory than the UK overall, with growth in the private sector coming against the backdrop of more constrained public spending and some contraction in public sector employment.

The year ended on a more optimistic note with a political agreement in Northern Ireland that should ensure greater stability for the devolved institutions and the public finances, providing a pathway towards the introduction of a lower rate of corporation tax in the region from 2018. Potentially, this may provide a significant boost to both foreign direct investment and the expansion of indigenous firms.

After a difficult period, the demand for credit in Northern Ireland picked up further momentum during the year, notably for residential mortgages and business finance, as evidenced by the Group's new lending approvals which increased by over 35% year on year.

Market Outlook

As we consider the prospects for 2016, there are some signs that the financial markets could be entering a more turbulent period as investors reassess the risks to the global economy, corporate earnings and the domestic UK outlook over the next year or so and in particular, the impact that the EU referendum may have on business and consumer confidence, investment intentions and growth.

The global and business environment seems set to remain challenging with the excess supply context in energy and commodity markets continuing to present disinflationary pressures on economies, while divergent monetary policies - the US Federal Reserve raising rates while Japan has moved its benchmark rate to negative - may well create further volatility in currency markets.

Therefore, while the UK economy continues to grow, recent market turbulence and ongoing geopolitical developments could impact sentiment and potentially the trajectory of future growth.

1.5 Our business strategy and goals

- The Group's strategy is to be a leading consumer bank, providing simple, fair, accessible, transparent and value for money financial services and products to UK customers both directly and through partnerships with trusted, respected UK brands and intermediaries, thereby providing attractive sustainable returns to our shareholder and maintaining strong customer relationships. This strategy is set in the context of the Group's risk appetite.
- The Group is organised into operating business units to service its customers effectively: Great Britain (GB) Consumer Banking, Northern Ireland (NI), Great Britain (GB) Business Banking and Group Centre.
- The Group’s central functions establish and oversee policies and processes, while the Group also leverages the overall scale and capability of its Parent in support of its strategies. Certain functions including but not restricted to product manufacture, customer service and IT are provided by the Parent under a Master Services Agreement.

In order to deliver its strategy, the Group has a series of strategic priorities, which are discussed on the following pages and are also summarised in the table below:

Strategic vision	Strategic priorities delivered through	Key performance measures	Addressing principal risks[1]
Growth in Great Britain (GB) Consumer Banking	Building a sustainable consumer banking franchise by further growing the complementary Post Office and AA financial services relationships and other strategic partnerships.	Income, net interest margin and profit before taxation (including segmental performance) - applies to all aspects of the Group’s strategic plan with actual performance compared against plans and prior periods. In year growth in customer deposit and lending volumes is an important indicator of customer activity levels.	• Credit risk • Liquidity & funding risk • Market risk • Regulatory risk • Operational risk (including legal risk and outsourcing) • Business / Strategic risk • Reputation risk • Capital adequacy risk • Conduct risk
Growth in Northern Ireland (NI)	Improving the operating profitability and new business levels of the NI business, by supporting our customers and the NI economic recovery.		
Business Banking Great Britain (GB) Deleveraging	Ongoing deleverage of the GB business banking portfolio.	Movement in loans and advances to customers. Risk Weighted Assets (RWAs). Level of impairments.	• Credit risk • Operational risk (including legal risk and outsourcing) • Business / Strategic risk • Reputation risk
Product & Service Development	Maintaining the Group’s proactive and customer centric approach, with a commitment to offer customers an enhanced product and service proposition, which is fair, compliant and accessible, as set out in the Group’s Customer Charter.	Review of Conduct Compliance Key Risk Indicators (KRIs).	• Credit risk • Regulatory risk • Operational risk (including legal risk and outsourcing) • Business / Strategic risk • Reputation risk • Conduct risk
Sustainable Returns within Risk Appetite	Generating sustainable returns, from existing and new business, that are aligned with the Group’s risk appetite and that achieve the required return on equity for the shareholder.	Capital, liquidity and funding ratios. Review of Conduct Compliance Key Risk Indictors (KRIs).	• Credit risk • Liquidity & funding risk • Market risk • Regulatory risk • Business / Strategic risk • Capital adequacy risk • Conduct risk

[1] *Principal risks and uncertainties are detailed further in section 1.7.*

1.5 Our business strategy and goals (continued)

Great Britain (GB) Consumer Banking
GB Consumer Banking offers deposits, mortgages, credit cards, loans and personal current accounts under the Bank of Ireland UK brand and through partnerships with respected UK brands and intermediaries.

The strategic priorities for GB Consumer Banking are:

- to build a strong consumer banking franchise through strategic partnerships and distribution channels;
- to establish a profitable back book through retention of mortgages and deposits; and
- to develop capability and customer value propositions across the business, growing income and returns.

- **Post Office partnership**
  The Group has an exclusive financial services partnership with the Post Office under a contract that covers the period until at least 2023. The Group partners with the Post Office to offer products that are simple, fair, accessible, transparent and value for money, through an unrivalled distribution network of over 11,500 Post Office branches in the UK serving 2.5 million customers, offering a range of products including mortgages, savings, credit cards, personal loans and current accounts.

  The Post Office is primarily responsible for sales performance and marketing, while the Group is responsible for product development, pricing and service delivery.

  In January 2015 the Post Office launched a new brand, Post Office Money, to increase customer awareness of the products and services on offer. This followed the significant branch transformation programme, whereby over 4,000 branches were modernised to offer improved opening hours, dedicated travel and service counters and private financial services consultation rooms. There are also over 2,500 free to use ATMs throughout the Post Office network which completed over 265 million transactions and dispensed over £10 billion of cash during 2015.

  On 30 September 2015 the Post Office exercised a pre-existing option to acquire the Group's interest in the Post Office insurance business. The Group recognised net cash consideration and a gain of £41 million as a result of this transaction which is reported as profit on disposal of business activities in the income statement.

  FRESH, the Group's foreign exchange joint venture with the Post Office has, through its wholly owned subsidiary FRES, maintained its position as the number one provider of retail travel money in the UK providing retail and wholesale foreign exchange services, with 24% market share and over 850,000 travel money prepaid cards issued.

  Building upon this success, progress continues to be made through the development of on-line products with over 250,000 downloads of the Travel Money Card app. The Apple Currency Converter app was also recognised as the best Innovative app in 2015. The Click and Collect service has been rolled out to 1,500 Post Office branches allowing customers to order their currency on line at their convenience.

  In addition to funding lending through the partnership with the Post Office, savings balances raised under the Post Office brand also support the funding of other UK lending, including residential mortgages originated under Bank of Ireland and legacy Bristol & West brands, as well as consumer lending provided under the NIIB / Northridge brands.

- **AA partnership**
  In July 2015 the Group announced its partnership with the AA for a minimum period of ten years, whereby the Group will help to expand and develop the AA's financial services proposition through a new range of credit cards, personal loans, savings and mortgages. The AA is regarded as one of the best known and trusted brands in the UK and the largest provider of roadside assistance services, representing 40% of the UK breakdown market with nearly four million members. This partnership aims to provide an enhanced range of products to AA members and the wider public, combining the Group's proven product development capabilities with the strength of the AA brand and broader business assets.

  Since July 2015 the first AA products have been successfully launched, including a range of credit cards, cash ISAs and personal loans. These products have been favourably received in the market and lead the way for further product launches in 2016.

- **Mortgages**
  The Group offers residential and buy to let mortgages directly through the Post Office, the Bank of Ireland NI branch network, and also through intermediaries under both Post Office and Bank of Ireland brands.

  Following the successful launch of the mortgage intermediary pilot programme in 2014, the Group extended its distribution channels in 2015 through new strategic partnerships with a number of established intermediaries. This has now extended the mortgage product offering to a significant network of estate agencies and advisors throughout the UK.

  Substantial investment has been made in developing technology and recruiting new teams with significant intermediary mortgage experience, expanding sales and underwriting teams and opening a new processing

1.5 Our business strategy and goals (continued)

centre in Birmingham. Innovative technology offered online to assist brokers in finding solicitors has been extremely well received by brokers and is just one of a number of innovations the Group is bringing to the market.

The success of the Group's investment in new technology was acknowledged at the Mortgage Finance Gazette Awards in November 2015, when the Group was named the winner in the 'Best Use of Technology' category.

- **NIIB / Northridge**

  The Group, through its NIIB subsidiaries, specialises in providing both personal and commercial asset based finance within the UK primarily through intermediaries. During 2015 it operated under the NIIB brand in Northern Ireland and through its subsidiary, Northridge Finance Limited in Great Britain.

  On 15 January 2016 the trade of Northridge Finance Limited was transferred to NIIB Group Limited, which continues to trade under the Northridge Finance brand.

  The Group offers a comprehensive range of lending products and services for the dealer and intermediary market which can be used to best meet individual customer requirements. The Group's strategy is to grow its market share within the motor dealer and finance intermediary markets and in the direct business to business market, while maintaining excellent asset quality.

  In April 2015 Northridge received the Best Finance Product award at the inaugural Motor Finance Europe Awards in Munich. The company was also among the finalists in the Independent Finance Provider category.

Northern Ireland (NI)

The NI business offers a comprehensive range of banking products for retail and Small / Medium Enterprises (SME) customers, with a strong focus on providing personal and business customers with advice, sales and support.

The NI business serves customers through a distribution network of 36 branches (including five business centres), central support teams, ATMs and through direct channels (telephone, mobile and on-line).

The Group is focused on ensuring its branch network and direct channels are fully integrated while also maintaining an effective geographical spread across NI.

The Bank is also one of four banks authorised to issue bank notes in Northern Ireland.

The NI business continues to be profitable and this primarily reflects improved funding costs, efficient cost control and ongoing management of impairment charges on its commercial loan portfolio. Investments have also been made to upgrade and modernise the branch network, including self-service propositions.

The Group has a long history of banking in NI, understanding the local economy and has a strong network of connections, working closely with local business groups and government to support the development of enterprise, innovation, and increasingly cross-border trade.

There are continued signs of an improvement in the NI economy, albeit with challenging conditions in the manufacturing sector. There has been an increased demand in the small business and agricultural segments and a 16% increase in account openings in the small business segment.

The Group also continued its highly successful Enterprise Programme to help support SMEs in their own communities which included a series of business events throughout 2015, with an Enterprise Week in May and November. The unique 'Show you Business' initiative invites local businesses to showcase their goods and services in bank branches to help promote their business to the local market.

Great Britain (GB) Business Banking

The strategy for this business remains a managed deleverage of the loan book over the medium term. This strategy is consistent with the amendments to the EU Restructuring Plan agreed between the Parent and the EU which were announced on 9 July 2013 and ended on 1 January 2016. Under the amended EU Restructuring Plan, the Parent committed to exit its GB business banking and corporate banking businesses.

GB business banking volumes reduced in the year by £0.5 billion to £0.9 billion at December 2015. However, it is expected that this pace of deleveraging will slow during 2016.

This strategy does not impact on the Group's Consumer Banking businesses in GB including its partnerships with the Post Office and the AA, or its activities in NI.

Capital

The Group's strategy is to seek new lending and other business opportunities primarily in its consumer business that are aligned with its risk appetite.

A sustained level of profitability was delivered during the year generating capital for the Parent. During the year the Group also restructured a number of its capital instruments to optimise its capital position and to increase its Tier 1 capital ratios ahead of the full implementation of the Capital Requirements Directive IV (CRD IV) on 1 January 2019.

On 1 May 2015 £300 million of preference shares were repurchased and £200 million of Additional tier 1 (AT1) securities were issued. On 26 November 2015, the Group

1.5 Our business strategy and goals (continued)

repurchased £523 million of Tier 2 subordinated debt and issued £100 million AT1 securities and £200 million new Tier 2 subordinated debt. £165 million of CET 1 capital was also received from the Parent.

Liquidity

The Group is authorised by the PRA and is subject to the regulatory liquidity regime of the PRA. At 31 December 2015 the Group continues to maintain a strong liquidity position, fully compliant with risk appetite and regulatory obligations with customer deposits in excess of customer lending, and a loan to deposit ratio of 89%.

The Group's current liquidity strategy is to remain primarily customer deposit funded with no material reliance on wholesale or Central Bank funding.

The Group moved to the Liquidity Coverage Ratio (LCR) as the primary liquidity regulatory requirement from 1 October 2015 and reported an LCR of 194% at 31 December 2015. The implementation of Basel III with respect to other regulatory liquidity requirements including Net Stable Funding Ratio (NSFR) and Additional Monetary Metrics (AMMs) is ongoing. The Group actively monitors its liquidity position using various measures including LCR and NSFR and takes them into account in the creation, execution and review of its funding plans.

Customer and compliance

It has always been important for the Group to ensure that its customers and the way it relates to them are a key consideration in how it does business. The Group has responded to the challenge laid down by the FCA to the industry by undertaking a wide ranging review of how it manages and mitigates the risks to customers that arise in its activities. The Group also ensures a continuing proactive and customer centric approach in all aspects of its product and distribution activities and it has implemented a new framework to manage Conduct Risk.

The Group's Customer Charter covers the key commitments and promises to customers, partners and partners' customers.

The objectives of the Customer Charter are:

- to identify customers' needs and provide clear and affordable value for money products to meet customer expectations;
- to provide friendly, efficient and relevant services;
- to be committed to establishing and maintaining long term customer relationships; and
- to provide quality of service with clear and consistent communication with customers.

The Group participated in the FCA thematic Review of Unauthorised Transactions and used this as an opportunity to ensure that it continues to enhance how it responds to customers when issues arise. The Group currently has a low level of referrals to the ombudsman by customers dissatisfied with the outcome of any complaint. The Group is endeavouring to build on this position to ensure that, when issues arise, they are dealt with quickly and effectively to ensure a positive and fair outcome for customers at all times.

Our People

The Group acknowledges that current and future success depends on having employees who are able to respond to the technical, regulatory, and commercial challenges that exist. The Group is committed to investing in its people to improve individual development and effectively support customers.

The professionalism, commitment and dedication of the Group's employees has been key to progress made during recent years and their continued support and commitment will underpin the successful implementation of the Group's strategy.

The Group's Career and Reward Framework reinforces this focus by supporting employees in obtaining a wider, more varied work experience and undertaking training and development relevant to their current and potential future roles.

In 2015 over 10,000 training hours were completed by UK employees and over 100 employees are currently supported in further education.

Give Together is the Group's charity and community initiative, through which staff lend their support to nominated charities by fundraising, volunteering, and making donations. The initiative provides paid leave for volunteering and matches fundraising awards. The Group is actively involved in charitable events across the UK with affiliated charities, with nearly £250,000 raised by UK employees during 2015.

Principal risks and uncertainties

Further information about the Group's approach to the management of the principal risks and uncertainties which could impact the successful implementation of the Group's strategy is included in section 1.7.

1.6 Financial review

1.6.1 Summary Group consolidated income statement

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m	Change %
Net interest income	495	501	(1%)
Net fee and commission (expense) / income	(3)	6	n/m
Net trading expense	(1)	-	n/m
Other operating income	1	5	(80%)
Total operating income	**492**	**512**	**(4%)**
Operating expenses	(300)	(287)	5%
Operating profit before impairment charges on financial assets	**192**	225	**(15%)**
Impairment charges on financial assets	(44)	(61)	28%
Share of profit after tax of joint venture	35	35	n/m
Underlying profit before taxation	**183**	**199**	**(8%)**
Profit on disposal of business activities	41	-	n/m
Profit before taxation	**224**	**199**	**13%**
Taxation charge	(36)	(27)	33%
Profit for the year	**188**	**172**	**9%**

n/m: not measured

1.6.2 Net interest income

Net interest income / Net interest margin	**Year ended 31 December 2015 £m**	Year ended 31 December 2014 £m
Net interest income	495	501
Average interest earning assets	23,503	23,274
Net interest margin (%)	2.11%	2.15%

Net interest income for the year ended 31 December 2015 was £495 million compared to £501 million for the year ended 31 December 2014.

Gross interest income was £814 million (2014: £901 million) and consisted principally of interest earned on customer lending and on amounts placed with the Parent.

Gross interest expense was £319 million (2014: £400 million) and primarily represented interest paid or payable on customer deposits and on amounts borrowed from the Parent.

The decrease in gross interest income of £87 million is largely attributable to a reduction in intragroup interest income from the Parent of £71 million. Similarly the decrease in gross interest expense of £81 million is partly attributable to a reduction in intragroup interest expense paid to the Parent of £41 million.

These movements are a result of placements with and borrowings from the Parent decreasing by £2.4 billion and £2.6 billion respectively during the year. Refer to section 1.6.9 and note 15 and 23 for further details.

This was predominantly due to the transition to a derivative hedging approach, for interest rate risk management. Refer to note 14 for further details.

During 2014 income of £30 million was received from the Parent as part of an agreed BoI Group wide transfer pricing methodology. No such income was received in 2015 as the Group has now fully implemented its own transfer pricing mechanism.

The net interest margin for the year ended 31 December 2015 was 2.11% compared to 2.15% for the year ended 31 December 2014, representing a small decrease of 4 basis points (bps). Excluding the impact of the aforementioned change in the transfer pricing methodology of £30 million (14 basis points) the movement in the year on year margin represented an increase of 10 basis points.

This increase in the Group's net interest margin of 10 basis points, notwithstanding the low interest rate environment, reflects repricing on deposit and loan portfolios and efficient balance sheet management.

The increase in average interest earning assets reflects the net increase in customer lending during the year.

1.6.3 Net fee and commission income

Fee and commission income	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
ATM service fees	69	64
Insurance commissions	6	8
Banking fees and other commissions	24	25
Foreign exchange and credit card	16	15
Other	-	2
Fee and commission expense	(118)	(108)
Net fee and commission (expense) / income	**(3)**	**6**

Fee and commission expense includes commissions payable to the Group's strategic partners and transactional banking fees.

1.6.4 Operating expenses

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Staff costs	33	31
Other costs	267	256
Operating expenses	**300**	**287**

The majority of the Group's cost base relates to outsourced services, being the costs of distribution, product manufacture and support provided by the Parent under a Master Services Agreement. The year on year increase in total operating expenses reflects the Group's investment in its people, processes and IT infrastructure in particular to support the mortgage growth strategy and to offer enhanced products to partners and customers. During 2015 there was also specific investment made to support the development of the new partnership with the AA.

Included in other costs is £11 million relating to the Financial Services Compensation Scheme (FSCS) levy (year ended 31 December 2014: £15 million).

1.6.5 Impairment charges on loans and advances to customers

Impairment charges / (releases) on loans and advances to customers	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m	Change %
Consumer	11	12	(8%)
Residential mortgages	5	(2)	n/m
Non-property SME and corporate	2	17	(88%)
Commercial property and construction	26	34	(24%)
Total impairment charges on loans and advances to customers	**44**	**61**	**(28%)**

n/m: not measured

The impairment charge for the year ended 31 December 2015 on loans and advances to customers was £44 million, compared to £61 million for the year ended 31 December 2014. The 2015 charge comprises £11 million in respect of consumer lending, £5 million in relation to residential mortgages, £2 million for non property SME and corporate and £26 million for commercial property and construction lending;

- The £1 million decrease in impairment charges on the consumer portfolio was due primarily to lower default arrears.
- There was a £7 million provision increase on the residential mortgage portfolio, reflecting ongoing reviews of the provisioning methodologies across each segment of the mortgage portfolio, combined with increased lending volumes, offset somewhat by improvements in the underlying arrears profile of the book.
- Non-property SME and corporate impairment charges decreased by £15 million year on year reflecting improvements in the economic environment and the continued reduction in defaulted loans together with actions that the Group is taking to appropriately support customers in financial difficulty.
- Commercial property and construction impairment charges reduced by £8 million as a result of continued improvement in the commercial and residential property sectors. While the future trend in impairments remains dependent on economic conditions and is directly impacted by the commercial property market conditions, particularly in Northern Ireland, latest market indicators continue to show signs of improvement across the UK.

Refer to sections 2.1.6 and 2.1.7 of the Risk Management report for further credit risk details in relation to loans and advances to customers.

1.6.6 Profit on disposal of business activities

Underlying performance excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business.

The Group has treated the following item as non-core:

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Profit on disposal of business activities	41	-

Profit on disposal of business activities

The Group recognised net cash consideration and a gain of £41 million in the year ended 31 December 2015 as a result of the Post Office exercising a pre-existing option to acquire the Group's interest in the Post Office Insurance business.

1.6.7 Taxation charge

The taxation charge for the Group was £36 million for the year ended 31 December 2015 compared to a taxation charge of £27 million for the year ended 31 December 2014.

Excluding the £35 million (year ended 31 December 2014: £35 million) income from the Group’s joint venture, FRESH, the effective tax rate for the year ended 31 December 2015 was 19% (year ended 31 December 2014: 16%).

The effective tax rate is influenced by a number of factors, including the fair value unwind on acquired mortgages, as discussed in the Group Accounting Policies on page 114, which is tax exempt in the Group and the impact on deferred tax of the reduction in the UK corporation tax rate to 18% with effect from 1 April 2020.

Refer to note 12 and note 28 respectively for further information on the taxation charge and deferred tax asset at 31 December 2015.

1.6.8 Summary consolidated balance sheet

	31 December 2015 £m	31 December 2014 £m	Change %
Cash and balances with central banks	3,269	2,964	10%
Loans and advances to banks[1]	3,949	6,312	(37%)
Loans and advances to customers	19,255	18,301	5%
Available for sale financial assets	956	991	(4%)
Total other assets	510	641	(20%)
Total assets	**27,939**	**29,209**	**(4%)**
Deposits from banks[2]	2,606	5,234	(50%)
Customer accounts	21,574	20,180	7%
Subordinated liabilities	335	658	(49%)
Total other liabilities	1,320	1,370	(4%)
Total liabilities	**25,835**	**27,442**	**(6%)**
Total equity	2,104	1,767	19%
Total equity and liabilities	**27,939**	**29,209**	**(4%)**
Loan to deposit ratio	**89%**	**91%**	**(2%)**

[1] Included in loans and advances to banks is a balance due from the Parent of £2,696 million (31 December 2014: £5,102 million) and £1,253 million (31 December 2014: £1,210 million) due from external bank counterparties. Refer to note 15.

[2] Included in deposits from banks is a balance due to the Parent of £2,589 million (31 December 2014: £5,193 million) and £17 million (31 December 2014: £41 million) due to external bank counterparties. Refer to note 23.

1.6.9 Loans and advances to banks and deposits from banks

Prior to 2013 the Group used a gross flow cash hedging model to manage interest rate risk, whereby customer loans were hedged with a loan from the Parent and customer deposits were hedged by placing a deposit with the Parent. As a result the Group had balances with the Parent included in both assets and liabilities on the balance sheet, which were disclosed in loans and advances to banks and deposits from banks, respectively.

At the end of 2013 the Group commenced the process of replacing this gross flow cash hedging approach with a derivative hedging approach. This process continued during 2014 and 2015 with the settling of a further £1.9 billion (2014: £6.8 billion) of borrowings from and £2 billion (2014: £6.7 billion) of placings with the Parent and replacing these balances with derivatives with the Parent in order to manage interest rate risk.

The impact of this change in hedging approach has been to reduce the total assets and total liabilities on the Group's balance sheet by £2 billion and £1.9 billion respectively in 2015, thereby optimising liquidity positions and improving the Group's leverage ratio. Over time, the remaining gross flow cash hedging deals with the Parent will continue to be replaced by derivative contracts with the Parent.

1.6.10 Loans and advances to customers

	31 December 2015		31 December 2014	
Composition by portfolio - loans and advances to customers	**£m**	**% of Book**	£m	% of Book
Residential mortgages	15,463	78%	14,182	75%
Non-property SME and corporate	1,562	8%	1,670	9%
Commercial property and construction	1,377	7%	1,917	10%
Consumer	1,307	7%	1,145	6%
Loans and advances to customers (before impairment provisions)	**19,709**	**100%**	**18,914**	**100%**
Impairment provisions	(454)		(613)	
Loans and advances to customers (after impairment provisions)	**19,255**		**18,301**	

Gross loans and advances to customers of £19.7 billion increased by £0.8 billion in the year. The key drivers of the movement are as follows:

- residential mortgage lending increased by a net £1.3 billion. This reflected a 76% increase in completions with £3.3 billion of new loans originated, offset by repayments on the existing mortgage portfolio of £2 billion;
- a net reduction in the commercial lending portfolio of £0.6 billion (22%). Of this reduction £0.4 billion related to GB business banking, which is deleveraging in the medium term. Demand for commercial lending in Northern Ireland improved with £0.2 billion of new business in 2015, offset by repayments and redemptions on the existing book of £0.4 billion. The redemptions during 2015 included the Group successfully progressing through resolution or cure a number of defaulted assets; and
- in the consumer lending portfolio, Bank of Ireland, Post Office and AA branded credit card lending and NIIB net lending to UK customers increased by £162 million (14%) year on year. Of this increase, £120 million related to new credit card business offset by card repayments, and there was a net increase in NIIB lending of £68 million.

As set out in page 114 the Group acquired a number of tranches of mortgages from the Parent between 2012 and 2014. These totalled £6.3 billion (fair value) and include a cumulative credit risk adjustment of £41 million at 31 December 2015 (31 December 2014: £65 million). The credit risk adjustment comprises anticipated losses over the remaining life of the loans. These losses were assessed at 31 December 2015 resulting in £27 million release to net interest income. Incurred losses on this portfolio at 31 December 2015 totalled £3 million (31 December 2014: £3 million).

Refer to page 99 for further details of the Group's accounting policy on financial assets.

The composition of the Group's loans and advances to customers by portfolio at 31 December 2015 is now 85% residential mortgages and consumer lending based, compared to 81% in 2014.

Specific provisions decreased by 28% to £387 million at 31 December 2015, from £537 million at 31 December 2014 primarily due to the net impact of the charge of £44 million for the year and £202 million of provisions utilised in the commercial portfolio arising from debt management strategies.

Incurred but not reported (IBNR) provisions decreased by 12% to £67 million at 31 December 2015, from £76 million at 31 December 2014.

Further analysis and commentary on changes in the loan portfolios, assets quality and impairment is set out in the Risk Management report, see page 43 to 66.

1.6.11 Liquid assets

Liquid assets	31 December 2015 £m	31 December 2014 £m
Balances with central banks	3,233	2,918
Available for sale financial assets	956	991
Interbank placements	110	220
Total	**4,299**	**4,129**

The liquid assets portfolio comprises Bank of England deposits, available for sale financial assets and bank placements. Available for sale assets can be used to raise liquidity, either by sale, or through secured funding transactions. This portfolio of £4.3 billion increased by £170 million during 2015.

At 31 December 2015 the liquid asset portfolio primarily comprised £3.2 billion of Bank of England deposits, £382 million of Multilateral Development Bank bonds, £529 million of UK Government treasury bills, £45 million of Finnish Government paper, and £110 million placed with the Parent.

The Group remained in full compliance with the regulatory liquidity regime in the UK throughout 2015 and as at 31 December 2015 maintained a buffer in excess of regulatory liquidity requirements. The liquid assets presented above do not include cash or general bank accounts that are utilised in the day to day operations of the Group.

1.6.12 Customer accounts

Customer accounts	31 December 2015 £m	31 December 2014 £m
Bank of Ireland UK branded deposits	2,009	1,956
Bank of Ireland UK branded current accounts	2,394	2,243
Post Office and AA branded deposits	17,171	15,981
Total	**21,574**	**20,180**

The Group has a mix of retail and non-retail deposits and current accounts, under Bank of Ireland UK, Post Office and AA brands. The key focus for the Group with respect to its deposit management strategy is to:

- maintain and grow its stable retail customer deposit base;
- prudently manage deposit pricing and margins; and
- optimise stable funding levels in line with CRD IV specifications.

As at 31 December 2015 the constituent components of customer accounts were retail deposits and current accounts of £18.9 billion, compared to £17.6 billion at 31 December 2014, and non-retail balances of £2.7 billion compared to £2.6 billion at 31 December 2014.

Bank of Ireland UK branded deposits increased by £53 million in the year and current account balances increased by £151 million.

Retail deposit balances originated through the Post Office and the AA partnerships increased by £1.2 billion to £17.2 billion mainly driven by sales of fixed rate bonds and ISA products.

In October 2015 the Group launched the AA ISA, the first savings product under the AA partnership.

1.6.13 Funding

The Group's funding position remains strong at 31 December 2015, with a loan to deposit ratio of 89% (31 December 2014: 91%). The decrease in the loan to deposit ratio primarily reflects the net effect of an increase in retail deposits, offset by a planned increase in retail lending volumes, primarily in the mortgage portfolio.

The Group does not rely on wholesale funding to fund core activities, however it maintains the operational flexibility to borrow from the market and from other banks including, but not limited to, the Parent.

At present the Group calculates a LCR and a NSFR based on the current draft European Banking Authority (EBA) guidelines and continues to anticipate buffers above the required levels of 100%.

1.6.14 Regulatory capital

Regulatory capital and key capital ratios

CRD IV Transitional 31 December 2014 £m	CRD IV Fully Loaded 31 December 2014 £m		CRD IV Transitional 31 December 2015 £m	CRD IV Fully Loaded 31 December 2015 £m
851	851	Ordinary share capital	851	851
401	401	Capital contributions	566	566
153	153	Retained earnings and other reserves	322	322
1,405	**1,405**	**Total equity**	**1,739**	**1,739**
(169)	(166)	**Regulatory adjustments**	**(127)**	**(127)**
(98)	*(98)*	*Deferred tax assets relying on future profitability*	*(84)*	*(84)*
(39)	*(39)*	*Intangible assets*	*(30)*	*(30)*
(3)	*(3)*	*Qualifying holdings outside of the financial sector*	-	-
(26)	*(26)*	*Cashflow hedge reserve*	*(11)*	*(11)*
-	-	*Retirement benefit asset*	*(2)*	*(2)*
(3)	-	*Available for sale reserve gains*	-	-
1,236	**1,239**	**Common equity tier 1 capital**	**1,612**	**1,612**
240	**-**	**Additional tier 1**	**300**	**300**
240	-	*Non-cumulative callable preference shares*	-	-
-	-	*Subordinated perpetual contingent conversion additional tier 1 Securities*	*300*	*300*
1,476	**1,239**	**Total tier 1 capital**	**1,912**	**1,912**
		Tier 2		
658	658	Dated loan capital	335	335
60	300	Grandfathered non-cumulative callable preference shares	-	-
718	**958**	**Total tier 2 capital**	**335**	**335**
2,194	**2,197**	**Total capital**	**2,247**	**2,247**
9,747	**9,747**	**Total risk weighted assets**	**9,897**	**9,897**
		Capital ratios		
12.7%	12.7%	Common equity tier 1 capital ratio	16.3%	16.3%
15.1%	12.7%	Tier 1 capital ratio	19.3%	19.3%
22.5%	22.5%	Total capital ratio	22.7%	22.7%
4.8%	4.0%	Leverage ratio	6.4%	6.4%

Capital figures disclosed reflect the consolidated UK regulatory position for the BoI UK regulatory group which consists of the Bank and its subsidiaries comprising the NIIB Group only.

In May 2015 the Bank carried out a capital restructure, repurchasing its holding of £300 million CRD IV non-compliant non-cumulative callable preference share capital and issuing £200 million CRD IV compliant subordinated perpetual contingent conversion additional tier 1 securities. As a result of this capital restructure the capital position of the Group became consistent on a Transitional and Fully Loaded basis.

Capital ratios have been presented including the benefit of the retained profit in the period in accordance with Article 26 (2) of the Capital Requirements Regulation (CRR).

1.6.14 Regulatory capital (continued)

The Group is strongly capitalised with a total capital ratio on a fully loaded basis of 22.7% at 31 December 2015 (22.5%: 31 December 2014). During the year a number of capital restructures were undertaken.

The capital restructures and continued profit generation resulted in the Group's CET 1 and tier 1 capital ratios increasing year on year from 12.7% to 16.3% and 12.7% to 19.3% respectively.

- In May 2015 the Bank repurchased £300 million of non-cumulative preference share capital and issued £200 million of subordinated perpetual contingent conversion additional tier 1 securities.
- In November 2015 the Bank repurchased £523 million of subordinated loan debt and issued a further £100 million of subordinated perpetual contingent conversion additional tier 1 securities and £200 million subordinated note debt. All issuances were to the Parent and £165 million of CET 1 capital was also received from the Parent as part of the November 2015 capital restructure.

Total capital resources increased by £50 million during 2015 to £2.25 billion due to:

- a 2015 profit after tax of £186 million;
- the benefit of decreases of £39 million in regulatory capital deductions; offset by
- a net reduction in capital resources of £158 million as a result of capital restructuring activities detailed above; and
- decreases in other reserves of £17 million.

RWAs increased by £150 million from £9.75 billion to £9.90 billion reflecting growth in the residential mortgages and NIIB lending portfolios, offset by the impact of the continued deleverage of the GB commercial lending portfolio.

Leverage

The Group's leverage ratio on a fully loaded basis has increased by 2.4% to 6.4% at 31 December 2015 which is in excess of the Basel Committee minimum leverage ratio of 3%. The Basel Committee has indicated that final calibrations and further adjustments to the definition of the leverage ratio will be completed by 2017, with a view to migrating to a Pillar 1 (minimum capital requirement) treatment on 1 January 2018.

The table below provides year on year analysis of the movements in the leverage exposure, tier 1 capital and the leverage ratio.

CRD IV			CRD IV	
Transitional 31 December 2014 £m	Fully Loaded 31 December 2014 £m		**Transitional 31 December 2015 £m**	**Fully Loaded 31 December 2015 £m**
		Leverage ratio		
29,209	29,209	Total assets	27,939	27,939
(59)	(59)	Removal of accounting value of derivatives and securities financing transactions (SFTs)	(45)	(45)
(63)	(63)	Removal of accounting value of the assets of unregulated entities	(65)	(65)
29,087	29,087	On balance sheet items (excluding derivatives and SFTs)	27,829	27,829
68	68	Exposure value for derivatives and SFTs	60	60
506	506	Off balance sheet items post application of credit conversion factors	1,153	1,153
995	997	Other adjustments	873	873
30,656	**30,658**	**Total leverage ratio exposure**	**29,915**	**29,915**
1,476	**1,239**	**Tier 1 capital**	**1,912**	**1,912**
4.8%	**4.0%**	**Leverage ratio**	**6.4%**	**6.4%**

1.6.14 Regulatory capital (continued)

31 December 2014				31 December 2015		
Capital required £m	RWA £m	Exposure £m	**Pillar 1 Capital requirements**	**Capital required[1] £m**	**RWA £m**	**Exposure £m**
-	-	4,550	Central governments or central banks	1	17	4,916
-	-	412	Multinational development banks	-	-	384
5	59	225	Institutions	7	86	361
161	2,015	2,212	Corporates	134	1,674	1,849
77	965	1,372	Retail	89	1,110	1,582
402	5,019	14,070	Secured by mortgages on residential property	438	5,478	15,413
73	918	767	Defaults	47	588	500
-	-	-	Equity	-	2	2
10	129	385	Other items	16	196	350
728	**9,105**	**23,993**	**Credit and counterparty risk**	**732**	**9,151**	**25,357**
52	**642**	**-**	**Operational risk**	**60**	**746**	-
780	**9,747**	**23,993**	**Total**	**792**	**9,897**	**25,357**

[1] *Capital required is 8% of the RWAs.*

CRD IV Fully loaded 31 December 2014 £m	**Movement in regulatory capital**	**CRD IV Fully Loaded 31 December 2015 £m**
1,014	**Opening Common equity tier 1 capital**	**1,239**
15	Capital contribution	165
168	Contribution to Common equity tier 1 capital from profit	186
42	Other, including regulatory adjustments	22
1,239	**Closing Common equity tier 1 capital**	**1,612**
-	**Opening Additional tier 1 capital**	**-**
-	Subordinated perpetual contingent conversion additional tier 1 securities issued	300
-	**Closing Additional tier 1 capital**	**300**
1,239	**Total Tier 1 capital**	**1,912**
958	**Opening tier 2 capital**	**958**
-	Grandfathered non-cumulative callable preference shares repurchased	(300)
-	Dated loan capital repurchased	(523)
-	Dated loan capital issued	200
958	**Closing tier 2 capital**	**335**
2,197	**Closing total regulatory capital**	**2,247**

1.6.14 Regulatory capital (continued)

CRD IV			CRD IV	
Transitional 31 December 2014 £m	Fully Loaded 31 December 2014 £m	**Regulatory capital to statutory total equity reconciliation**	**Transitional 31 December 2015 £m**	**Fully Loaded 31 December 2015 £m**
1,476	1,239	Regulatory Total tier 1 capital	1,912	1,912
60	300	Grandfathered non-cumulative callable preference shares	-	-
60	60	Consolidation of jointly controlled entity (Note 19)	60	60
2	2	Consolidation of subsidiary undertakings	5	5
		Reverse regulatory adjustments to capital:		
98	98	Deferred tax assets relying on future profitability	84	84
39	39	Intangible assets	30	30
3	3	Qualifying holdings outside of the financial sector	-	-
26	26	Cashflow hedge reserve	11	11
-	-	Retirement pension asset	2	2
3	-	Available for sale reserve gains	-	-
1,767	**1,767**	**Statutory total equity**	**2,104**	**2,104**

1.6.15 Segmental performance

Consolidated income statement - profit / (loss) before taxation	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m	Change %
Great Britain (GB) Consumer Banking	214	243	(12%)
Northern Ireland (NI)	7	14	(50%)
Great Britain (GB) Business Banking	29	-	100%
Group Centre	(67)	(58)	(16%)
Underlying profit before taxation	**183**	**199**	**(8%)**
Profit on disposal of business activities	41	-	100%
Profit before taxation	**224**	**199**	**13%**

The results of the Group can be summarised by segment as follows:

Great Britain (GB) Consumer Banking
The business offers a wide range of products under the Bank of Ireland, Post Office, AA, NIIB/Northridge and legacy Bristol & West Brands.

GB Consumer Banking profits decreased by £29 million to £214 million in 2015, primarily reflecting the impact of maintaining income levels relatively stable year on year, while increasing investment costs in strategic initiatives including new distribution channels, technology and customer support.

GB Consumer Banking income levels reflect the impact of a low interest rate environment, with competitive pricing on new origination, offset by improved retail deposit funding costs.

GB Consumer Banking impairment charges increased in the year, from low levels in 2014, reflecting increased volumes across the portfolio and updated impairment modelling assumptions. Arrears levels continued to remain strong across all segments of the GB Consumer business.

GB Consumer Banking lending volumes increased in the year by £1.4 billion to £16.8 billion reflecting the growth in both Post Office and BoI branded mortgages, and increased volumes across the NIIB / Northridge and credit cards product lines. Lending margins were impacted somewhat by redemptions on legacy mortgage portfolios.

Northern Ireland (NI)
The NI results include the Bank of Ireland branch network and business centres, personal lending, Bank of Ireland credit cards and mortgages, and the banknote issue business. Profits in NI have decreased by £7 million, mainly due to increased impairment charges offset somewhat by improved current account and deposit income and lower operating expenses.

The economic conditions in Northern Ireland remain challenging with a slower recovery than the rest of the UK. As a result the commercial lending portfolio decreased by £0.2 billion to £1.7 billion at 31 December due to provision utilisation and repayments in excess of new lending.

Great Britain (GB) Business Banking
This business includes the commercial lending portfolio which is undergoing a process of managed deleveraging. Profits have increased by £29 million, mainly due to net recoveries of impairment charges as customer loans are refinanced or repaid. This was offset by lower income as the loan volumes have decreased to £0.9 billion at 31 December 2015.

Group Centre
The Group's funding, liquidity and capital position are managed centrally, and the related costs are reported under this segment, along with employees and operating costs of the central risk and control functions and regulatory related costs including the FSCS levy of £11 million (2014: £15 million).

The loss in this segment has increased, reflecting increased costs associated with regulatory compliance and investments in new product launches.

1.7 Principal risks and uncertainties

The table below contains a summary of the principal risks and uncertainties faced by the Group, the outlook for these risks going forward, the implications for the Group should the risks materialise, and the key controls and mitigating factors. These are set out in no order of priority. The Board considers these to be the most significant risks, as they are risk types which the Board believes could have a material impact on the Group's strategy including its earnings, capital adequacy, liquidity and ability to trade in the future.

The process for identifying and managing risks is set out in more detail in the Risk Management report in section 1.4, on page 41.

Principal risks	Outlook	Potential risk impact	Key controls and mitigating factors
Credit risk The risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. Credit risk includes default risk, recovery risk, counterparty risk, country risk, credit concentration risk and settlement risk.	**Stable** Consumer credit risk is expected to remain stable. Continued reduction in commercial credit losses is expected based upon the level of provisioning and the economic environment.	Should commercial or consumer customers be unable to meet their obligations in relation to borrowings from the Group, the Group may suffer increased losses and this would have an adverse impact on the Group's financial position.	• Credit risk appetite is central to the strategic planning process; • Underlying lending policy is aligned to risk appetite; • Exposure to excessive credit losses is minimised through the operation of responsible lending practices and active portfolio management within clearly defined Board approved risk appetite limits; • The Group undertakes active credit management to maximise recoveries from impaired assets seeking the best outcome in accordance with the Group's Customer Charter; • Management of credit risk concentrations is an integral part of the Group's management approach with the risk appetite statement specifying a range of exposure limits for credit risk concentration over the planning period; • Regular monitoring of lending portfolios by senior management and the Credit Risk Portfolio Committee (CRPC). For selected portfolios, this also includes the regular review of stress scenarios at the Executive Risk Committee (ExRiskCo), Board Risk Committee (BRC) and Board; • At least annual reviews of all commercial portfolio cases to monitor case specific risk; and • Regular stress-testing exercises undertaken to identify areas of vulnerability within credit portfolios. This approach is supplemented by third-party validation as required.

1.7 Principal risks and uncertainties (continued)

Principal risks	Outlook	Potential risk impact	Key controls and mitigating factors
Liquidity and funding risk Liquidity risk is the risk that the Group will experience difficulty in financing its assets and / or meeting its contractual payment obligations as they fall due, or will only be able to do so at substantially above the prevailing market cost of funds. Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding or has an inefficient funding structure.	**Stable** The Group maintains a portfolio of unencumbered liquid resources well in excess of regulatory and internal requirements. The Group successfully launched new deposit products during the year through the Post Office and its new partner the AA.	The Group is primarily funded by way of retail deposits, therefore a loss of confidence in the Group's business specifically, or as a result of a systemic shock, could result in unexpectedly high levels of customer deposit withdrawals. This in turn would have a materially adverse effect on the Group's results, financial condition and liquidity prospects. A loss of confidence in the economy generally, the financial services industry, the Post Office brand, the AA brand or the Group or Parent specifically, could lead to a reduction in the Group's ability to access customer deposit funding on appropriate terms.	• Liquidity and funding risk appetite is central to the Group's strategic planning process; • A liquidity and funding Risk Management Framework (RMF) is in place and aligned with the Group's overall strategy to be a self-funded business with no sustained funding dependency on the Parent or material dependency on the wholesale funding market; • Daily monitoring and management of the liquidity position including, but not limited to, early warning indicators, metrics and a defined escalation process; • Senior management reporting regularly in relation to liquidity limits and early warning indicators and onward reporting to Asset and Liability Committee (ALCo), the BRC and the Board; • Maintenance of unencumbered liquidity resources in excess of 100% of stress outflows from both internal stress scenarios and the regulatory requirements held in either cash or highly marketable liquid assets and contingent liquidity collateral; • Significant contingent liquidity collateral which is capable of being pledged against borrowings from central banks or other external market participants; • Active management of the funding position to determine the amount of ongoing new retail deposit acquisition and retention required to fund the Group's asset base; • Comprehensive Internal Liquidity Adequacy Assessment Process (ILAAP) undertaken annually which sets out how the Group assesses, quantifies and manages key liquidity and funding risks; and • Recovery Plan in place, which specifies a range of processes and potential actions that can be put in place, in the event of any unexpected shortfall in liquidity and / or funding.
Market risk The risk of adverse changes in income or net worth arising from movements in interest rates, exchange rates or other market prices. Market risk arises mainly through fixed rate lending and, on the liability side, through fixed rate deposit products. Market risk can also arise where variable rate assets and liabilities reprice at different frequencies, or where lending reprices with changes in central bank rates but is funded at short dated market rates.	**Stable**	The effective management of market risk is essential to the maintenance of stable earnings, the preservation of capital resources and the achievement of the Group's strategic objectives. Changes in the basis between different reference rates (such as assets repricing at the base rate and liabilities repricing at London Interbank Offered Rate (LIBOR)) may have an adverse impact on the Group's net interest margin.	• Market risk appetite is set by the Board and a detailed Market Risk Policy (MPR), which is reviewed annually, is in place which governs market risk management and monitoring; • The Group has no risk appetite for the holding of proprietary market risk positions or the running of open banking book market risk exposures; • The Group's market risk is substantially eliminated through hedging with the Parent, using derivatives or cash hedging deals; • A new product approval process incorporates review of product terms and conditions from a market risk perspective, to ensure compliance with existing risk appetite; • Monthly market risk reporting to the ALCo in relation to exposures compared to risk limits; • Monthly reporting of customer behaviour in relation to prepayment of mortgages and pipeline drawdown is reported to ALCo; • Daily measurement, reporting and monitoring of market risk limits in place; and • Daily market risk stress tests across all aspects of market risk (yield curve and repricing risk, basis risk, prepayment risk, pipeline risk etc.) are produced and monitored against red, amber, green (RAG) limits set by ALCo.

1.7 Principal risks and uncertainties (continued)

Principal risks	Outlook	Potential risk impact	Key controls and mitigating factors
Regulatory risk The risk of failure to meet new or existing regulatory and / or legislative requirements and deadlines or to embed requirements into processes.	**Risk Increasing** Further details of evolving regulatory and legislative requirements are set out in section 1.8.	The increasing regulatory agenda necessitates an increase in resources and amendments to current processes which may impact the Group's cost base. Failure to comply with all aspects of the relevant regulatory regime could result in the Group being subject to fines or customer compensation and / or regulatory sanction.	• The Group has no appetite for failure to comply with its regulatory or legislative obligations. It is recognised that issues may arise and where these occur appropriate action is taken promptly; • Regular and open communication with the FCA, PRA and Single Supervisory Mechanism (SSM) on all aspects of the Group's activities; • Regulatory compliance reports and Management Information (MI) are reviewed by and reported to senior management and the Board as well as other committees including the Regulatory and Operational Risk Committee (R&ORC), the ExRiskCo and the BRC; • Regular monitoring, assessment and reporting of regulatory change (current and proposed) to ensure timely and appropriate response to manage significant regulatory change requirements at both a UK and EU level; and • Risk-based regulatory and compliance monitoring performed by an independent compliance monitoring function.

1.7 Principal risks and uncertainties (continued)

Principal risks	Outlook	Potential risk impact	Key controls and mitigating factors
Operational risk (including Financial Crime, Legal Risk, People Risk, Outsourcing and IT Risk) The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk which relates to the risk of the Group being the subject of a claim or proceedings due to an infringement of laws, contracts or regulations. People risk relates to the inability to recruit and / or to retain appropriate numbers and / or calibre of staff and specifically the risk of loss of key senior executives.	**Risk increasing** Along with other financial service providers, the Group is reliant on IT systems to deliver products and services. Increasing external threats such as cybercrime, or failure of IT systems, could lead to disruption of services for customers or financial loss.	The Group could be subject to financial loss or reputational damage as a result of the occurrence of an operational risk event. The Group's operations are sensitive to operational risk losses arising from outsourcing and technology risk. Operational risk could result in a loss following failure of internal processes or systems or as a result of a fraudulent or criminal act taking place. Cyber-crime is an ever evolving threat to which the Group is exposed, with the risk of loss of sensitive information, customer data and financial loss. Financial Crime, particularly Anti Money Laundering (AML), is an ongoing challenge for the financial services industry and presents a constant risk to the Group. Litigation proceedings with adverse judgments could result in restrictions or limitations on the Group's operations or result in a materially adverse impact on the Group's reputation or financial condition.	• The operational RMF defines the Group's approach to identifying, assessing, managing, monitoring and reporting the operational risks that may impact the achievement of the Group's objectives and provides direction to the business in its operational risk management; • Articulation of risk appetite for key operational risks (including financial crime) and regular monitoring of the Group's operational risk exposures against risk appetite; • Implementation of specific policies and risk mitigation measures for key operational risks, including financial crime (incorporating cyber-crime), outsourcing, and business continuity risks; • Regular reporting of operational risks to the R&ORC, the BRC and the Board. • A risk and control self-assessment programme is in place for the Group which provides individual business units and functions with a view of their operational risk profile and drives any further risk mitigation required to maintain a risk profile within acceptable levels; • A central operational risk database has been implemented across the Group which records risk and control self-assessments, and this will be further developed during 2016; • Arrangements entered into with the Parent and third-party outsourced providers are governed through service level agreements which are monitored through formal governance arrangements, KPIs and obligations; • The Group has processes in place to ensure its compliance with its legal obligations, together with clear controls in respect of the management and mitigation of such disputes, proceedings and investigations as may be instigated against the Group from time to time; • The Group has a Board approved people strategy providing it with a range of strategies to enable the Group to retain appropriate numbers and / or calibre of staff having regard to remuneration restrictions imposed by government, tax or regulatory authorities. These include Talent Board Reviews including succession planning, a Performance Management Framework, and a Career and Reward Framework; and • The Group's polices, standards, governance and control models undergo ongoing review reflect the Group's digital strategy and solutions.

1.7 Principal risks and uncertainties (continued)

Principal risks	Outlook	Potential risk impact	Key controls and mitigating factors
Business / Strategic risk The risk of volatility to the Group's projected outcomes, including the Income Statement and Balance Sheet impact and / or damage to its franchise. It includes volatilities caused by changes in the competitive environment, new market entrants, new products, failure to develop and execute a strategy, failure to anticipate or mitigate a related risk, and a breakdown / termination of a relationship with a distribution partner. Strategic risk generally relates to a longer timeframe than business risk.	**Stable**	Adverse change in the Group's revenues and / or costs resulting in reduced profitability.	• A clearly defined strategic plan is developed within the boundaries of the Board approved risk appetite and risk identity, ensuring balanced growth in consumer lending and deposits with a stable funding profile that is appropriate for the asset mix; • The Group's Annual Strategy & Planning Process includes a review and assessment of the Group's Business Model; • The Group monitors the impact, risks and opportunities of changing current and forecast macroeconomic conditions on the likely achievement of its strategy and objectives. This is supported by the Group's Economist and supplemented with external research as required; • Macroeconomic tools allied to the Group's credit risk appetite mitigate the impacts associated with a severe house price correction; • Competitive environment reviewed and monitored on an ongoing basis to identify market developments; • Expert independent validation of key strategic items and / or developments; • Specific business focus on new lending origination and active management of the retention of existing customers whilst maintaining focus on the sale of deposits and retention of deposit customers to ensure a balanced portfolio and appropriate funding base; • Clearly defined and regularly monitored KPIs at both Executive and Board committee level; • Active engagement and management of the Post Office, the AA and other relationships; and • In the context of its Board approved strategy, the Group assesses and develops its complementary technology strategy which is reviewed and monitored on an ongoing basis.
Reputation risk The risk to earnings or franchise value arising from adverse perception of the Group's image on the part of customers, suppliers, counterparties, shareholders, staff, partners, legislators or regulators. This risk typically materialises through a loss of business in the areas affected.	**Stable** Expectation of a continued focus on the financial services industry.	Adverse public or industry opinion, resulting from the actual or perceived manner in which the Group conducts its business activities or from actual or perceived practices in the banking industry (such as mis-selling financial products or money laundering), may adversely impact the Group's ability to have a positive relationship with key stakeholders and / or keep and attract customers. Ultimately this may result in an adverse impact on the Group's business, financial condition and prospects.	• The embedding and management of a positive customer conduct culture to ensure the interests of consumers remain at the heart of the Group's operation. Management decision-making aims to deliver an accurate, open and positive external view of the Group to customers, regulators and the wider public and community; • Active management of all internal and external communications; • Maintenance of a suite of early warning indicators, which, if breached, will trigger escalation and, where required, management action; • Regular reporting of reputation risk to the ExRiskCo and BRC as well as a regular review of the Group's brand and reputation by the Board; and • Regular and open dialogue with key stakeholders, regulators and industry bodies.

1.7 Principal risks and uncertainties (continued)

Principal risks	Outlook	Potential risk impact	Key controls and mitigating factors
Capital adequacy risk The risk that the Group holds insufficient capital to absorb extreme and unexpected losses, which could eventually result in insolvency.	**Stable** The Group continues to generate capital and maintains a strong capital position against regulatory and internal requirements.	The Group's capital ratios would deteriorate as a result of a materially worse than expected financial performance (including, for example, reductions in earnings or increases in RWA). As a result the Group might not be able to continue operating.	• Comprehensive Internal Capital Adequacy Assessment Process (ICAAP) undertaken annually, assessing the Group's capital adequacy and capital quality under plausible stress scenarios; • Capital adequacy risk appetite is central to the strategic planning process. The Group's appetite is to hold sufficient capital to achieve its strategic objectives, as well as to absorb extreme losses in a stress scenario; • Regular senior management reporting in relation to forward-looking capital limits and early warning indicators and onward reporting to ALCo, the BRC and the Board; and • Detailed capital plan continuously monitored and reviewed on a monthly basis, which informs the capital position for the Group.
Conduct Risk Conduct risk is the risk of failure to deliver a product or service in a manner reasonably expected by customers.	**Stable**	Conduct risk and / or poor outcomes for customers could lead to loss of business, adverse media coverage, financial penalties and / or regulatory sanction.	• The Group has no appetite for customer detriment and seeks to be fair, accessible and transparent in the provision of products and services to its customers. It is recognised that issues may arise and where these occur, appropriate action is taken promptly; • The Group has developed an internal Customer Charter which provides a clear articulation of its customer and partner commitments and is designed to place customers at the heart of its business. It is central to the Group's Conduct Risk Culture which is continuously embedded across the business and provides a common framework for business decision-making and product design ensuring consistency across the Group; • The Conduct Risk Steering Group, a sub-committee of BRC, reviews the Group's performance against its conduct risk obligations and management's recommendations on conduct risk matters; • The Product & Services Approvals & Governance Committee (PSAGC) reviews, assesses and approves material new products and services prior to introduction or withdrawal or material change to an existing product or service. It also reviews performance of existing products and services to ensure these remain appropriate; • Conduct measures throughout the Group include enhanced product review process, Complaint Root Cause Analysis, and Conduct Risk MI; and • Regular reporting of Conduct risks to the R&ORC, the BRC and the Board.

Additional details on principal risks and related exposures can be found in the Risk Management report on pages 36 to 79.

1.8 Regulatory and other evolving issues (continued)

The Group operates in a constantly evolving regulatory environment which it monitors continuously to assess the strategic, operational and financial impact of emerging and evolving regulatory requirements.

Detailed below are the principal current regulatory and other evolving issues being assessed and responded to by the Group.

- **Impact of Accounting Standards**
  IFRS 9 is a new accounting standard to be implemented in 2018. It introduces a forward-looking 'expected credit loss' model, which may lead to changes in the timing of recognition of impairment provisions and charges.

  The implementation of IFRS 9 is a major priority for the Group and its Parent and an IFRS 9 programme, responsible for its implementation, was established during 2015, supported by appropriate external advisors.

  The Group continues to assess the impact of implementing IFRS 9, and given the complexity of the standard and scale of IFRS 9 implementation, the quantitative impact on impairment provisions and capital on initial application, or potential volatility in impairment provisions and capital thereafter, is difficult to estimate at this stage.

  Further detail on the IFRS 9 programme and current activities is set out in the credit risk section in the Risk Management report on pages 44 to 66.

- **Individual Accountability Regime**
  The new Individual Accountability Regime clarifies the way in which regulators hold senior executives of banks and other financial institutions to account. It introduces specific responsibilities and conduct rules with the ultimate aim of raising standards, across all aspects of governance and control structures. The regime will commence on 7 March 2016 and will cover all UK banks, building societies, credit unions, PRA-designated investment firms and UK branches of foreign banks. Work to ensure the Group's compliance with the requirements is well advanced.

- **Ring-Fencing of Core UK Financial Services and Activities**
  In May 2015 the PRA published its near final rules on the implementation of ring-fencing in Policy Statement 10/15. It published Consultation Paper (CP) 33/15 on 18 September 2015 and CP 37/15 on 15 October 2015 on additional aspects of the ring-fencing regime. The UK Government has stated that its intention is for ring-fencing to be implemented from 1 January 2019.

  In June 2015 the Council of the EU issued a press release stating it had agreed its negotiation stance on structural measures to improve the resilience of EU credit institutions.The Presidency will start negotiations with the European Parliament as soon as it has adopted its position.The Group is monitoring developments closely.

- **Deposit Guarantee Schemes Directive (2014/49/EU) (DGSD)**
  In October 2014 the PRA issued a Consultation Paper in relation to the implementation of the recast Deposit Guarantee Schemes Directive (2014/49/EU) (DGSD). It also proposed new rules to ensure that depositors protected by the FSCS can have continuity of access to their accounts during the course of a resolution, as well as changes to the Single Customer View (SCV) requirements on firms.

  Work is underway to ensure compliance with these requirements.

  In April 2015 the PRA also set out its near final rules to implement the Directive by 3 July 2015. However, on the implementation date the PRA also announced that the depositor protection limit would be reduced from £85,000 to £75,000 from 1 January 2016, reflecting the increased value of the pound against the euro. The Group has implemented the required changes.

- **Capital Requirements Directive (CRD) IV**
  In November 2015 the Bank of England published its response sent on 7 October 2015 to the European Commission consultation on the possible impact of the CRR and CRD IV on bank financing of the economy. The EBA published revised draft final technical standards and guidelines on 13 January 2016. The Group is assessing the impact of the revised guidelines.

- **Standardised Approach to Credit Risk**
  In December 2014 the Basel Committee on Banking Supervision (BCBS) issued a consultation on proposed revisions to the standardised approach to credit risk and proposed to employ the approach in a new capital floor framework. The BCBS published a second consultative document on revisions to the standardised approach in December 2015, the aim of which remains to reduce variability in risk-weighted assets, increase risk sensitivity, reduce national discretions and enhance comparability of capital requirements across banks. The second consultation ends on 11 March 2016. The Group is currently reviewing the impacts of the proposals.

- **Minimum Requirement of Eligible Liabilities ratio (MREL) and Total Loss-Absorbing Capacity ratio (TLAC)**
  MREL is an EU Bank Recovery & Resolution Directive requirement. TLAC has been proposed by the Financial Stability Board (FSB).

1.8 Regulatory and other evolving issues (continued)

The aim of both MREL and TLAC is to ensure that banks have an appropriate level of loss absorbing and recapitalisation capacity to be resolvable so that their critical functions can be continued without public funding, and adverse impacts on the financial system are avoided.

Currently, TLAC is expected to apply only to Global Systemically Important Banks (G-SIBS) and is effective from 1 January 2019. MREL applies to all EU banks and is effective in 2016 with a phase-in period of up to four years.

The Group is engaging with the regulator in respect of MREL requirements and is monitoring developments closely to ensure its compliance.

- **Leverage Ratio Framework**
  In July 2015 the Financial Policy Committee (FPC) directed the PRA to implement a UK leverage framework and in response the PRA issued a consultation on the framework. The leverage ratio framework was finalised in December 2015 in policy statement 27/15 and supervisory statement 45/15. The framework will apply to regulated banks with retail deposits in excess of £50 billion from 1 January 2016. While the Group does not currently have any leverage reporting requirements under this framework, it is expected that the FPC will extend the scope to other banks in 2017, in advance of the CRD IV minimum leverage requirement of 3% which comes into effect on 1 January 2018.

  The Group is reviewing developments in these requirements to ensure that it will be compliant if the scope of reporting is extended.

- **Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)**
  In June 2015 the PRA published Policy Statement 11/15 on CRD IV: Liquidity. The PRA confirmed that the LCR would be phased in from 1 October 2015 at a level of 80% until the end of 2016. In Supervisory Statement 29/15 (SS29/15) published in July 2015, the PRA outlined that it expects banks to report on an interim basis their LCR positions as defined in the Delegated Act from October 2015. The Group is currently compliant with an LCR in excess of 100% (31 December 2015: 194%). In December 2015 the EBA recommended the introduction of the NSFR in the EU to ensure financial institutions maintain an appropriate stable funding structure.

- **European Banking Authority (EBA) Additional Monitoring Metrics (AMM)**
  The EBA has developed liquidity metrics in addition to those used to report liquidity coverage and stable funding requirements, with a view to providing supervisors with an adequate toolkit to assess liquidity risk, and to facilitate the assessment of Internal Liquidity Adequacy. The new requirements are awaiting adoption into the EC Official Journal and will become a legal requirement after adoption. Work is underway to ensure compliance when the requirements are formally adopted.

- **Payment Accounts Directive**
  The Payment Accounts Directive (PAD) 2014/92/EU was published on 28 August 2014 and introduces measures that banks and other payment service providers must comply with regarding the comparability of fees related to payment accounts and payment account switching. It also requires offering access to payment accounts with basic features to all EU consumers. The UK government must implement PAD into UK law by 18 September 2016. To do so, the UK Treasury intends to make new secondary legislation and amend existing legislation. In September 2015, the FCA announced that some of the legislative changes would require amendments to FCA rules and that it would issue a consultation paper during the first half of 2016.

  While providers will have to comply with the provisions on switching and basic bank accounts from 18 September 2016, the new requirements relating to fee information will apply after completion of the standardisation process. It is considered unlikely that payment service providers offering payment accounts will have to use the new terminology before autumn 2017.

- **Competition and Markets Authority (CMA) market investigation into UK Personal Current Account (PCA) and SME banking services**
  In November 2014 the CMA advised it was launching a market investigation into the supply of banking services to the UK PCA market and SMEs. This investigation applies to the Group in respect of its Northern Ireland (NI) (PCA and SME) and GB Consumer Banking (Post Office PCA) franchises. The Group participated in the review through provision of data and written submissions and by attending a panel hearing. In October 2015 the CMA issued its provisional findings and a notice of possible remedies is currently being considered by the Group. The CMA had originally intended to publish its findings in May 2015, but following significant feedback it has announced that it will seek an extension to its original timetable. The group will keep this matter under review.

1.8 Regulatory and other evolving issues (continued)

The risks identified throughout the Strategic report should not be regarded as a complete and comprehensive statement of the risks which the Group could be subject to, as there may be risks and uncertainties of which the Group is not aware, or which the Group does not currently consider significant but which in the future may become significant. The Group's internal risk identification process goes beyond this assessment and also incorporates less material risks and the associated potential Group impact. However, the Group does not provide any assurances of future performance, profitability or returns on capital.

The Strategic report on pages 7 to 35 is approved by the Board of Directors and signed on its behalf by:

Lorraine Smyth

Lorraine Smyth
Director
2 March 2016
Company number: 07022885

Risk Management

The information below in sections or paragraphs denoted as audited in sections 2 and 3 and all the tables (except those denoted unaudited) in the Risk Management Report form an integral part of the audited financial statements as described in the Basis of Preparation on page 94.

All other information in the Risk Management Report is additional disclosure and does not form part of the audited financial statements.

1. Risk management framework

The Group follows an integrated approach to risk management to ensure that all material classes of risk are taken into consideration and that the Group's overall business strategy and remuneration practices are aligned with its risk strategy and capital plan.

The Group's RMF articulates this integrated approach and is approved by the Board of Directors (the Board) on the recommendation of the Board Risk Committee (BRC) on an annual basis. It identifies the Group's formal risk governance process, its framework for setting risk appetite and its approach to risk identification, measurement, management and reporting.

The RMF is underpinned by an appropriate risk culture and is enabled by people, processes and technology. In the RMF the Group categorises and defines the risks faced by the business. This categorisation supports the Group's risk management activities at all levels and enables risks to be clearly and consistently identified, assessed, managed and reported to key stakeholders. These categories are subject to ongoing review and maintenance to ensure they remain appropriate in the context of a changing strategic and business environment.

The Group's principal risks and uncertainties are set out in section 1.7 of the Strategic report. The component elements of the RMF are outlined in the chart below.

Figure 1 - Bank of Ireland UK Risk Management Framework (RMF) components

Where services are provided by the Parent under outsourcing arrangements, the above approach to risk management is embedded in the Master Services Agreement between the Group and the Parent and managed through a series of key service schedules.

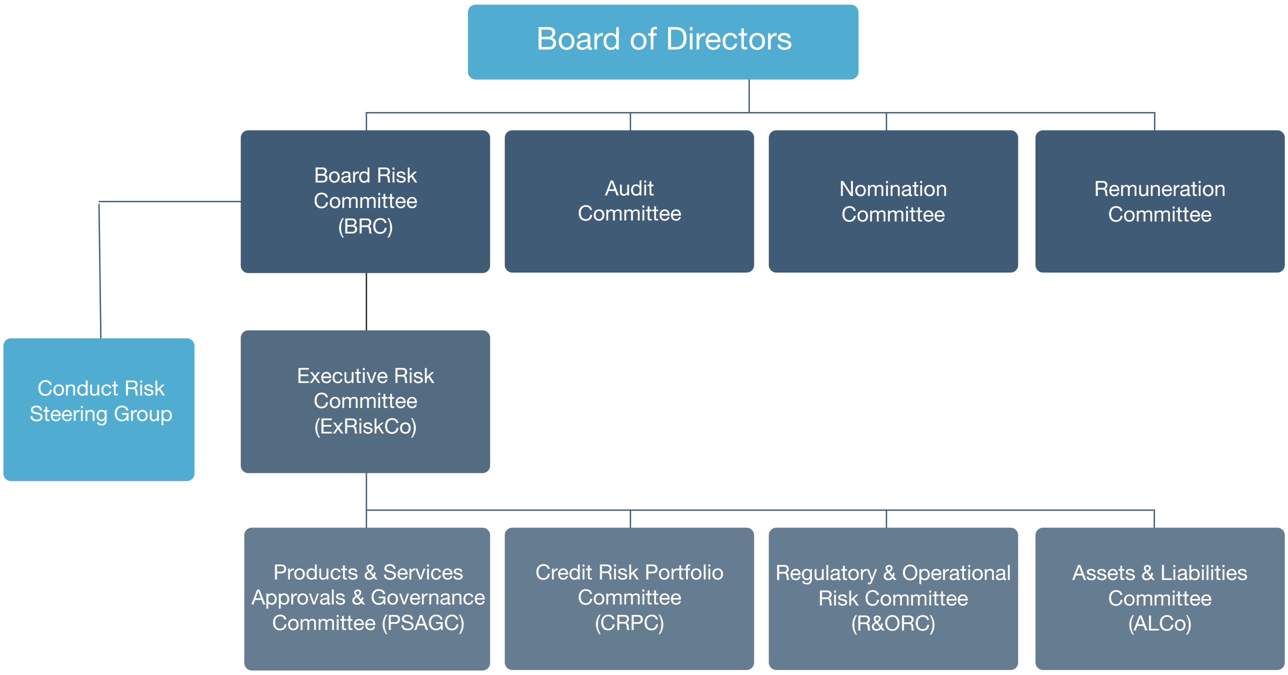
1.1 Risk governance framework

1.1.1 Roles and responsibilities – Bank of Ireland UK Board and Executive Governance

The Group's organisational structure is designed to facilitate the reporting of risk positions and escalation of risk concerns from business units, functions and Group Internal Audit (GIA) to the ExRiskCo, the BRC and the Board, and to cascade approved risk management policies to the business units.

The Board is responsible for ensuring that an appropriate system of internal control is maintained and for reviewing its effectiveness. To assist the Board in discharging its duties, it has appointed four Board sub-committees. Below this Board level governance, the Group also has in place a suite of executive level committees (as shown in figure 2 below):

Figure 2 – Risk Committee Governance Structure



Each of the risk committees detailed in figure 2 has detailed terms of reference, approved by its parent committee or the Board, setting out its objectives and responsibilities. In summary, the following are the key responsibilities of the Group's Board and its sub-committees:

Board of Directors
The Board is responsible for approving policy and strategic direction in relation to the nature and scale of risk that the Group is prepared to assume, to achieve its strategic objectives. The Board ensures that an appropriate system of internal control is maintained and reviews its ongoing effectiveness.

The Board meets at least six times a year. It comprises three executive Directors, four independent non-executive Directors and two non-executive Directors from the Parent. A number of Board functions are delegated to key Board Committees, including the BRC, the Audit Committee, the Remuneration Committee and the Nomination Committee.

Board Risk Committee (BRC)
The BRC is responsible for monitoring risk governance, and assists the Board in discharging its responsibilities in ensuring that risks are properly identified, reported, and assessed; that risks are properly controlled; and that strategy is informed by, and aligned with, the Group's risk appetite.

The BRC meets at least four times a year and more frequently if required, and its membership is made up of at least three independent non-executive Directors.

Audit Committee
The Audit Committee is responsible for the appropriateness and completeness of the Group's internal controls, including internal financial controls and risk management systems and for advising the Board (in close liaison with the BRC) in relation to the Group's risk appetite.

The Audit Committee meets at least four times a year and more frequently if required, and its membership is made up of at least three independent non-executive Directors.

1.1 Risk governance framework (continued)

Nomination Committee
The Nomination Committee is responsible for leading the process for appointments and renewals for the Board and the Board Committees as appropriate, and making recommendations in this regard to the Board for its approval reviewing succession plans for and approval of the senior management team and regulatory Senior Management Function appointments.

The Nomination Committee meets at least twice a year and more frequently if required, and its membership is made up of three non-executive Directors.

Remuneration Committee
The Remuneration Committee is responsible for considering the remuneration policy for Directors, senior management and top earners in the Group. It is responsible for ensuring that the Group operates remuneration policies and practices which are in line with the principles of the EU Capital Requirements Directive and any associated guidance from the EBA, the FCA and the PRA, as to its application.

The Remuneration Committee meets at least twice a year and more frequently if required, and its membership is made up of three non-executive Directors.

Conduct Risk Steering Group
The principal purpose of the Conduct Risk Steering Group is to review, on behalf of the BRC, the performance of the Group in respect of meeting its conduct risk obligations and management's recommendations on conduct risk matters. Membership comprises executive and independent non-executive Directors.

Executive Risk Committee (ExRiskCo)
The ExRiskCo is the most senior executive risk committee and reports directly to the BRC. Membership comprises the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Risk Officer (CRO), Chief Operating Officer (COO), Director of Human Resources (HR), Senior Heads of Business and Senior Risk Managers. It is responsible for the end to end management of risk across the Group including monitoring and reviewing the Group's risk profile and compliance with risk appetite. It approves risk policies in accordance with the mandate delegated by the BRC.

The ExRiskCo in turn delegates specific oversight of the major classes of risk to specific committees that are accountable to it. These committees are:

- **Asset & Liability Committee (ALCo) -** provides active management in the oversight of matters relating to balance sheet management, liquidity, funding, market risk, capital management and pricing.
- **Credit Risk Portfolio Committee (CRPC) -** provides credit risk and portfolio oversight as well as oversight and approval of credit policies.
- **Regulatory & Operational Risk Committee (R&ORC) -** provides oversight in relation to regulatory (including conduct risk) and operational risk (including financial crime, legal risk and outsourcing) management.
- **Products & Services Approvals & Governance Committee (PSAGC) -** reviews, assesses and approves material new products and services across the UK prior to introduction or prior to withdrawal or material changes to an existing product / service. It also considers the performance of existing products and services to ensure they remain fit for purpose.

ExRiskCo approves the terms of reference and the membership of its appointed committees annually, reviews their decisions and minutes and reviews the findings of the annual effectiveness reviews of the committees.

1.1.2 Roles and responsibilities – Three Lines of Defence

The Group has adopted the 'three lines of defence' model as the basis for its RMF, as indicated below:

Figure 3 – Three Lines of Defence model

1.1 Risk governance framework (continued)

First line of defence – Primary responsibility and accountability for risk management lies with line management across the business and front-line functions. They are responsible for the identification and management of risk against risk appetite at a business unit level including the implementation of appropriate controls and the reporting of all major risk events. Business units are accountable for the risks arising in their businesses / functions, and are the first line of defence for the Group in managing these. This applies irrespective of whether or not activities are outsourced to the Parent or to external third parties including strategic partners such as the Post Office and the AA.

In addition, the Group's treasury function is responsible for liquidity planning and management, transfer pricing, balance sheet management, cash and market risk management and the Group's contingent capital and funding programmes. The UK Treasurer reports directly to the CFO.

Second line of defence – The Risk Office is responsible for maintaining independent risk oversight and ensuring that a risk control framework is in place under the second line of defence as follows:

Risk Oversight: specialist risk support & control functions - In order for the BRC, ExRiskCo, and other risk committees to fulfil their delegated responsibilities in respect of risk governance, they are supported by the Risk Office which is responsible for establishing the RMF, designing risk policies, controls and processes and communicating these to all business units through monitoring and appropriate assurance. The Risk Office also provides independent oversight, monitoring, analysis and reporting of key risks. This includes the monitoring and credit underwriting of individually significant credit exposures in the commercial loan book.

Risk Governance: Board and management committees – The Group's risk committees have Board-mandated responsibility to monitor business performance against the Group's risk appetite and risk policies. Committee members must satisfy themselves that the Group's overall exposure to risk is appropriate and not subject to a level of unexpected change which is sufficient to challenge risk appetite. If this is the case, the relevant committee escalates the breach to the BRC and / or the Board, to ensure the appropriate actions are taken to return the Group to a position within its risk appetite.

These committees also propose, monitor and report upon risk policy and methodology, and challenge and approve the risk management approach for the specific risks under their charge.

Third line of defence – The GIA function provides independent and reasonable assurance to key stakeholders on the effectiveness of the Group's risk management and internal control framework. GIA carries out risk based assignments covering Group businesses and functions (including outsourcing providers), with ratings assigned as appropriate. Findings are communicated to senior management and other key stakeholders, with remediation plans monitored for progress against agreed completion dates. The Group Credit Review (GCR) function, an independent function within GIA, is responsible for reviewing the quality and management of credit risk assets across the Group.

Supplementing this internal view, the Audit Committee also places reliance upon the work and opinions expressed by the external auditors in their review of the Group's financial statements.

1.2 Risk culture, strategy and principles

Risk culture
A strong risk culture is fundamental to the Group's management. The Group seeks to promote a culture that is open and risk aware. Considerations about risk inform the Board and management decisions and Group employees are encouraged to highlight and address risk issues promptly. Clearly defined roles and responsibilities at every level of the organisation ensure clarity of risk management responsibilities. A Speak Up policy protects employees who speak out.

The Group's conduct risk culture is being embedded across the business and provides a common framework which supports business decision-making and product design ensuring consistency across the Group.

Risk strategy
The Group's risk strategy is to support the business in building sustainability and to protect the Group's balance sheet, customers and reputation as well as that of its strategic partners. The Group seeks to accomplish this by defining its risk identity; establishing risk appetite as the boundary condition for the Group's strategic plan and annual operating plan / budget; and defining the risk principles upon which risks may be accepted.

The objectives of the Group's risk strategy are to:

- ensure that all material risks are correctly identified, measured, managed and reported;
- ensure that capital and funding are key considerations in the approach to risk management in the Group;

1.2 Risk culture, strategy and principles (continued)

- allocate clear roles and responsibilities / accountability for the control of risk in the Group;
- avoid undue risk concentrations;
- engender a strong risk management culture;
- ensure that the basis of remuneration for key decision makers is consistent with EBA guidelines, as appropriate; and
- ensure that the Group's risk management structures remain appropriate to its risk profile and take account of lessons learnt and emerging internal and external factors.

Risk principles
Risks to the Group may be accepted at transaction, portfolio and company level if:
- they are aligned with the risk identity and risk appetite;
- the risks represent an appropriate investment from a risk-return perspective;
- the Group has the resources and skills to analyse and manage the risks;
- stress and scenario tests around the risks are performed, where appropriate, and the results are satisfactory;
- appropriate risk assessment, governance and procedures have been observed; and
- acceptance of the risk does not cause undue risk concentration.

1.3 Risk identity and risk appetite

Risk identity
The Group is a retail focused bank committed to long term relationships with its customers and strategic partners. It pursues an appropriate return for the risk taken and operates safely within risk appetite. In doing so, the Group seeks to be fair to its customers by ensuring its products and services are appropriate, accessible and convenient. The Group seeks to operate a strong RMF and risk culture. The Group is focused on generating a return on equity in excess of the cost of capital and a key objective is to achieve balanced growth in customer lending and deposits, with a stable funding profile that is appropriate for the asset mix through:
- maintaining a consumer lending product set and business lending relationships (as appropriate);
- funding by a mix of retail and non-property and corporate SME deposits; and
- generating a mix of fee revenue through its money transmission and currency activities.

Risk appetite
Risk appetite defines the aggregate risk that the Group is prepared to accept in pursuit of its strategic objectives. It forms a boundary condition to strategy and guides the Group in its risk-taking and related business activities. The Risk Appetite Statement (RAS) is defined in accordance with the Group's RMF and is reviewed at least annually by the Risk Office and approved by the Board on the recommendation of the BRC.

It is defined in qualitative and quantitative terms within a framework that facilitates discussion and monitoring both at the Board and management levels. At the highest level, risk appetite is based on the Group's risk identity, which qualitatively defines the relative positioning of the Group's activities within a spectrum of business models and market opportunities. Quantitative risk appetite measures, which are consistent with the Group's risk identity, are then used to inform the boundaries of the Group's strategy. These measures also inform individual risk limits and targets at management and business unit level.

The Group tracks actual and forecast results against these risk limits which are monitored and reported regularly to senior management as well as the appropriate committee(s).

The Group strives to ensure it operates within its risk appetite and therefore its risk appetite and risk profile must be aligned. Where the Group has a risk profile that is in excess of its risk appetite, it will take action to realign the risk profile through increased risk mitigation activities and risk reduction. The key risk mitigating activities are set out on pages 27 to 32 within the Strategic report.

Where risk appetite is breached or an unanticipated risk arises, a root cause analysis will be undertaken by the designated risk owner.

1.4 Risk identification, measurement and reporting

Risk identification
Risks facing the Group are identified and assessed through the Group's risk identification process. Risks that are considered material are included in the Group's RMF, owners are identified, appropriate policies are put in place, and a formalised measurement and management process is defined and implemented. The Group regularly reviews the RMF and risk management policies and systems to reflect changes in markets, products and best market practice. The Group has identified risk types that it believes could have a material impact on earnings, capital adequacy, liquidity and on its ability to trade in the future and these are covered in the principal risks and uncertainties that are set out on pages 27 to 32 of the Strategic report.

1.4 Risk identification, measurement and reporting (continued)

Risk measurement
Risk management systems are in place to facilitate measurement, monitoring and analysis of risk and ensure compliance with regulatory requirements. In addition to the assessment of individual risks on a case-by-case basis, the Group also measures its exposure to risk at an aggregate level using, among other techniques, risk-adjusted return estimates and stress testing.

The Group conducts stress tests in order to assess the impacts of adverse scenarios on the Group's impairment charges on financial assets, earnings, capital adequacy, liquidity and financial prospects.

The results of stress tests are used to assess the Group's resilience to adverse scenarios and to aid the identification of potential areas of vulnerability. The tests are applied to the existing risk exposure of the Group and also consider changing business volumes, as envisaged in the Group's business plans and strategies. Macroeconomic scenarios of different levels of severity are combined with assumptions on volume changes and margin development.

Stress test results are presented to the BRC and the Board as an integral part of the ICAAP and the ILAAP, which assess the risks and capital and liquidity requirements of the Group.

The Group also performs reverse stress testing, primarily a qualitative process to derive severe stress scenarios which would breach the Group's ability to survive unassisted, thus helping to define risk tolerance boundaries for the business as well as appropriate controls and mitigants.

Risk reporting
Risks are measured, reported and monitored by the Group on a daily, weekly, monthly and / or quarterly basis depending on the materiality of the risk. The CEO and CRO reports submitted to each Board meeting provide an update on key risk issues as well as an update on performance against core risk appetite metrics. Additionally, on a quarterly basis, material risks identified under the Group's RMF are assessed and its status is reported in the Quarterly Risk Report (QRR) in the first instance. This report is submitted to both the ExRiskCo and the BRC.

The format of this report is approved by the BRC. The content of the QRR includes analysis of, and commentary on, all material risk types. It also addresses governance and control issues and the Group's capital position. In addition to the QRR, the BRC and the Board consider more frequent formal updates on the key areas of credit, liquidity risk and capital management.

Data on the external economic environment and management's view of the implications of this environment on the Group's risk profile is also reviewed regularly at management and Board level. The BRC also receives risk information through the review of minutes from the ExRiskCo and its sub-committees.

2. Management of key risks

Credit risk index

2.1 Credit risk

Key points:

- Gross loans and advances to customers increased by £0.8 billion to £19.7 billion at 31 December 2015. (31 December 2014: £18.9 billion)
- The credit environment in which the Group operates improved during 2015.
- The commercial property sector continues to improve, but in some segments, such as Northern Ireland land and development, it continues to be characterised by low levels of activity and illiquid markets.
- Total customer impairment charges have reduced from £61 million at 31 December 2014 to £44 million at 31 December 2015, primarily due to lower commercial impairment charges.
- The residential mortgage portfolio has continued to perform well. Arrears and default rate performance continues to be ahead of expectations.
- The consumer lending portfolios also performed ahead of expectations.

2.1.1 Definition of credit risk

Definition (audited)
Credit risk is the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. This risk comprises country risk, default risk, recovery risk, exposure risk, the credit risk in securitisation, cross border (or transfer) risk, concentration risk and settlement risk. At portfolio level, credit risk is assessed in relation to the degree of name, sector and geographic concentration to inform the setting of appropriate risk mitigation and transfer mechanisms and to assess risk capital requirements. The manner in which the Group's exposure to credit risk arises, its policies and processes for managing it, and the methods used to measure and monitor it, are set out below.

How credit risk arises
Credit risk arises from loans and advances to customers. It also arises from the financial transactions the Group enters into with financial institutions, sovereigns and state institutions. It comprises both drawn exposures and exposures the Group has committed to extend. While the Group could potentially suffer loss to an amount equivalent to its undrawn commitments, the Group does not expect to incur losses to that extent as most consumer related commitments can be cancelled by the Group and non-consumer related commitments are entered into subject to the customer continuing to achieve specific credit standards. The Group is also exposed to credit risk from its derivatives, available for sale financial assets and other financial assets.

Credit concentration risk
Credit concentration risk is the risk of loss due to exposure to a single entity, or group of entities, engaged in similar activities and having similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Undue concentrations could lead to increased or unexpected volatility in the Group's earnings. Management of risk concentrations is an integral part of the Group's approach to risk management.

The Group imposes risk control limits and guide points to mitigate significant concentration risk. These limits are formed by the Group's risk appetite, and that of the Parent, and are set in the context of the Group's risk strategy. Monetary limits are set by the CRPC and, where necessary, approved by the BRC or Board. Single name concentrations are also subject to limits.

The Group's primary market is the UK and loans originated and managed in the UK represent a material concentration of credit risk.

Large exposures
The Group's risk appetite statement, credit policy and regulatory guidelines set out the maximum exposure limits to a customer, or a group of connected customers. The policy and regulatory guidelines cover both exposures to the Parent and other counterparties. Regulatory guidelines limit risk concentration in individual exposures. No single exposure exceeded regulatory guidelines during the year, including net exposures to the Parent.

Loans and advances to banks at 31 December 2015 of £3,949 million include £2,696 million due from the Parent, while deposits from banks at 31 December 2015 of £2,606 million include £2,589 million due to the Parent. At 31 December 2015 the Group therefore has a net exposure due from the Parent of £107 million (31 December 2014: £91 million).

At 31 December 2015 derivative assets and derivative liabilities include £43 million and £50 million respectively with the Parent and therefore a net exposure due to the Parent of £7 million (31 December 2014: £56 million and £56 million respectively and therefore a net exposure due to the Parent of £nil).

Credit related commitments (audited)
The Group classifies and manages credit related commitments that are not reflected as loans and advances on the balance sheet, as follows:

Guarantees and irrevocable standby letters of credit: irrevocable commitments by the Group to make payments at a future date, in specified circumstances, on behalf

2.1 Credit risk (continued)

2.1.1 Definition of credit risk (continued)

of a customer. These instruments are assessed on the same basis as loans for credit approval and management.

Commitments: unused elements of authorised credit in the form of loans, guarantees or letters of credit, where the Group is potentially exposed to loss in an amount equal to the total unused commitments. The likely amount of loss is less than the total unused commitments, as most commitments are contingent upon customers maintaining specific credit and performance standards. These instruments are assessed on the same basis as loans for credit approval and management.

Letters of offer: where the Group has made an irrevocable offer to extend credit to a customer and the customer may, or may not, have confirmed acceptance of the offer on the terms outlined and in the specified timeframe. The exposure is assessed on the same basis as loans for credit approval and management. The ultimate exposure to credit risk is considerably less than the face value of offer letters, as not all offers are accepted.

2.1.2 Credit risk management

Credit risk management – retail and commercial lending (audited)
The management of credit risk is focused on a detailed analysis at origination, followed by early intervention and active management of accounts where creditworthiness has deteriorated. The Chief Credit Officer (CCO) – Commercial has responsibility for credit management of the business banking book and oversight of the NIIB book, while the CCO – Retail has similar responsibility for the retail lending book. Supported by the broader risk function, the CCOs are responsible for overall risk reporting to the ExRiskCo, the BRC and the Board. These functions report to the CRO, who reports directly to the CEO. The risk function, under the management of the CRO, provides independent oversight and management of the Group's credit risk strategy and credit risk management information, as well as the Group's suite of credit risk policies.

Credit policy
The core values and principles governing the provision of credit are contained in the Statement of Credit Policy and Credit Framework, which are approved by the BRC. Individual sector / portfolio-level credit policies define in greater detail the credit approach appropriate to those sectors or portfolios. These policies take account of the Group's Risk Appetite Statement, applicable sectoral credit limits, the markets in which the Group operates and the products provided. Each staff member involved in developing customer relationships and / or assessing or managing credit, has a responsibility to ensure compliance with these policies. Procedures for the approval and monitoring of exceptions to policy are included in the policy documents.

Lending authorisation (audited)
The Group's credit risk management systems operate through a hierarchy of lending authorities, which are related to internal customer loan ratings and limits. All exposures which exceed prescribed levels require approval or ratification by the BRC.

Other exposures are approved by personnel according to a system of tiered individual authorities, which reflect credit competence, proven judgement and experience. Material lending proposals are referred to credit underwriting units for independent assessment and approval, or formulation of a recommendation and subsequent adjudication by the appropriate approval authority.

All credit transactions are assessed at origination for credit quality and the borrower is assigned a credit grade based on a predefined credit rating scale. The risk, and consequently the credit grade, is reassessed periodically. The use of internal credit rating models and scoring tools, which measure the relative degree of risk inherent in lending to specific counterparties, is central to the credit risk assessment and ongoing management processes in the Group. Details of these internal credit rating models are outlined in the section on Credit risk methodologies on page 62.

Counterparty credit risk
The continued weak international financial environment means that the Group continues to be exposed to increased counterparty risk. The Group has implemented a number of measures to mitigate this increased risk. These include:

- reduced individual Group exposures across a wider spread of banking institutions;
- strict credit risk management procedures; and
- application of tighter credit policy criteria, where required.

The Group's net exposure to the Parent (disclosed gross within loans and advances to banks, deposits from banks, derivative assets and derivative liabilities) is managed through a contractual master netting agreement with the Parent whereby, in the event of a default by either party, all amounts due or payable will be settled immediately on a net basis. In addition, derivatives executed with the Parent are subject to International Swaps and Derivatives Association (ISDA) and Credit Support Annex (CSA) standard documentation and therefore collateral

2.1 Credit risk (continued)

2.1.2 Credit risk management (continued)

requirements are calculated daily and posted as required. The net exposure to the Parent is measured and monitored on a daily basis and is maintained within the Group's large exposure limits.

The BRC is responsible for establishing an appropriate policy framework for the prudential management of treasury credit risk, including net exposure to the Parent. Credit counterparties are subject to ongoing credit review and exposures are monitored on a daily basis.

Loan loss provisioning

Through its ongoing credit review processes, the Group seeks early identification of deteriorating loans, with a view to taking corrective action to prevent the loan becoming impaired. Typically, loans that are at risk of impairment are managed by dedicated specialist units / debt collection teams focused on working out loans. The identification of loans for assessment as impaired is driven by the Group's credit risk rating systems and by trigger events identified in the Group's credit and impairment policies. It is the Group's policy to provide for impairment promptly and consistently across the loan book. For those loans that become impaired, the focus is to minimise the loss that the Group will incur from such impairment.

This may involve entering into restructuring arrangements with borrowers, or taking action to enforce security.

Other factors taken into consideration in estimating provisions include the economic climate, changes in portfolio risk profile and the effect of any external factors, such as legal or regulatory requirements.

Under delegated authority from the Board, the Group's impairment policy is approved annually by the BRC. Subsidiary impairment policies for individual business units are approved by the CRPC (e.g. business banking commercial lending and consumer mortgages).

The Group's provisioning methodology is approved by the CRPC on a half yearly basis, details of which are set out in the Credit risk methodologies section on pages 62 to 66. The quantum of the Group's impairment charge, impaired loan balances, and provisions are also reviewed by the BRC annually, in advance of providing a recommendation to the Audit Committee.

An analysis of the Group's impairment provisions at 31 December 2015 is set out on pages 50 to 53 and note 18.

2.1.3 Credit risk mitigation

An assessment of the borrower's ability to service and repay the proposed level of debt is undertaken for credit requests and is the primary component of the Group's approach to mitigating risk.

In addition, the Group mitigates credit risk through both the adoption of preventative measures (e.g. controls and limits) and the development and implementation of strategies to assess and reduce the impact of particular risks, should these materialise (e.g. securitisation and collateralisation). In the commercial portfolio regular risk reassessments are conducted on larger cases in line with policy.

Collateral

Credit risk mitigation includes the requirement to obtain collateral, depending on the nature of the product and local market practice, as set out in the Group's policies and procedures. The nature and level of collateral required depends on a number of factors, including, but not limited to:

- the amount of the exposure;
- the type of facility provided;
- the term of the facility;
- the amount of the borrower's own cash input; and
- an evaluation of the level of risk or probability of default (PD).

The Group takes collateral as a secondary source of repayment which can be called upon if the borrower is unable or unwilling to service and repay debt as originally assessed.

A variety of types of collateral are accepted, as follows:

- residential and commercial real estate;
- physical assets (motor vehicles, plant and machinery, stock etc.);
- financial assets (lien over deposits, shares etc.); and
- other assets (debentures, debtors, guarantees, insurance etc.).

The Group's requirements around completion, valuation and management of collateral are set out in appropriate Group or business unit policies and procedures. The extent to which collateral mitigates credit risk in respect of the Group's mortgage portfolio is set out on page 54.

Details of the valuation methodologies are set out in the Credit provisioning methodologies section on page 62.

2.1 Credit risk (continued)

2.1.4 Credit risk reporting and monitoring (audited)

It is Group policy to ensure that adequate up-to-date credit management information is available to support the credit management of individual account relationships and the overall loan portfolio. Information is produced on a timely basis and at a frequency interval that reflects the purpose of the report. Credit risk information at a product / sector level is reported on a monthly basis to senior management. This monthly reporting includes detailed information on loan book volume, the quality of the loan book (credit grade and PD profiles), concentrations and loan impairment provisions, including details of any large individual impaired exposures.

Performance against specified credit risk limits, as detailed in the risk appetite statement, is monitored and reported to senior management and to the BRC. The format of reports and commentaries are consistent across the Group to enable an assessment of trends in the loan book. Along with the regular suite of monthly and quarterly reporting, ad hoc reports are submitted to senior management and the BRC as required. GCR, an independent function within the Parent (part of the Parent's Internal Audit function) an outsourced service provider to the Group, reviews the quality and management of credit risk assets across the Group and reports to the BRC on a quarterly basis. The reviews detail levels of adherence to credit policies and credit procedures across the various portfolios on behalf of the Group. GCR also considers the timeliness of the individual credit file review process and the quality of credit assessment in each portfolio.

Regular portfolio review meetings covering the NI and GB commercial challenged portfolios are also conducted.

Group risk personnel as well as business and finance senior management review and confirm the appropriateness of impairment provisioning methodologies and the adequacy of impairment provisions on a half yearly basis. Their conclusions are reviewed by the Parent’s Credit and Market Risk function, the Parent’s Group Risk Policy Committee (GRPC) and the BRC. Impairment provisioning methodologies are approved on a half yearly basis by the GRPC. As part of the review process, consideration is given as to whether there is a need to apply an additional management overlay to take account of portfolio effects, for example significant deterioration in the economy or negative market price movements etc.

2.1.5 Management of challenged assets

A range of initiatives are in place to deal with the effects of the deterioration in the credit environment and decline in asset quality including:

- enhanced collections and recoveries processes;
- utilisation of specialist work-out teams to ensure early intervention in vulnerable cases;
- intensive review cycles for ‘at risk’ exposures and the management of excess positions;
- support from central teams in managing ‘at risk’ portfolios at a business unit level;
- modified and tighter lending criteria for specific sectors;
- a reduction in certain individual bank exposures; and
- revised Risk Appetite Framework and Statement.

The segregation of certain challenged portfolios and the realignment of resources to manage these assets allows the remaining portfolio managers to focus on the loan book classified as ‘acceptable quality’ or better and to work closely with those customers.

Forbearance strategies

Forbearance occurs when a borrower is granted a temporary or permanent concession or agreed change to a loan (‘forbearance measure’) for reasons relating to the actual or apparent financial stress or distress of that borrower. If the concession or agreed change to a loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower, forbearance has not occurred. A loan which has an active ‘forbearance measure’ is a ‘forborne loan’.

A range of forbearance strategies are used by the Group for customers in arrears or facing potential arrears on contracted loan repayments, in order to arrange, where viable, sustainable short term or longer term repayment solutions as appropriate.

A forbearance strategy may include, but is not necessarily limited to, one or more of the following measures:

- term extension: an arrangement where the original term of the loan is extended;
- adjustment to or non-enforcement of covenants: an arrangement whereby the Group agrees to either waive an actual or expected covenant breach for an agreed period, or adjust the covenant(s) to reflect the changed circumstances of the borrower;
- reduced payments (interest only): an arrangement where the borrower pays interest only on the principal balance, on a temporary or longer term basis, with the principal balance unchanged, rather than repaying some of the principal as required under the original facility agreement;

2.1 Credit risk (continued)

2.1.5 Management of challenged assets (continued)

- facilities in breach of terms being placed on demand: an arrangement whereby the Group places a facility in breach of its contractual terms on a demand basis as permitted under the facility agreement rather than enforcing, and pending a more long term resolution;
- reduced payment (greater than interest only) incorporating some principal repayments: a temporary or medium term arrangement where the borrower pays the full interest due plus an element of principal due on the basis that principal payments will increase in the future; and
- capitalisation of arrears: an arrangement whereby arrears are added to the loan principal balance, effectively clearing the arrears, with either the repayments or the original term of the loan adjusted accordingly to accommodate the increased principal balance.

Impaired loans that have received forbearance are recorded and reported in the 'impaired' category. Any other loan that has received forbearance is recorded and reported in the appropriate 'past due but not impaired' or 'neither past due nor impaired' rating category as described on pages 50 to 51.

For business banking the monitoring of forbearance measures follows the normal review cycle for individual customer exposures based on amount and credit grade, as set out in the credit policy.

Mortgage accounts that are subject to forbearance are monitored and reviewed by way of monthly management information reporting. This includes tracking the aggregate level of default arrears that emerge on the forborne elements of the loan book. The impairment provisioning approach and methodologies are set out in each of the portfolio-level impairment policies. An 'incurred loss' model is followed for all exposures, whether or not forbearance has been granted.

The forbearance strategies adopted by the Group seek to maximise recoveries and minimise losses arising from non repayment of debt, while providing suitable and sustainable restructure options that are supportive of customers in challenged circumstances. The Group has an operating infrastructure in place to assess and, where appropriate, implement such options on a case-by-case basis. Group credit policy outlines the core principles and parameters underpinning the Group's approach to forbearance with individual business unit policies defining in greater detail the forbearance strategies appropriate to each unit.

Forbearance requests are assessed on a case-by-case basis taking due consideration of the individual circumstances and risk profile of the customer to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place. Forbearance will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances and ability to repay prior to any decision to grant a forbearance treatment. This assessment may result in a disimprovement in the credit grade assigned to the loan, potentially impacting how frequently the loan must be formally reviewed; and, where impairment is deemed to have occurred, will result in a specific provision. Where appropriate, and in accordance with the Group's credit risk management structure, forbearance requests are referred to credit units for independent assessment prior to approval by the relevant approval authority.

Forborne loans are reviewed in line with the Group's credit management processes, which include monitoring borrower compliance with the revised terms and conditions of the forbearance arrangement. Loans to which forbearance has been applied continue to be classified as forborne until the forbearance measure expires. The Group does not currently apply a set time period after which the forbearance classification on a performing forborne loan is discontinued but may do so in future in light of regulatory guidance in this area.

Borrower compliance with revised terms and conditions may not be achieved in all cases. Non-compliance could for example arise because the individual circumstances and risk profile of the borrower continue to deteriorate, or fail to show an expected improvement, to the extent that an agreed reduced level of repayment can no longer be met. In the event of non-compliance, a request for further forbearance may be considered. It is possible that the Group, by virtue of having granted forbearance to a borrower, could suffer a loss that might otherwise have been avoided had enforcement action instead been taken—this could for example arise where the value of security held in respect of a loan diminishes over the period of a forbearance arrangement which ultimately proves unsustainable.

2.1 Credit risk (continued)

2.1.6 Book profile - loans and advances to customers

The Group's residential mortgage portfolio amounted to 78% of total loans as at 31 December 2015 (31 December 2014: 75%). By product type, the residential mortgage portfolio is made up of standard owner occupier (59%), self-certified owner occupier (7%) and Buy to Let (BTL) (34%) (31 December 2014: 55%, 9%, and 36% respectively). In terms of geographical concentrations, the largest concentration is the London and South East area at 47% (31 December 2014: 48%). The Group's concentration of residential mortgages in Northern Ireland is 4% of the portfolio (31 December 2014: 4%). Product type and geographic concentrations are monitored and reported in accordance with the monetary limits set by the BRC.

The Property and construction sector, which includes investment property and landbank, accounted for 7%, or £1.4 billion of total loans at 31 December 2015 (31 December 2014: 10% or £1.9 billion).

The following table gives a breakdown by industry of the Group's gross loans and advances to customers.

Total loans - by industry analysis (audited)	**31 December 2015 £m**	31 December 2014 £m
Residential mortgages	15,463	14,182
Finance leases and hire purchase	1,090	932
Credit cards	462	375
Commercial property and construction	1,377	1,917
Business and other services	955	975
Manufacturing and distribution	302	295
Other	60	238
Total	**19,709**	**18,914**

Impairment provision by nature of impairment provision (audited)	**31 December 2015 £m**	31 December 2014 £m
Specific provisions	387	537
Incurred but not reported (IBNR)	67	76
Total impairment provision	**454**	**613**

Specific provisions decreased by 28% to £387 million at 31 December 2015, (31 December 2014: £537 million) mainly as a result of provision utilisation in the commercial portfolio. IBNR provisions decreased from £76 million at 31 December 2014 to £67 million at 31 December 2015. This year on year decrease of 12% primarily relates to the property and construction portfolio.

2.1 Credit risk (continued)

2.1.6 Book profile - loans and advances to customers (continued)

Impairment charge (audited)	Year ended 31 December 2015 Specific £m	IBNR £m	Total £m	Year ended 31 December 2014 Specific £m	IBNR £m	Total £m
Residential mortgages	3	2	5	3	(5)	(2)
Non-property SME and corporate	2	-	2	20	(3)	17
Commercial property and construction	36	(10)	26	36	(2)	34
Consumer	8	3	11	8	4	12
Total loan impairment charge / (release)	**49**	**(5)**	**44**	**67**	**(6)**	**61**

UK economic conditions continued to improve during 2015. Loan losses continued to fall and conditions improved in some property sectors / regions, but continuing low transaction levels and weak demand in certain markets continued to impact on impairment charges.

Impairment charges on loans and advances to customers decreased by £17 million from £61 million for the year ended 31 December 2014 to £44 million for the year ended 31 December 2015.

The impairment charge on residential mortgages increased by £7 million, from a credit of £2 million for the year ended 31 December 2014, to a charge of £5 million for the year ended 31 December 2015. This was primarily due to changes in provisioning methodology offset by improvement in the underlying book performance.

The impairment charge on the non-property SME and corporate loan portfolio was £2 million for the year ended 31 December 2015 (31 December 2014: £17 million). The year on year decrease reflects the impacts of improved conditions in the economic environment and continued reductions in defaulted loans.

The impairment charge of £26 million on the commercial property and construction portfolio, for the year ended 31 December 2015, has decreased from £34 million for the year ended 31 December 2014 as a result of a continued improvement in the commercial and residential property sectors.

The impairment charge of £11 million on consumer loans for the year ended 31 December 2015 has decreased by £1 million, from £12 million for the year ended 31 December 2014. Default arrears on this portfolio were below expectations, as were early arrears.

2.1.7 Asset quality - loans and advances to customers

Asset quality - financial assets
In line with the requirements of IFRS 7 the Group classifies financial assets as:

- neither past due nor impaired;
- past due but not impaired; and
- impaired.

The Group uses internal ratings, based on an assessment of the credit quality of the customer, as part of its credit risk management system. A thirteen point credit grade rating scale is used for more complex, individually managed exposures, including commercial and business lending. A thirteen point credit rating scale based on PD is used for residential mortgages. A seven-point credit grade rating scale is used for standard products (including personal and small business loans). Both credit scales have a defined relationship with the Group's PD scale.

Other financial assets are assigned an internal rating, supported by external ratings of the major rating agencies.

'Neither past due nor impaired' ratings are applied as follows:

- high quality ratings apply to highly rated financial obligors, strong corporate and business counterparties and consumer banking borrowers (including residential mortgages), with whom the Group has an excellent repayment experience. High quality ratings are derived from grades 1 to 4 on the thirteen-point grade scale, grades 1 and 2 on the seven-point grade scale, and ratings equivalent to AAA, AA+, AA, AA-, A+, A, A-, BBB+ and BBB for the external major rating agencies;
- satisfactory quality ratings apply to good quality financial assets that are performing as expected, including loans and advances to SMEs, leveraged entities and more recently established businesses. Satisfactory quality ratings also include some element of the Group's retail portfolios. Satisfactory quality ratings are derived from grades 5 to 7 on the thirteen point grade scale, grade 3 on the seven-point grade scale, and external ratings equivalent to BBB-, BB+, BB and BB-;
- acceptable quality ratings apply to customers with increased risk profiles, that are subject to closer monitoring

2.1 Credit risk (continued)

2.1.7 Asset quality - loans and advances to customers

and scrutiny by lenders, with the objective of managing risk and moving accounts to an improved rating category. Acceptable quality ratings are derived from grades 8 and 9 on the thirteen-point grade scale, grade 4 on the seven-point scale and external ratings equivalent to B+; and

- the lower quality but not 'past due but not impaired' rating applies to those financial assets that are neither in arrears nor impaired, but where the Group requires a work down or work out of the relationship, unless an early reduction in risk is achievable. Lower quality ratings are derived from outstanding balances in rating grades 10 and 11 on the thirteen-point grade scale, grade 5 on the seven point grade scale, and external ratings equivalent to B or below.

'Past due but not impaired loans' are defined as follows:

- loans excluding residential mortgages, where repayment of interest and / or principal are overdue by at least one day, but are not impaired; and
- residential mortgages may be 'past due but not impaired', in cases where the Loan to Value (LTV) ratio on the mortgage indicates no loss to the Group in the case of default by the borrower.

'Impaired loans' are defined as follows:

- loans with a specific impairment provision attaching to them;
- loans (excluding residential mortgages) which are more than 90 days in arrears; and
- all assets in grades 12 and 13 on the thirteen-point grade scale and grades 6 and 7 on the seven-point grade scale are impaired.

For residential mortgages, forborne loans with a specific provision attaching to them are reported as both forborne and impaired.

Forborne loans (excluding residential mortgages) with a specific provision attaching to them are reported as impaired and not reported as forborne.

Refer to page 62 for details on the loan loss provisioning methodology.

The table below provides an asset quality analysis of loans and advances to customers before impairment provisions by asset classification.

31 December 2015 **Risk profile of loans and advances to customers (before impairment provisions) (audited)**	**Residential mortgages £m**	**Non-property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total loans and advances to customers £m**	**Total loans and advances to customers %**
High quality	14,953	596	56	1,260	16,865	85%
Satisfactory quality	23	600	322	-	945	5%
Acceptable quality	36	83	137	-	256	1%
Lower quality but not past due nor impaired	2	106	216	-	324	2%
Neither past due nor impaired	**15,014**	**1,385**	**731**	**1,260**	**18,390**	**93%**
Past due but not impaired	376	17	105	20	518	3%
Impaired	73	160	541	27	801	4%
Total	**15,463**	**1,562**	**1,377**	**1,307**	**19,709**	**100%**

31 December 2014 Risk profile of loans and advances to customers (before impairment provisions) (audited)	Residential mortgages £m	Non-property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total loans and advances to customers £m	Total loans and advances to customers %
High quality	13,602	559	87	1,096	15,344	81%
Satisfactory quality	20	660	416	-	1,096	6%
Acceptable quality	42	83	183	-	308	2%
Lower quality but not past due nor impaired	3	84	290	-	377	2%
Neither past due nor impaired	13,667	1,386	976	1,096	17,125	91%
Past due but not impaired	441	32	95	22	590	3%
Impaired	74	252	846	27	1,199	6%
Total	14,182	1,670	1,917	1,145	18,914	100%

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2.1 Credit risk (continued)

2.1.7 Asset quality - loans and advances to customers (continued)

Financial assets - 'past due but not impaired': loans and advances to customers

The table below provides an aged analysis of financial assets 'past due but not impaired', by asset classification. Amounts arising from operational / timing issues, that are outside the control of customers, are generally excluded.

31 December 2015 (audited)	Residential mortgages £m	Non-Property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total £m
Past due up to 30 days	86	8	6	10	110
Past due 31-60 days	186	8	33	8	235
Past due 61-90 days	47	1	66	2	116
Past due more than 90 days but not impaired	57	-	-	-	57
Total	**376**	**17**	**105**	**20**	**518**

31 December 2014 (audited)	Residential mortgages £m	Non-Property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total £m
Past due up to 30 days	91	10	16	9	126
Past due 31-60 days	219	18	76	9	322
Past due 61-90 days	55	4	3	4	66
Past due more than 90 days but not impaired	76	-	-	-	76
Total	441	32	95	22	590

There was a decrease in the total past due, but not impaired balances from £590 million to £518 million primarily due to movements in residential mortgages.

Arrears on residential mortgage balances decreased by £65 million, predominantly in the owner occupied and buy to let segments. This decrease was partially offset by increased arrears in the Property and construction loan book.

Financial assets - 'impaired': loans and advances to customers

The table below analyses 'impaired' financial assets and associated impairment provisions by asset classification.

31 December 2015 (audited)	Advances £m	Impaired loans £m	Impaired loans as % of advances %	Impairment provisions £m	Impairment provisions as % of impaired loans %
Residential mortgages	15,463	73	-	30	41%
Non-property SME and corporate	1,562	160	10%	92	58%
Commercial property and construction	1,377	541	39%	295	55%
Consumer	1,307	27	2%	37	137%
Total	**19,709**	**801**	**4%**	**454**	**57%**

2.1 Credit risk (continued)

2.1.7 Asset quality - loans and advances to customers (continued)

31 December 2014 (audited)	Advances £m	Impaired loans £m	Impaired loans as % of advances %	Impairment provisions £m	Impairment provisions as % of impaired loans %
Residential mortgages	14,182	74	1%	33	45%
Non-property SME and corporate	1,670	252	15%	130	52%
Commercial property and construction	1,917	846	44%	418	49%
Consumer	1,145	27	2%	32	119%
Total	18,914	1,199	6%	613	51%

Loans and advances to customers classified as 'impaired' amounted to £801 million, representing 4%, of the Group's total loan book at 31 December 2015 (31 December 2014: £1.2 billion, and 6%).

The decrease has occurred across all portfolios and reflects the actions that the Group is taking to appropriately support customers who are in financial difficulty, the economic climate, increasing liquidity and improving market conditions.

Commercial property and construction loans classified as 'impaired' reduced by £305 million during the year, partially as a result of the impacts of provision utilisation through completion of workout strategies. However, impaired loans in the commercial property and construction portfolio remain elevated at £541 million at 31 December 2015 (31 December 2014: £846 million), reflecting continued weak conditions in some segments of the investment property loan portfolio as well as the difficulties facing the residential land sector, particularly in Northern Ireland.

The volume of Non-Property SME and corporate loans that are classified as 'impaired' reduced, from £252 million at 31 December 2014, to £160 million at 31 December 2015. This decrease reflects cases closed out through conclusion of workout strategies resulting in either successful recovery or provision utilisation following realisation of underlying security.

Consumer impairment provisions have increased from £32 million to £37 million at 31 December 2015. The increase in the impairment ratio to 137% reflects a higher proportion of longer term arrears in the impaired loans.

2.1 Credit risk (continued)

2.1.7 Asset quality - loans and advances to customers (continued)

The following tables set out an analysis of the LTV profile of the Group's residential mortgage book as at 31 December 2015 and 31 December 2014.

31 December 2015 Loan to value (LTV) ratio of total mortgages (audited)	**Standard % of book**	**Buy to let % of book**	**Self certified % of book**	**Total mortgage portfolio % of book**
Less than 50%	22%	30%	31%	25%
51% to 70%	36%	42%	37%	38%
71% to 80%	23%	17%	14%	21%
81% to 90%	14%	7%	11%	11%
91% to 100%	4%	3%	6%	4%
Subtotal	**99%**	**99%**	**99%**	**99%**
101% to 120%	1%	-	-	1%
Greater than 120%	-	1%	1%	-
Total	**100%**	**100%**	**100%**	**100%**
Weighted average LTV[1]:				
Stock of mortgages at year end[1]	64%	59%	60%	62%
New mortgages during year[1]	70%	62%	62%	69%

31 December 2014 Loan to value (LTV) ratio of total mortgages (audited)	Standard % of book	Buy to let % of book	Self certified % of book	Total mortgage portfolio % of book
Less than 50%	20%	22%	24%	21%
51% to 70%	33%	47%	38%	39%
71% to 80%	23%	19%	17%	21%
81% to 90%	17%	8%	13%	13%
91% to 100%	5%	3%	6%	4%
Subtotal	98%	99%	98%	98%
101% to 120%	2%	1%	2%	2%
Greater than 120%	-	-	-	-
Total	100%	100%	100%	100%
Weighted average LTV[1]:				
Stock of mortgages at year end[1]	65%	62%	64%	64%
New mortgages during year[1]	73%	62%	65%	73%

[1] *Weighted Average LTVs are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*

2.1 Credit risk (continued)

2.1.7 Asset quality - loans and advances to customers (continued)

Forbearance arrangements for residential mortgages (audited)
The table below illustrates residential mortgages that have been subject to restructuring arrangements

31 December 2015 Forbearance arrangements (before impairment provisions[3])	**Non-defaulted loans[1] Balance £m**	**Non-defaulted loans[1] Number of accounts[2]**	**Defaulted loans Balance £m**	**Defaulted loans Number of accounts[2]**	**All loans Balance £m**	**All loans Number of accounts[2]**
Total						
Term extension	17	226	1	16	18	242
Interest only	46	408	4	29	50	437
Capitalisation of arrears	14	73	-	2	14	75
Other	1	9	-	6	1	15
Total	**78**	**716**	**5**	**53**	**83**	**769**

31 December 2014 Forbearance arrangements (before impairment provisions[3])	Non-defaulted loans[1] Balance £m	Non-defaulted loans[1] Number of accounts[2]	Defaulted loans Balance £m	Defaulted loans Number of accounts[2]	All loans Balance £m	All loans Number of accounts[2]
Total						
Term extension	14	194	1	18	15	212
Interest only	55	477	5	37	60	514
Capitalisation of arrears	13	74	1	5	14	79
Other	1	6	-	2	1	8
Total	83	751	7	62	90	813

Reconciliation of forborne loan stock by non-default / default status - residential mortgages (before impairment provisions[3])	**Non-defaulted loans[1] Balance £m**	**Non-defaulted loans[1] Number of accounts[2]**	**Defaulted loans Balance £m**	**Defaulted loans Number of accounts[2]**	**All loans Balance £m**	**All loans Number of accounts[2]**
Opening balance at 1 January 2015	**83**	**751**	**7**	**62**	**90**	**813**
New forbearance extended	7	79	-	7	7	86
Exited forbearance during the period						
- Improved to or remained in non-default	(3)	(25)	-	(1)	(3)	(26)
- Improved / stabilised and remained in default	-	-	-	(2)	-	(2)
- Redemptions, principal repayments and other	(10)	(92)	(1)	(10)	(11)	(102)
Transfers within forbearance between non-defaulted and defaulted loans	1	3	(1)	(3)	-	-
Closing balance at 31 December 2015	**78**	**716**	**5**	**53**	**83**	**769**

[1] *Loans neither > 90 days past due nor impaired.*
[2] *The number of accounts does not equate to either the number of customers or the number of properties.*
[3] *Impairment provisions on forborne loans at 31 December 2015 is £1 million (31 December 2014: £1 million)*

The Group has an operating infrastructure in place to assess and to implement restructure arrangements for customers on a case-by case basis. Arrears are not generally capitalised at the point of restructure and remain in the applicable past due category. Details of the Group's forbearance strategies are set out on pages 47 to 48.

2.1 Credit risk (continued)

2.1.7 Asset quality - loans and advances to customers (continued)

Forbearance arrangements for commercial loans (audited)

The below tables illustrate commercial loans that have been subject to restructuring arrangements. These arrangements may be temporary or permanent and are subject to individual case assessment, taking into account the circumstances and risk profile of the customer.

31 December 2015 Forbearance arrangements (before impairment provisions)	**Commercial property and construction: Land and development £m**	**Commercial property and construction: Investment £m**	**Commercial property and construction: Total £m**	**Non-property SME and corporate £m**	**Total forborne loans and advances customers £m**
Term extension	22	333	355	71	426
Adjustment or non-enforcement of covenants	-	10	10	6	16
Interest only	-	16	16	3	19
Facilities in breach of terms placed on demand	1	6	7	-	7
Reduced payment (greater than interest only)	-	17	17	4	21
Capitalisation of arrears	-	-	-	-	-
Other	-	12	12	35	47
Total forborne loans and advances to customers	**23**	**394**	**417**	**119**	**536**

31 December 2014 Forbearance arrangements (before impairment provisions)	Commercial property and construction: Land and development £m	Commercial property and construction: Investment £m	Commercial property and construction: Total £m	Non-property SME and corporate £m	Total forborne loans and advances customers £m
Term extension	38	430	468	62	530
Adjustment or non-enforcement of covenants	-	11	11	13	24
Interest only	-	17	17	6	23
Facilities in breach of terms placed on demand	-	35	35	4	39
Reduced payment (greater than interest only)	2	27	29	5	34
Capitalisation of arrears	-	2	2	-	2
Other	1	15	16	35	51
Total forborne loans and advances to customers	41	537	578	125	703

2.1 Credit risk (continued)

2.1.7 Asset quality - loans and advances to customers (continued)

Forbearance arrangements for commercial loans (audited) (continued)

Reconciliation of forborne loan stock by non-default / default status - Commercial (before impairment provisions)	Commercial property and construction Land and development £m	Investment £m	Total £m	Non-property SME and corporate £m	Total forborne loans and advances customers £m
All loans					
Opening balance at 1 January 2015	**41**	**537**	**578**	**125**	**703**
New forbearance extended	1	36	37	12	49
Exited forbearance					
- Improved to or remained in non-default	(1)	(8)	(9)	-	(9)
- Remained in / disimproved to default without specific provision	(1)	(10)	(11)	(1)	(12)
- Disimproved to default with specific provision	(13)	(18)	(31)	(3)	(34)
- Redemptions, principal repayments and other	(3)	(143)	(146)	(15)	(161)
Transfers within forbearance between non-defaulted and defaulted loans	-	-	-	-	-
Transfers between sub product class	(1)	-	(1)	1	-
Closing balance at 31 December 2015	**23**	**394**	**417**	**119**	**536**
Non-defaulted loans					
Opening balance at 1 January 2015	**31**	**467**	**498**	**110**	**608**
New forbearance extended	1	34	35	11	46
Exited forbearance					
- Improved to or remained in non-default	(1)	(5)	(6)	-	(6)
- Remained in / disimproved to default without specific provision	-	(6)	(6)	(1)	(7)
- Disimproved to default with specific provision	(8)	(9)	(17)	-	(17)
- Redemptions, principal repayments and other	(3)	(134)	(137)	(14)	(151)
Transfers within forbearance between non-defaulted and defaulted loans	1	22	23	8	31
Transfers between sub product class	-	(1)	(1)	1	-
Closing balance at 31 December 2015	**21**	**368**	**389**	**115**	**504**
Defaulted loans					
Opening balance at 1 January 2015	**10**	**70**	**80**	**15**	**95**
New forbearance extended	-	2	2	1	3
Exited forbearance					
- Improved to or remained in non-default	-	(3)	(3)	-	(3)
- Remained in / disimproved to default without specific provision	(1)	(4)	(5)	-	(5)
- Disimproved to default with specific provision	(5)	(9)	(14)	(3)	(17)
- Redemptions, principal repayments and other	-	(9)	(9)	(1)	(10)
Transfers within forbearance between non-defaulted and defaulted loans	(1)	(22)	(23)	(8)	(31)
Transfers between sub product class	(1)	1	-	-	-
Closing balance at 31 December 2015	**2**	**26**	**28**	**4**	**32**

Commercial property and construction

(a) Investment

This category represents 74% of the total forborne commercial loans at 31 December 2015, which reflects the impact of the sizeable downward adjustment in property prices since the loans were approved and drawn. The need for forbearance was principally caused by a fall in property values rather than reduced rental income. 'Term extensions' account for 84% of all forbearance measures granted in this category, which reflects our experience that granting customers additional time is often the most likely means by which repayment may be achieved, either through ongoing receipt of rents or via eventual property disposal. Property loan repayments are not normally reduced unless the rental income generated by the property decreases; consequently, 'reduced payments' (including reductions to interest-only arrangements) only

2.1 Credit risk (continued)

2.1.7 Asset quality - loans and advances to customers (continued)

account for 8% of forbearance measures in this category.

(b) Land & Development (L&D)
Due to the relatively high volume of loans in this category with specific impairment provisions, L&D accounts for only 4% of total forborne loans. 'Term extension' was the most common type of forbearance granted (96% of the total).

Non-Property, SME and Corporate
This category accounts for 22% of total forborne loans. Forbearance measures have been granted to 12% of SME and corporate exposures (excluding balances under provision), compared to 45% for investment property and 65% for L&D. This is consistent with the generally stronger credit quality of SME and corporate sector exposures compared to those in the commercial property and construction sector. It also partly reflects the greater number of options typically available to the SME and corporate sector to deal with adverse trading conditions – for example by reducing overheads, finding new markets, renegotiating terms with suppliers, etc.; before the ability to continue meeting debt servicing commitments is jeopardised. The foregoing is reflected in the type of forbearance measures provided to SME / corporate borrowers, with a relatively lower proportion accounted for by 'term extensions' (60%) and a relatively higher proportion by 'other' measures (29%); such as weakening of the security structure.

Repossessed collateral on mortgages
During the year ended 31 December 2015 the Group took possession of collateral held as security on mortgages, as follows:

Repossessed collateral (audited)	31 December 2015 Number of repossessions as at balance sheet date Number	31 December 2015 Balance outstanding £m	31 December 2014 Number of repossessions as at balance sheet date Number	31 December 2014 Balance outstanding £m
Residential repossessions				
Owner occupier	13	2	21	3
Buy to let	14	2	23	2
Self certified	6	1	11	2
Total	**33**	**5**	**55**	**7**

2015 Repossessed collateral (unaudited)	Number of disposals during the year Number	Balance outstanding at repossession £m	Net sales proceeds received £m
Residential repossessions			
Owner occupier	55	5	6
Buy to let	50	4	5
Self certified	18	3	3
Total	**123**	**12**	**14**

2.1 Credit risk (continued)

2.1.7 Asset quality - loans and advances to customers (continued)

Repossessed collateral on loans

At 31 December 2015 the Group held collateral on commercial property and construction loans as follows:

Repossessed collateral (audited)	31 December 2015 Number of repossessions as at balance sheet date Number	31 December 2015 Balance outstanding £m	31 December 2014 Number of repossessions as at balance sheet date Number	31 December 2014 Balance outstanding £m
Property and construction	11	4	22	5
Total	**11**	**4**	22	5

During the year ended 31 December 2015 the Group took no further possession of any properties.

2015 Repossessed collateral (unaudited)	Number of disposals during the year Number	Balance outstanding at repossession £m	Net sales proceeds received £m
Property and construction	11	4	1
Total repossessions	**11**	**4**	**1**

Repossessed properties are sold as soon as practicable, with the proceeds applied against outstanding indebtedness.

During the year ended 31 December 2015 the Group disposed of 11 repossessed properties[1]. The total contracted disposal proceeds were adequate to cover the balance outstanding after provisions.

At 31 December 2015 the Group had collateral held on residential property loans, as follows:

Repossessed collateral (audited)	31 December 2015 £m	31 December 2014 £m
Residential properties	5	8
Total	**5**	8

[1] *The number of properties disposed of during the year ended 31 December 2015 includes those which were subject to an unconditional contract for sale at year end date.*

2.1 Credit risk (continued)

2.1.8 Asset quality - other financial instruments

Other financial instruments include available for sale financial assets, derivative financial instruments and loans and advances to banks. Other financial instruments are rated, using external ratings attributed to external agencies, or are assigned an internal rating based on the Parent's internal models, or a combination of both. Mappings to external ratings agencies, in the table below, are therefore indicative only.

Asset quality: **Other financial instruments with ratings equivalent to (audited):**	**31 December 2015** **£m**	31 December 2014 £m
Aaa to Aa3	2,048	2,025
A1 to A3	163	178
Baa1 to Baa3	2,739	-
Ba1 to Ba3	-	5,159
Total	**4,950**	**7,362**

Group exposures by country

Set out in the table below is an analysis of the Group's exposure to sovereign debt and other country exposures (primarily financial institution exposure), by selected balance sheet line item, as at 31 December 2015. In addition, for these line items, further information is included on the Group's exposures to selected countries and their associated credit ratings from Moody's. Further information is included where the Group has an exposure of over £250 million (being with Ireland and the United Kingdom).

31 December 2015 (audited)	**Credit rating[1]**	**Cash and balances[2] £m**	**Loans and advances to Banks[3] £m**	**Available for sale financial assets[4] £m**	**Derivative financial instruments £m**	**Total £m**
Ireland	Baa1	-	2,696	-	43	2,739
United Kingdom	Aa1	3,269	1,101	529	2	4,901
Finland	Aaa	-	-	45	-	45
Other		-	152	382	-	534
Total		**3,269**	**3,949**	**956**	**45**	**8,219**

31 December 2014 (audited)	Credit rating[1]	Cash and balances[2] £m	Loans and advances to Banks[3] £m	Available for sale financial assets[4] £m	Derivative financial instruments £m	Total £m
Ireland	Baa1	-	5,102	-	56	5,158
United Kingdom	Aa1	2,964	1,046	535	3	4,548
Finland	Aaa	-	-	45	-	45
Other		-	164	411	-	575
Total		2,964	6,312	991	59	10,326

1 Based on credit ratings from Moody's.
2 Cash and balances in the United Kingdom primarily consist of amounts placed with the Bank of England.
3 Loans and advances to banks in Ireland consist primarily of balances with the Parent and balances in the United Kingdom consist primarily of the Bank of England required collateral for notes in circulation. Loans and advances to banks in Ireland reduced by 47% during the year from £5.1 billion at 31 December 2014 to £2.7 billion at 31 December 2015. This was as a result of the Group's change in market risk hedging approach from gross flow cash hedging to derivative hedging. Refer to note 14.
4 Available for sale financial assets consist of UK government treasury bills, Finnish government paper and other Supranational bonds.

2.1 Credit risk (continued)

2.1.8 Asset quality - other financial instruments (continued)

Ireland (unaudited) **31 December 2015**	**0-3 months £m**	**3-12 months £m**	**1-2 years £m**	**2-5 years £m**	**5-10 years £m**	**Over 10 years £m**	**Total £m**
Loans and advances to banks	481	524	596	1,073	22	-	2,696
Total	**481**	**524**	**596**	**1,073**	**22**	**-**	**2,696**

31 December 2014 (unaudited)	0-3 months £m	3-12 months £m	1-2 years £m	2-5 years £m	5-10 years £m	Over 10 years £m	Total £m
Loans and advances to banks	894	1,866	640	1,313	388	1	5,102
Total	894	1,866	640	1,313	388	1	5,102

United Kingdom (unaudited) **31 December 2015**	**0-3 months £m**	**3-12 months £m**	**1-2 years £m**	**2-5 years £m**	**5-10 years £m**	**Over 10 years £m**	**Total £m**
Cash and balances with central banks	3,269	-	-	-	-	-	3,269
Loans and advances to banks	1,101	-	-	-	-	-	1,101
Available for sale financial assets	-	-	101	153	275	-	529
Total	**4,370**	**-**	**101**	**153**	**275**	**-**	**4,899**

31 December 2014 (unaudited)	0-3 months £m	3-12 months £m	1-2 years £m	2-5 years £m	5-10 years £m	Over 10 years £m	Total £m
Cash and balances with central banks	2,964	-	-	-	-	-	2,964
Loans and advances to banks	1,046	-	-	-	-	-	1,046
Available for sale financial assets	-	-	-	255	280	-	535
Total	4,010	-	-	255	280	-	4,545

As set out in the Group's accounting policies on pages 93 to 114, the Group accounts for each of these assets as follows:

- available for sale financial assets (AFS) are carried in the balance sheet at their fair value. Other than in respect of impairment, any change in fair value is treated as a movement in the available for sale (AFS) reserve in stockholder's equity; and
- loans and advances to banks and cash and balances with central banks are held at amortised cost.

2.1 Credit risk (continued)

2.1.9 Credit risk methodologies (audited)

Loan loss provisioning methodology
Through its ongoing credit review processes, the Group seeks to identify deteriorating loans early, with a view to taking corrective action to prevent the loan becoming impaired. Loans that are at risk of impairment are managed by dedicated specialist units / debt collection teams, focused on 'workout' strategies.

The identification of loans for impairment assessment as impaired is driven by the Group's credit risk rating systems. For those loans that become impaired, the focus is to minimise the loss that the Group will incur from the impairment. This may involve entering into restructuring arrangements, or action to enforce security, or legal pursuit of individuals who are personally liable for the loan.

All credit exposures, either individually or collectively, are regularly reviewed for objective evidence of impairment. Where such evidence of impairment exists, the exposure is measured for an impairment provision. The criteria used to determine if there is objective evidence of impairment include:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties;
- breach of loan covenants or conditions;
- deterioration of the borrower's competitive position;
- deterioration in the value of collateral;
- external rating downgrade below an acceptable level;
- initiation of bankruptcy proceedings; and
- a request from a borrower for forbearance for reasons of financial stress or distress.

The following factors are also taken into consideration when assessing whether a loss event has occurred at the balance sheet date that may lead to recognition of impairment losses:

Residential mortgages and consumer lending
- debt service capacity; and
- repayment arrears.

Non-property SME and corporate
- debt service capacity;
- financial performance;
- adverse movements in net worth; and
- future prospects.

Commercial property and construction
- debt service capacity and the nature and degree of protection provided by cash flows; and
- the value of any underlying collateral.

Loans with a specific impairment provision attaching to them, together with loans (excluding residential mortgages) which are more than 90 days in arrears in the Bank and 60 days in arrears in NIIB or which meet any other impairment criteria are included as impaired loans.

Where objective evidence of impairment exists, as a result of one or more past events, the Group is required to estimate the recoverable amount of the exposure(s).

For financial reporting purposes, loans on the balance sheet, that become impaired, are written down to their estimated recoverable amount. The amount of this write down is taken as an impairment charge to the income statement.

International Accounting Standards (IAS) 39, Financial Instruments: Recognition and Measurement, requires that there is objective evidence of impairment, and that the loss has been incurred. IAS 39 does not permit the recognition of expected losses, no matter how likely these expected losses may appear. All exposures are assessed for impairment, either individually or collectively.

Methodology for individually assessing impairment
An individual impairment assessment is performed, for any exposure for which there is objective evidence of impairment, and where the exposure is above an agreed minimum threshold. The carrying amount of the exposure, net of the estimated recoverable amount (and thus the specific provision required), is calculated using a Discounted Cash Flow (DCF) analysis. This calculates the estimated recoverable amount as the present value of the estimated future cash flows, discounted at the exposure's original effective interest rate (or the current effective interest rate for variable rate exposures). The estimated future cash flows include forecast principal and interest payments (not necessarily contractual amounts due), including cash flows, if any, from the realisation of collateral / security held, less realisation costs.

Methodology for collectively assessing impairment
Where exposures fall below the threshold for individual assessment of impairment, such exposures, with similar credit risk characteristics (e.g. the Group's credit card lending portfolio), are pooled and are collectively assessed for impairment. A provision is then calculated by estimating the future cash flows of the exposures that are collectively evaluated for impairment. This estimation considers the expected contractual cash flows of the exposures in a portfolio, and the historical loss experience for exposures with credit risk characteristics similar to those in the portfolio being assessed. Assumptions and parameters used to create the portfolio provision, which are based on historical experience (i.e. amount and timing of cash flows / loss given default), are regularly compared against current experience in the loan book and current market conditions.

Where there is objective evidence of impairment on a collective basis, this is reported as a specific provision, in line with individually assessed loans.

2.1 Credit risk (continued)

2.1.9 Credit risk methodologies (audited) (continued)

Methodology for establishing IBNR provisions
Impairment provisions are also recognised for losses not specifically identified, but which, experience and observable data indicate, are present in the portfolio at the date of assessment. These are described as IBNR provisions. Statistical models are used to determine the appropriate level of IBNR provisions. These models estimate latent losses, taking into account three observed and / or estimated factors:

- loss emergence rates (based on historic grade migration experience or PD);
- the emergence period (historic experience adjusted to reflect the current conditions and the credit management model); and
- Loss Given Default (LGD) rates (loss and recovery rates using historical loan loss experience, adjusted where appropriate to reflect current observable data).

Methodology for loan loss provisioning and forbearance
Forbearance will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances and ability to repay. This assessment to determine if impairment has occurred, and if a specific provision is required, will always take place prior to any decision to grant a concession to the customer.

Individually assessing impairment and forbearance
The methodology for individually assessing impairment, whether an exposure is forborne or not, is as outlined above (i.e. on an individual case-by-case basis). The underlying credit risk rating of the exposure, and ultimately the individual impairment assessment, takes into account the specific credit risk characteristics of the exposure.

Collectively assessing impairment and forbearance
Forborne exposures are pooled together for collective impairment provisioning, including IBNR provision calculations, as detailed above. Assumptions and parameters used to create the portfolio provision(s) take into consideration the historical experience on assets subject to forbearance (e.g. amount and timing of cash flows, cure experience, emergence period etc.), adjusted where appropriate to reflect current conditions, and require the satisfactory completion of a twelve month probation period, while being less than 30 days past due, to be eligible to cure from 'probationary' status. Management adjustments are also applied, as appropriate, where historical observable data on forborne assets may be limited. Impairment provisioning methodologies and provisioning model factors applied to forborne loan pools are reviewed regularly, and revised if necessary, to ensure that they remain reasonable and appropriate and reflective of the credit characteristics of the portfolio being assessed and current conditions. This includes a comparison of actual experience to expected outcome.

Provisioning and forbearance
For residential mortgages, exposures which are subject to forbearance and have a specific provision are reported as both 'forborne' and 'impaired'. The total provision cover on residential mortgages that are subject to forbearance is higher than that of the similar residential mortgage portfolio of exposures which are not subject to forbearance.

Further detail on forbearance strategies and the loans and advances that are subject to forbearance measures at 31 December 2015 is set out on pages 47 to 48 and pages 55 to 57. Forbearance related disclosures are subject to evolving industry practice and regulatory guidance.

Impaired loans review
Irrespective of the valuation methodology applied, it is Group policy to review impaired loans above agreed thresholds on a six monthly basis, with the review including a reassessment of the recovery strategy, the continued appropriateness of the valuation methodology and the adequacy of the impairment provision.

Where information is obtained between reviews that impact expected cash flows (e.g. evidence of comparable transactions emerging, changes in local market conditions, etc.), an immediate review and assessment of the required impairment provision is undertaken.

An impaired loan is restored to unimpaired status when the contractual amount of principal and interest is deemed to be fully collectible. Typically, a loan is deemed to be fully collectible based on an updated assessment by the Group of the borrower's financial circumstances. The assessment includes a demonstration of the customer's ability to make payments on the original or revised terms and conditions as may be agreed with the Group as part of a sustainable forbearance arrangement.

An analysis of the Group's impairment provisions at 31 December 2015 is set out on pages 50 to 53 and note 18.

Credit management process
Account performance is reviewed periodically, to confirm that the credit grade or PD assigned remains appropriate, and to determine if impairment has arisen. For consumer and lower value commercial exposures, the review is largely based on account behaviour and is highly automated. Where there are loan arrears, excesses, dormancy etc., the account is downgraded to reflect the higher underlying risk.

For larger commercial loans, the relationship manager reassesses the risk at least annually (more frequently if circumstances or grade require) and reaffirms or amends the grade (credit and PD grade) in light of new information or changes (e.g. up to date financial information, or changed market outlook). Grade migration and adjusted PD grades

2.1 Credit risk (continued)

2.1.9 Credit risk methodologies (audited) (continued)

are analysed for inclusion in the loss model.

The emergence period used in the IBNR calculation is calculated using historical loan loss experience. The range of emergence periods is typically three to twelve months.

The LGD used in the IBNR calculation is calculated using historical loan loss experience and is adjusted, where appropriate, to apply management's credit expertise to reflect current observable data.

Other factors taken into consideration in estimating provisions include domestic and international economic climates, changes in portfolio risk profile and the effect of any external factors, such as legal or competition requirements. Whilst provisioning is an ongoing process, all business units formally review and confirm the appropriateness of their provisioning methodologies and the adequacy of their impairment provisions on a half-yearly basis. Their conclusions are reviewed by the risk function and the BRC.

The Group's provisioning methodology is approved by the CRPC on a half yearly basis. The quantum of the Group's loan loss charge, impaired loan balances, and provisions, are also reviewed by the BRC annually, in advance of providing a recommendation to the Audit Committee.

Methodologies for valuation of collateral

The Group uses a number of valuation approaches, depending on use of collateral and data availability. The Group has in place a formal valuation policy. Approaches include:

(1) Indexation - mortgage portfolios

Mortgage loan book property values are determined by reference to the original or latest property valuations held indexed to the Nationwide UK house price index. The weighted average indexed LTV for the total residential mortgage loan book is 62% at 31 December 2015. Where cash flows arising from the realisation of collateral held are included in impairment assessments, management typically rely on valuations or business appraisals from independent external professionals.

(2) Formal written valuations from independent external professionals

External valuations are sought in circumstances where there continues to be sufficient transactional evidence and market liquidity to support an expert objective view. External qualified firms, with appropriate knowledge of the particular market, are commissioned to provide formal written valuations, including an assessment of the timeline for disposal, in respect of the property.

(3) Assessed valuations, informed by consultations with external valuers

Valuation policy permits the use of internally assessed valuations where appropriate. Verbal consultations with external valuers, familiar with local market conditions, provide general information on market developments, trends and outlook. These consultations are used to benchmark asset values, and the potential timeline for realisation, and form an element of the estimation of the recoverable amount to be used for impairment provisioning.

In some land and development cases, estimated valuations of undeveloped sites may be expressed on a 'per plot' or 'per acre' basis if there is suitable zoning / planning in place, whereas un-zoned rural land may be assumed to have only agricultural value. Assessed values are subject to oversight by the independent credit unit.

(4) Residual value methodologies

Residual value methodologies are used to estimate the current value of a site or part completed development, based on a detailed appraisal that assesses the costs (building, funding and other costs) and receipts (forecast sales and / or lettings) associated with bringing a development to completion. The type, size and location of the property asset, and its development potential and marketability, are key factors in this assessment process. The Group may look to some of the other valuation methodologies outlined earlier, e.g. residual value methodologies may look to formal professional valuations, verbal consultations with external professionals, or local market knowledge made available by relevant Group management, in determining the appropriate inputs to this analysis.

The appropriate methodology applied depends, in part, on the options available to management to maximise recovery, which are driven by the particular circumstances of the loan and underlying collateral, e.g. the degree of liquidity and recent transactional evidence in the relevant market segment; the type, size and location of the property asset; and its development potential and marketability.

2.1 Credit risk (continued)

2.1.9 Credit risk methodologies

IFRS 9 'Financial Instruments'
The Group's existing approach to impairment provisioning is based on an IAS 39 'incurred loss' model as set out in detail on pages 62 to 64. In summary, IAS 39 requires an incurred loss impairment approach for financial assets measured at amortised cost, and expected future credit losses, no matter how likely, are not permitted to be recognised until a loss event has occurred.

In contrast to IAS 39, IFRS 9, which is expected to be effective for annual reporting periods beginning on or after 1 January 2018[1], requires an 'Expected `Credit Loss' (ECL) approach to impairment provisioning, even if a loss event has not occurred. This approach, which is essentially a more forward-looking provisioning model, aims to be responsive to changes in the credit quality of financial assets based on the concept of 'significant increase in credit risk since initial recognition'. Principally, for ECL recognition, assets are grouped into three stages[2] based on deterioration in credit quality since initial recognition / origination as set out in the table below.
Assets can move between stages as credit quality deteriorates or improves with the exception of assets considered credit impaired on initial recognition which must always be subject to lifetime ECL. In contrast to IAS 39, IFRS 9 requires a combination of historical, current and future expectations / forecast conditions to be taken into account in the assessment of credit impairment. Current IAS 39 impairment provisioning is based on historical information adjusted, as appropriate, for current observed conditions.

The introduction of lifetime ECL for 'Stage 2' assets, which will include assets currently not classified as 'defaulted' and / or 'impaired', is likely to result in higher impairment provisions than those currently reported under IAS 39, and will potentially be one of the key areas of change under IFRS 9. Relative to IAS 39, IFRS 9 contains a number of complex judgemental areas which will take time to fully implement.

In addition to the impairment aspects of the Standard, IFRS 9 also introduces changes in relation to the classification and measurement of financial instruments, as well as hedge accounting. For classification and measurement, IFRS 9 introduces a single classification and measurement model for financial assets which is dependent on both an entity's overall business model objective for managing financial assets ('business model assessment') and the contractual cash flow characteristics of each asset at initial recognition ('contractual cash flow characteristics'). This model, absent an accounting mismatch, is to be used to determine the most appropriate of the three principal financial asset classifications allowed under IFRS 9: amortised cost; Fair Value through Other Comprehensive Income; or Fair value through profit or loss (FVTPL).

The hedge accounting requirements in IFRS 9 are designed to align hedge accounting more closely with risk management activities, to include enhanced disclosure requirements, and involve moving from a rules-based approach under IAS 39 to a more principles based approach in IFRS 9[3].

IFRS 9 ECL Impairment Model: '3 stage' Approach		IFRS 9 ECL Model vs. IAS 39 Incurred Model Approach
Stage 1	• Assets that have not experienced a 'significant' deterioration in credit quality since initial recognition / origination • 12-month ECL recognition - expected credit losses resulting from default events that may occur within 12 months of the reporting date (i.e. credit loss weighted by the probability that the loss will occur in the next 12 months)[4]	Potentially viewed as broadly similar to the concept of IBNR provisioning under IAS 39
Stage 2	• Assets that have experienced a 'significant' deterioration in credit quality since initial recognition / origination, but are not credit-impaired • Lifetime ECL recognition - expected credit losses resulting from all possible default events over the expected life of the asset (i.e. credit losses weighted by the PD occurring over the expected life of the asset) • Interest revenue calculated on the gross carrying amount of the asset	Potentially the area of most significant change relative to IAS 39
Stage 3	• Assets that are credit impaired - there is objective evidence of impairment at the reporting date • Lifetime ECL recognition • Interest revenue calculated on the net carrying amount of the asset (net of credit loss allowance)	Potentially the area of least significant change relative to IAS 39 (i.e. will continue to be based on 'incurred losses', but to include different macroeconomic scenarios / forecasts)

[1] IFRS 9 remains subject to EU endorsement, which is anticipated in the first half of 2016.
[2] While IFRS 9 does not use 'staging' terminology, the concept of 'staging' is evolving as generally accepted market terminology / practice.
[3] IFRS 9 contains the option for banks to continue to apply the hedge accounting requirements of IAS 39.
[4] 12-month ECL is the portion of lifetime ECL associated with the possibility of default in the next 12 months.

2.1 Credit risk (continued)

2.1.9 Credit risk methodologies (continued)

Following publication of the complete version of IFRS 9 in 2014 and BoI Group's preliminary assessment of its requirements, an IFRS 9 Programme was established during 2015.

Reflecting the scale and complexity of the IFRS 9 implementation plan, the programme has been established to comprise of a number of individual dedicated work streams each responsible for the assessment and implementation of the various elements of the IFRS 9. These teams are supported by a central programme management office and appropriate external advisors.

The Group estimates an overall two year implementation timeframe for IFRS 9. This reflects the fact that this is a large, complex programme with multiple interdependencies and significant cross-functional reliance. Following its establishment in 2015, the programme has transitioned from mobilisation and planning into design. As part of the design phase of the implementation plan, programme activities are currently focused on interpretation, policy, and design decisions, while also assessing the internal system, process and data requirements for the delivery of IFRS 9. Key concepts within the IFRS 9 ECL impairment provisioning approach are judgemental in nature and, to facilitate practical implementation, will require interpretation. The Group is advancing this interpretation work in conjunction with the analysis and design of the impairment modelling approach, including the development of key model components, for the calculation of ECL provisions. During 2016, the programme is expected to transition into the build phase, which will include the construction of an impairment ECL model suite and detailed development work on the 'To-be' operating model and governance framework. It is currently intended that the build phase will be substantially completed during the first half of 2017, allowing parallel run activities in advance of full deployment for 1 January 2018.

All of these interpretation and design activities and decisions are integral to the informed and reliable assessment of the estimated financial impact of the implementation of IFRS 9. Furthermore, given the complexity of the standard and scale of IFRS 9 implementation, which is likely to require changes and / or enhancements to systems, processes, policies, modelling approaches etc., the quantitative impact on impairment provisions and capital on initial application on 1 January 2018, or the potential volatility in impairment provisions and capital thereafter, cannot be reliably estimated at this stage. The Group will progressively enhance its IFRS 9 reporting during the transition period, to provide more detailed and specific disclosure as implementation progresses, on the basis it is practical and reliable to do so.

2.2 Liquidity and funding risk

Key points

- At all times during the financial year the Group maintained appropriate levels of unencumbered liquid resources and an appropriate liquidity position, in line with regulatory and internally set requirements and guidelines.
- The Group held liquid assets of £4.3 billion at 31 December 2015 which was in excess of regulatory liquidity requirements and within the Group's internal risk appetite. This represented a prudent liquidity position and a strong platform for growing customer lending in 2016.
- The Group's loan to deposit ratio decreased from 91% at 31 December 2014 to 89% at 31 December 2015, which reflects the net effect of an increase in retail deposits offset by a planned increase in retail lending, primarily in the mortgage portfolio.
- The Group adhered to its policy of self-funding through retail deposits with no sustained funding dependency on the Parent or material dependency on the wholesale funding market.

Definition (audited)

Liquidity risk is the risk that the Group will experience difficulty in financing its assets and / or meeting its contractual payment obligations as they fall due, or will only be able to do so at substantially above the prevailing market cost of funds.

Liquidity risk arises from differences in timing between cash inflows and outflows. Cash inflows for the Group are driven by, among other things, the maturity structure of loans held by the Group, while cash outflows are primarily driven by outflows from customer deposits and lending origination and acquisition.

Liquidity risk can increase due to the unexpected lengthening of maturities, non-repayment of assets or a sudden withdrawal of deposits.

Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding or has an inefficient funding structure.

Liquidity and funding risk management (audited)

The liquidity and funding risk appetite statement is set by the Board and is reviewed on an annual basis as part of the ILAAP and sets out the level of liquidity and funding risk that the Board has deemed acceptable and the key liquidity and funding metrics that the Group has determined best define its liquidity and funding risk appetite.

The Group has established a liquidity and funding RMF, that is aligned to the Group's risk appetite and risk targets, and which is aligned with its overall strategy to be a self-funded business, with no sustained funding dependency on the Parent or material dependency on wholesale market funding.

The Group's liquidity and funding RMF is designed to ensure that the Group manages and monitors its liquidity and funding position in accordance with the defined liquidity and funding risk appetite statement. The operational oversight of adherence to risk appetite is delegated to ALCo, an executive subcommittee of the ExRiskCo.

The Group's ILAAP sets out how the Group assesses, quantifies and manages the key liquidity and funding risks and details the Group's approach to determining the level of internal liquidity resources required to be maintained by the Group, for both business-as-usual and stressed scenarios ranging in severity, nature and duration.

Liquidity and funding management in the Group consists of two main activities:

- *Tactical liquidity management* - which focuses on monitoring current and expected future daily cash flows, to ensure that the Group's liquidity needs can be met. This takes into account the Group's access to unsecured funding; the liquidity characteristics of its portfolio; available for sale assets that are highly marketable assets; cash balances; and contingent assets that can be realised quickly to cover any unforeseen cash outflows; and
- *Structural liquidity management* - which focuses on assessing the optimal balance sheet structure on both a short term and long term basis taking account of the behavioural and contractual maturity profile of assets and liabilities.

Liquidity and funding risk measurement (audited)

A number of measures are used by the Group to monitor and manage liquidity and funding risk including ratios, deposit outflow triggers, liquidity triggers, stress scenarios and early warning indicators.

Liquidity risk is measured using stress testing and scenario analysis. The Group runs a number of internal liquidity stress scenarios based on market-wide stress events, Group specific stress events and a combination of market-wide and idiosyncratic stress events. These stress scenarios are also performed across a number of outflow time bands. The cash outflows resulting from the stress scenarios are compared against the holding of liquid assets. Under the Group's liquidity risk appetite, the Group must have unencumbered liquidity resources available which will be in excess of 100% of the stressed outflows, from all stress scenarios performed.

Funding risk is measured by applying and monitoring specific metrics that determine the amount of ongoing new retail deposit acquisitions that are required to fund the Group's asset base across various maturity categories.

2.2 Liquidity and funding risk (continued)

The Group maintained appropriate unencumbered liquid resources, in excess of regulatory and internal requirements, throughout 2015. In addition, the Group has a range of potential contingency funding actions that can be taken in the event of an unexpected shortfall in liquidity.

Customer deposits

The Group's funding strategy is focused, in particular, on maintaining a stable retail deposit base providing an appropriate basis to fund customer lending.

£17.2 billion of retail deposits at 31 December 2015 relates to Post Office and AA branded deposits which increased by £1.2 billion (7%) during the year. Deposit retention levels continue to improve as the Post Office branded accounts mature and the Group continues to maintain a competitive product offering.

The Group's loan to deposit ratio, as defined on page 9, decreased from 91% at 31 December 2014 to 89% at 31 December 2015, as a result of the planned growth in retail lending, offset by the increase in retail deposits.

Customer accounts (unaudited)	31 December 2015 £m	31 December 2014 £m
Bank of Ireland UK branded deposits	2,009	1,956
Bank of Ireland UK current accounts	2,394	2,243
Post Office and AA branded deposits	17,171	15,981
Total	**21,574**	**20,180**

Liquid assets

The Group maintains an unencumbered liquid asset portfolio, comprising cash placements and securities that can be used to raise liquidity, either by sale or through secured funding transactions.

As at 31 December 2015 the portfolio comprised cash balances with the Bank of England, UK Government treasury bills, Finnish Government paper, Multilateral Development Bank bonds and interbank placements.

The composition of the portfolio is set out below. Interbank placements comprised both placements with external banks and the Parent.

	Average in year		Year end	
Composition of the liquid asset portfolio (unaudited)	31 December 2015 £m	31 December 2014 £m	31 December 2015 £m	31 December 2014 £m
Balances with central banks	3,055	3,365	3,233	2,918
Government bonds	533	457	529	535
Other listed securities	452	431	427	456
Interbank placements	95	168	110	220
Total	**4,135**	**4,421**	**4,299**	**4,129**

At 31 December 2015 £4.2 billion of the liquid asset portfolio is eligible to be applied in liquid asset stress testing (31 December 2014: £3.9 billion). The liquid assets presented above do not include cash or general bank accounts that are utilised in the day to day operations of the Group.

Balance sheet encumbrance (unaudited)

The Group treats an asset as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn. It is Group policy to maximise the amount of assets available for securitisation / pledging through the standardisation of loan structures and documentation.

2.2 Liquidity and funding risk (continued)

For the purposes of liquidity risk management the Group monitors and manages balance sheet encumbrance by means of risk appetite. At 31 December 2015 £1.4 billion (2014: £1.2 billion) of the Group's balance sheet was encumbered.

At 31 December 2015 the Group had £7.3 billion of gross eligible mortgages pre-positioned with the Bank of England for potential use in its liquidity resources.

31 December 2015

Encumbered and unencumbered assets	**Encumbered[1] £m**	**Unencumbered £m**	**Total £m**
Cash and balances with central banks	-	3,269	3,269
Mandatory deposits with central banks	1,070	21	1,091
Loans and advances to other banks	143	19	162
Loans and advances to banks - related party transactions	10	2,686	2,696
Loans and advances to customers	165	19,090	19,255
Available for sale financial assets	-	956	956
Other assets	-	510	510
Total assets	**1,388**	**26,551**	**27,939**
Encumbered cash and balances with central banks			
Note cover[2]	1,034		
Cash ratio deposit and other mandatory deposits	36		
	1,070		

31 December 2014

Encumbered and unencumbered assets	Encumbered[1] £m	Unencumbered £m	Total £m
Cash and balances with central banks	-	2,964	2,964
Mandatory deposits with central banks	1,014	21	1,035
Loans and advances to other banks	154	21	175
Loans and advances to banks - related party transactions	4	5,098	5,102
Loans and advances to customers	70	18,231	18,301
Available for sale financial assets	-	991	991
Other assets	-	641	641
Total assets	1,242	27,967	29,209
Encumbered cash and balances with central banks			
Note cover	978		
Cash ratio deposit and other mandatory deposits	36		
	1,014		

[1] *Included in the encumbered assets at 31 December 2015 is £10 million (31 December 2014: £4 million) of collateral placed with the Parent in respect of derivative liabilities.*
[2] *Note cover relates to mandatory collateral with the Bank of England in respect of banknotes in circulation in Northern Ireland.*

2.2 Liquidity and funding risk (continued)

Liquidity and funding risk monitoring
The Group's daily, weekly and monthly liquidity reporting (including a comprehensive suite of liquidity early warning triggers) are produced for use by the Group's Treasury function, to assess and manage the Group's current and future liquidity risk position. Daily liquidity reports, including liquidity stress test results, are reported and reviewed by the Treasury, Finance and Risk functions and by the Group's senior management. These reports include a series of limits and triggers which, if triggered, are reported to ALCo. Liquidity risk MI is reported monthly to ALCo and is also included in regular reporting to the BRC and Board.

The Group's liquidity position is supported by its unencumbered liquid asset portfolio, the contingent liquidity collateral available and by the various management actions defined in its recovery plan.

Funding risk management is incorporated into the Group's funding plan which is monitored regularly and updated annually.

In December 2013 the Group changed its market risk hedging approach to derivative hedging. This approach has resulted in the gradual replacement of gross flow cash hedging positions, as legacy placements and borrowings with the Parent expire. Therefore the amounts due from and due to the Parent have reduced from £5.1 billion and £5.2 billion, respectively at 31 December 2014, to £2.7 billion and £2.6 billion, respectively, at 31 December 2015.

Contingent liquidity
The Group holds significant contingent liquidity collateral, comprised of mortgage-backed securities issued by Bowbell No 1 plc (refer to note 38), and raw loans pre-positioned in Bank of England facilities. This contingent liquidity collateral is capable of being pledged against borrowings from central banks and other external market participants.

External ratings
The Group is rated by both Moody's and Fitch. Given the Group's funding strategy and in particular its focus on growing and retaining retail deposits as its primary funding mechanism, the direct impact on liquidity risk of movements in the Group's credit rating is limited. See the table below for the ratings summary:

Bank of Ireland UK ratings (unaudited)	31 December 2015	31 December 2014
Moody's	Ba2 positive outlook	Ba2 stable outlook
Fitch	BBB- stable outlook	BBB negative outlook

Maturity analysis of financial assets and liabilities
The tables on the following page summarise the contractual maturity profile of the Group's financial assets and liabilities, at 31 December 2015 and 31 December 2014, based on the contractual discounted repayment obligations. The Group does not manage liquidity risk on the basis of contractual maturity, instead the Group manages liquidity risk by adjusting the contractual cash inflows and outflows of the balance sheet to reflect them on a behavioural basis. This includes the incorporation of the inherent stability evident in the retail deposit book.

Customer accounts include a number of term ISA accounts that contain access features which allow customers to access a portion of, or all of, their deposit, notwithstanding that this withdrawal could result in a financial penalty being paid by the customer. For such accounts, the balances have been classified as fully accessible in the following table.

2.2 Liquidity and funding risk (continued)

Maturity analysis of financial assets and liabilities (discounted basis)

31 December 2015 (unaudited)	Repayable on demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Financial assets						
Cash and balances with central banks	3,269	-	-	-	-	3,269
Derivative financial instruments	-	18	9	5	13	45
Loans and advances to banks	183	1,070	-	-	-	1,253
Loans and advances to banks - related party transactions	338	143	524	1,669	22	2,696
Available for sale financial assets	-	55	44	581	276	956
Loans and advances to customers						
(before impairment provisions)	920	1,183	1,452	5,130	11,024	19,709
Total assets	**4,710**	**2,469**	**2,029**	**7,385**	**11,335**	**27,928**
Financial liabilities						
Deposits from banks	3	4	10	-	-	17
Deposits from banks - related party transactions	377	2	413	1,720	77	2,589
Customer accounts	13,629	3,021	3,678	1,242	4	21,574
Derivative financial instruments	1	3	3	30	19	56
Subordinated liabilities	-	-	-	-	335	335
Total liabilities	**14,010**	**3,030**	**4,104**	**2,992**	**435**	**24,571**
Net total assets and liabilities	**(9,300)**	**(561)**	**(2,075)**	**4,393**	**10,900**	**3,357**
Cumulative net assets and liabilities	**(9,300)**	**(9,861)**	**(11,936)**	**(7,543)**	**3,357**	**3,357**

31 December 2014 (unaudited)	Repayable on demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Financial assets						
Cash and balances with central banks	2,964	-	-	-	-	2,964
Derivative financial instruments	-	10	9	14	26	59
Loans and advances to banks	165	1,045	-	-	-	1,210
Loans and advances to banks - related party transactions	722	195	1,865	1,931	389	5,102
Available for sale financial assets	-	-	25	685	281	991
Loans and advances to customers						
(before impairment provisions)	1,228	1,170	1,326	4,748	10,442	18,914
Total assets	5,079	2,420	3,225	7,378	11,138	29,240
Financial liabilities						
Deposits from banks	11	15	15	-	-	41
Deposits from banks - related party transactions	844	202	2,253	1,793	101	5,193
Customer accounts	12,473	2,283	3,105	2,313	6	20,180
Derivative financial instruments	-	7	4	35	18	64
Subordinated liabilities	-	-	-	-	658	658
Total liabilities	13,328	2,507	5,377	4,141	783	26,136
Net total assets and liabilities	(8,249)	(87)	(2,152)	3,237	10,355	3,104
Cumulative net assets and liabilities	(8,249)	(8,336)	(10,488)	(7,251)	3,104	3,104

2.3 Market risk

Key points

- The Group does not engage in speculative trading for the purposes of making profits as a result of anticipation of movements in financial markets. Therefore, no discretionary risk is taken by the Group.
- During 2015 the Group continued to manage interest rate and foreign exchange exposure at acceptable levels, by seeking natural hedge solutions within the balance sheet and by hedging exposures with the Parent as hedge counterparty.

Definition (audited)

Market risk is the risk that changes in the level of interest rates and the movement in exchange rates between currencies and financial instruments will have an adverse financial impact on the Group's earnings.

Market risk arises, on the asset side of the balance sheet, mainly through fixed rate lending, and on the liability side, through fixed rate deposit products. Market risk can also arise where variable rate assets and liabilities reprice at different frequencies (monthly, quarterly, semi-annually), or where lending reprices with changes in Bank of England rates, but is funded at short dated market rates. Changes in the differential or basis between different floating rates (such as assets repricing at the base rate and liabilities repricing at LIBOR) can have an impact on the Group's net interest margin.

Structural interest rate risk arises from the existence of non-interest bearing liabilities (principally equity and non-interest bearing current accounts less fixed assets) on the balance sheet. If these net liabilities were used to fund variable rate assets, the Group's earnings would be exposed to variation in interest rates.

Market risk management (audited)

The market risk appetite statement is set by the Board and is reviewed on an annual basis. The Board delegates responsibility of the setting and monitoring of market risk limits to ALCo, which has primary responsibility for the oversight of market risk within the confines of the risk appetite limits set by the Board.

The Group has no risk appetite for the holding of proprietary market risk positions or the running of open banking book market risk exposures. The Group, therefore, has no proprietary trading book. The Group does have customer derivative foreign exchange forward contracts, which are considered held for trading, as hedge accounting is not applied. These transactions are hedged with the Parent.

The Group manages its interest rate risk position by hedging with the Parent. The overall market risk hedging approach is prioritised as follows;

(i) seek to naturally hedge within the balance sheet;
(ii) execute derivative hedging contracts with the Parent; or
(iii) execute gross cash hedges.

Net derivative hedging was introduced by the Group in December 2013 and over time cash hedging deals with the Parent are being replaced by derivative contracts. Derivatives executed for hedging purposes are executed with the Parent only and are subject to ISDA and CSA standard documentation. Collateral requirements are calculated daily and posted as required. The Group uses derivative contracts with the Parent for hedging purposes only and seeks to apply hedge accounting where possible. The Group continues to maintain a deminimis limit for interest rate risk to reflect operational requirements only. This limit is monitored by ALCo and approved by the Board. The Group's lending and deposits are almost wholly (>95%) denominated in sterling. Any foreign currency transactions are hedged to acceptable levels with the Parent.

It is the Group's policy to manage structural interest rate risk, by investing its net non-interest bearing liabilities in a portfolio of fixed rate assets, with an average life of 3.5 years and a maximum life of 7 years.

Market risk measurement and sensitivity (audited)

The Group's interest rate risk position is measured and reported daily. The daily interest rate risk position is calculated by establishing the contractual repricing behaviour of assets, liabilities and off-balance sheet items on the Group's balance sheet, before modelling these cash flows and discounting them at current yield curve rates.

In addition to this, the Group runs a series of stress tests, including parallel and non-parallel yield curve stress scenarios across all tenors, in order to further monitor and manage yield curve and repricing risk in the banking book.

The Group also applies market risk stress scenarios to manage and monitor the impact of stress events in relation to interest rate option risk and basis risk.

A dual purpose of the Group's market risk stress testing is to meet regulatory requirements and to ensure that appropriate capital is held by the Group.

The impact on the Group's net interest income margin for one year, ahead of an immediate and sustained 50 basis points shift, up or down, in the sterling yield curve applied to the banking book at 31 December 2015, is detailed in the following table:

2.3 Market risk (continued)

(Audited)	**Year ended 31 December 2015 £m**	Year ended 31 December 2014 £m
+ 50 basis points	0.42	0.57
- 50 basis points	(0.42)	(0.57)

The above sensitivity is indicative of the magnitude and direction of exposures but is based on an immediate and sustained shift of the same magnitude across the yield curve (parallel shift).

2.4 Regulatory risk

Key points

- During 2015 the regulatory landscape saw significant change.
- Programmes were established in the Group during the year to commence preparation for the significant regulatory change agenda over coming years, including recovery and resolution, and the Individual Accountability Regime.
- The heavy regulatory agenda is expected to continue in 2016. The Group will maintain its focus on continuing compliance with the existing and developing regulatory requirements of the EBA, FCA and PRA.

Definition

Regulatory risk is the risk of failure to meet new or existing regulatory and legislative requirements and deadlines or to embed requirements into processes.

The associated risk of regulatory change is the risk that a change in laws and regulations that govern the Group will materially impact the Group's business, profitability, capital, liquidity, products or markets; that the Group fails to take timely action; and / or that the Group fails to effectively manage the regulatory change process.

Risk management and measurement

The Group manages regulatory risk under its RMF. The framework identifies the Group’s formal governance process around risk, risk appetite and its approach to risk identification, assessment, measurement, management and reporting. This is implemented by accountable executives, monitored by the ExRiskCo and R&ORC, and within the overall Group risk governance structure outlined on pages 37 to 42.

The effective management of regulatory risk is primarily the responsibility of business management and is supported by the Regulatory Change & Governance and Regulatory & Conduct Risk functions.

As detailed in the Group’s RAS, the Group has no appetite for failure to comply with its regulatory or legislative obligations, however it is acknowledged that issues may occur as a consequence of being in business. The Group has therefore established an approach to ensure the identification, assessment, monitoring, management and reporting of these issues. The Group also undertakes risk based regulatory and compliance monitoring.

Risk reporting

The current status of regulatory risk is reported to senior executives and Board members through the CRO and CEO reports as well as more detailed updates in the QRR. This includes the status of the top regulatory risks and the progress of associated risk mitigation initiatives, issues and breaches management, and significant regulatory interactions.

Risk mitigation

Risk mitigants include the early identification, appropriate assessment, measurement and reporting of risks. The primary risk mitigants for regulatory risk are the existence of appropriate controls in place throughout the business.

In addition to day-to-day control measures, monitoring of regulatory risks and controls is conducted throughout the year by an independent internal monitoring team within the Risk function. Such monitoring activities provide a basis for assessment and validation of the performance of controls and the adequacy of mitigation. They also ensure the Group is updated in respect of regulatory change and that associated projects are mobilised to ensure the timely implementation of change.

2.5 Operational risk

Key points

- The Group seeks to operate an effective framework for the mitigation and control of operational risk. During 2015 the Group continued to enhance its operational risk management processes, including a revised organisational structure, more granular risk identification and assessment processes, and the embedding of new technology solutions.
- Throughout 2015 regulatory bodies within the UK continued their focus on overseeing the development of operational risk standards and practices. The Group engaged with regulatory bodies and continues to ensure it is in a position to meet its regulatory obligations including fulfilling specified risk mitigation requirements within expected timeframes.
- In 2016 the Group will continue to improve and integrate its operational risk management tools and processes with the technology solutions, as well as engage constructively with the regulatory agenda.

Definition

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, financial crime (including AML), outsourcing and IT risk but excludes strategic and reputational risk.

Risk management

The Group faces operational risks in the normal pursuit of its business objectives. The primary goals of operational risk management and assurance are ensuring the sustainability and integrity of the Group's operations and the protection of its reputation by controlling, mitigating or transferring the impact of operational risk.

Operational risk cannot be fully eliminated and it is the objective of the Group to manage operational risk within defined risk appetite measures, taking into account the cost of mitigation and the level of reduction in exposure which can be achieved.

The Group has an Operational RMF which defines its approach to identifying, assessing, managing, monitoring and reporting the operational risks which may impact the achievement of the Group's business objectives. This framework consists of inter alia:

- formulation and dissemination of a Group Operational Risk policy specifying the risk management obligations of management within the Group;
- establishment of organisational structures for the oversight, monitoring and management of operational risk throughout the Group;
- embedding formal operational risk management processes and standards within business and support units throughout the Group; and
- maintaining competencies of relevant staff in the operational risk management process, and awareness of potential exposures.

Operational risk policy

The Group's exposure to operational risk is governed by an operational risk policy approved by the R&ORC, within the overall Group risk governance structure outlined on pages 37 to 42 and in accordance with the Board approved risk appetite.

Risk mitigation and transfer

In addition to business unit risk mitigation initiatives, the Group implements specific policies and risk mitigation measures for key operational risks, including financial crime, outsourcing and business disruption risks. Arrangements entered into with the Parent and third-party outsourced providers are governed through service level agreements which are monitored through formalised governance arrangements, KPIs and obligations. Outsourced service arrangements are subject to detailed due diligence and end-to-end risk assessments.

The Group calculates its Pillar I regulatory capital using the Standard Approach. The capital assigned to operational risk aims to ensure sufficient capital is held to cover the potential financial impact of operational risk events.

Operational risk events

An operational risk event is any occurrence that has caused, or is likely to cause, a financial, customer, regulatory or legal impact, or a business disruption.

A standard reporting threshold is used across the Group for recording such events and for standard inputs to Common Reporting (COREP) to the EBA and PRA. Every business unit within the Group submits regular, detailed operational risk event information. This information includes the gross loss amount, direct and indirect recoveries and risk taxonomy of the event.

Risk reporting

The Board receives regular operational risk updates by means of the CRO report and QRR.

The Head of the Operational Risk & Financial Crime function reports to the R&ORC on the status of operational risk in the Group, including; the status of the top operational risks, the progress of associated risk mitigation initiatives; significant loss events; and the nature, scale and frequency of overall losses.

The Head of the Operational Risk & Financial Crime function provides reports to the BRC and the ExRiskCo on operational risk and financial crime matters.

In addition to day-to-day control measures implemented by business units, theme-based monitoring of operational risks and controls is conducted throughout the year by an independent internal monitoring team within the Risk function. Such monitoring activities provide a basis for assessment and validation of the performance of controls and the adequacy of mitigation.

2.6 Business and strategic risk

Key points
- On an annual basis the Board reviews the Group's strategic objectives to confirm that the strategic shape and focus of the Group remains appropriate.
- The Group continued its progress in 2015 delivering an underlying profit before tax of £183 million and strengthening its capital ratios.
- The macroeconomic environment in which the Group operates continued to improve in 2015.

Definition
Business risk is defined as the risk to the Group (i.e. income, net worth or reputation) which could be associated with:
- a change in the operational economics of the Group; and / or
- exposure to an event which causes reputational damage to the Group.

The risk may arise from a change in the competitive environment, new market entrants, new products, or a failure to anticipate or mitigate a related risk.

Typically business risk is assessed over a one year time-frame and references the risk to earnings caused by changes in the above factors.

Strategic risk is defined as the risk to the Group (i.e. income, net worth or reputation) which could be associated with:
- failure to develop a strategy, leaving the Group exposed to developments that could have been foreseen including adverse macroeconomic or market changes;
- poor execution of a chosen strategy, whatever the cause, including investments not aligned with strategic direction; and / or
- failing to realign a strategy, when one or several of the fundamental assumptions underpinning that strategy have changed, making that strategy inappropriate.

Strategic risk generally relates to a longer timeframe than business risk.

Business and strategic risk is impacted by other risks that the Group faces that may contribute to an adverse change in the Group's revenues and / or costs if these risks were to crystallise. Examples include funding risk (through volatility in the cost of funding), interest rate risk, operational risk, regulatory and reputation risks.

Risk management, measurement and reporting
Business units are responsible for delivery of their business plans and management of such factors as pricing, sales volumes, operating expenses and other factors that can introduce earnings volatility.

The Group reviews business and strategic risk as part of the annual risk identification process. The risk is measured quarterly, with a scorecard addressing movements in key indicators around income diversification, margin trends, customer advocacy, direct and indirect costs and staff turnover. Regular updates are provided to the Board and the BRC.

Risk mitigation
The Group mitigates business risk through business planning methods, such as the diversification of revenue streams, cost base management and oversight of business plans which are informed by expectations of the external environment and the Group's strategic priorities.

At an operational level, the Group's annual budget process sets expectation at a business unit level for volumes and margins. The tracking of actual and regularly forecast volumes and margins against budgeted levels, is a key financial management process in the mitigation of business risk.

In the case of strategic risk, this risk is mitigated through updates to the Board on industry developments, regular updates on the key macroeconomic environment impacting the Group's activities, a review of the competitive environment and strategies at both Group and business unit level.

The Group's Annual Strategy and Planning Process includes a review of the Group's business model.

2.7 Reputation risk

Key points

The Group's reputation continues to be influenced and shaped by a range of factors; macroeconomic and political environment, media and public commentary and general sector developments. More specifically, the Group's decisions and actions in pursuit of its strategic and tactical business objectives and its interaction with the external environment will also influence its reputation.

Definition

Reputation risk is defined as the risk to earnings or franchise value arising from adverse perception of the Group's image on the part of customers, suppliers, counterparties, shareholders, investors, staff, legislators or regulators. This risk typically materialises through a loss of business in the areas affected. Reputation is not a standalone risk but overlaps with other risk areas and may often arise as a consequence of external events or operational risk related issues.

Risk management, measurement and reporting

Reputation risk indicators are monitored on an ongoing basis.

These indicators are:
- media monitoring;
- market trends and events; and
- stakeholder engagement and monitoring and risk events which may have the potential to impact Group.

The Group reviews reputation risk as part of the annual risk identification process. Regular updates are reported to the ExRiskCo, the BRC and the Board via the CEO and CRO reports as well as the QRR. In addition reputation risk and the processes in place to manage reputation risk are reviewed annually by the Board.

Risk mitigation

A wide range of processes and structures are used to identify, assess and mitigate the potential risk to the Group's reputation. Managing the Group in a manner that ensures that the potential impact on the Group's reputation is taken into account in decision-making is paramount in mitigating against reputation risk.

2.8 Conduct risk

Key points

- The Group recognises the importance of good conduct and is committed to placing customers at the heart of its strategic and operational decision-making.
- Throughout 2015, the FCA continued its focus on overseeing the development of conduct risk standards and practices. The Group maintains constructive engagements with its supervisors and continues to ensure it is in a position to meet its regulatory obligations.
- In 2016 the Group will continue to embed its conduct risk management tools and processes to maintain its engagement with the regulatory agenda.

Definition

Conduct risk is the risk of failure to deliver a product or service in a manner promised or reasonably expected by the Group's customers or required by the Group's conduct risk regulator. Poor conduct or customer detriment can result from a failure in the Group's control framework, policies, processes, systems and controls, and / or its people. Such failure may also result in a breach of legislation, regulatory rules or principles including that of fairness.

Risk management

The Group has no appetite for customer detriment and seeks to be fair, accessible and transparent in the provision of products and services to its customers at all times. However, it is recognised that circumstances can arise where unintended detriment may occur in the course of business. Where this occurs, the Group will proactively rectify the matter ensuring no further detriment occurs.

To ensure the Group's exposure to conduct risk is clearly defined, understood, measured, managed as appropriate and regularly reported upon, the Group has established a Conduct RMF which is underpinned by a comprehensive conduct risk assessment and mitigation process and a set of clear, realistic and transparent measures which includes a conduct risk appetite statement.

The Group has developed an internal Customer Charter which provides a clear articulation of the Group's customer and partner commitments and is designed to place customers at the heart of its business. It is central to the Group’s conduct risk culture which is being embedded across the business and provides a common framework and lens for business decision-making and product design, ensuring consistency across the Group. A Group conduct risk policy specifying the risk management obligations of management within the Group has been put in place.

The Group has in place an approach to vulnerable customers, which sets out desired outcomes and standards expected of business units and third party outsourced service providers in the treatment of those consumers that may be considered as vulnerable due to their personal circumstances and who are especially susceptible to detriment in the event that the Group does not act with the appropriate level of care.

Conduct risk policy

The Group’s exposure to conduct risk is governed by a policy approved by the BRC in accordance with the Board approved risk appetite and within the overall Group risk governance structure outlined on pages 37 to 42.

In addition to day-to-day control measures implemented by business units, monitoring of conduct risks and controls is conducted on a risk-based basis by an independent internal monitoring team within the Conduct & Regulatory Risk function.

Risk reporting

Each business unit in the Group produces a conduct risk scorecard developed from its conduct risk assessment and aligned to the conduct risk appetite statement. These scorecards are reviewed by management and are combined into an overall Conduct Risk Scorecard, which is used as the basis of reporting to the R&ORC and the BRC and the Board. The Board receives regular conduct risk updates via the CEO and CRO reports and the QRR.

3 Capital management

Key points

- At all times during the financial year the Group maintained appropriate capital resources in line with regulatory requirements.
- Common equity tier 1 (CET 1) ratio is 16.3% at 31 December 2015 under both the CRD IV transitional and pro forma full implementation basis.
- In May 2015 £300 million preference shares held by the Parent were repurchased and the Bank issued £200 million Additional tier 1 (AT1) securities to the Parent.
- In November 2015 £523 million subordinated loans were repurchased and £200 million new subordinated floating rate notes were issued to the Parent. £100 million of AT1 Securities were also issued to the Parent and £165 million of CET 1 capital was received from the Parent.
- The leverage ratio is 6.4% at 31 December 2015 under both the CRD IV transitional and pro forma full implementation basis.

Capital adequacy risk
Capital adequacy risk is the risk that the Group holds insufficient capital to absorb extreme and unexpected losses, which could eventually result in the Group not being able to continue operating.

Capital management objectives and policies (audited)
The Group manages its capital position to ensure that it has sufficient capital to cover the risks of its business, support its strategy and to comply at all times with regulatory capital requirements.

Capital adequacy and its effective management is critical to the Group's ability to operate its businesses grow organically and pursue its strategy. The Group's business and financial condition could be adversely affected if it is not able to manage its capital effectively or if the amount or quality of capital held is insufficient. This could arise if there was materially worse than expected financial performance (including, for example, reductions in profits and retained earnings as a result of impairment losses or write downs, increases in RWA and delays in the disposal of certain assets as a result of market conditions).

Capital requirements and capital resources
The Group complied with all its regulatory capital requirements throughout 2015.

The Group manages its capital resources to ensure that the overall amount and quality of resources exceeds the Group's capital requirements. Capital requirements are determined by the CRD IV, the CRR and firm-specific requirements imposed by the PRA. The CRR minimum requirements are typically driven by credit risk, market risk and operational risk, and also require stress-absorbing buffers.

Additional firm-specific buffers reflect the PRA's view of the systemic importance of a bank and also internal capital adequacy which is determined by internal stress testing as part of the ICAAP. The FPC may also set an additional Countercyclical buffer amount. The FPC set this at 0% as at 1 January 2016.

Capital management reporting
The Group monitors and reports the capital position daily, monthly and quarterly. Reporting includes a suite of early warning triggers and measurement against risk appetite and is reviewed by the Prudential Risk team, the Capital Management Forum and ALCo. The QRR includes capital management information which is reviewed by the ExRiskCo and the BRC.

Stress testing and capital planning
The Group uses stress testing as a key risk management tool to gain a better understanding of its risk profile and its resilience to internal and external shocks. In addition, stress testing provides a key input to the Group's capital assessments and related risk management and measurement assumptions.
The Group's stress testing is designed to:

- confirm the Group has sufficient capital resources;
- ensure the Group remains within its risk appetite;
- ensure the alignment between the Group's RMF and senior management decision-making; and
- to provide sufficiently severe and forward looking scenarios.

The Group regularly assesses its existing and future capital adequacy under a range of scenarios, using a combination of quantitative and qualitative analysis in the ICAAP, which is reviewed by the PRA and SSM on a periodic basis. The ICAAP, which acts as a link between the Group's strategy, capital and risk under stress, is approved annually by the Board.

The Group also undertakes reverse stress testing on an annual basis which informs, enhances and integrates with the existing stress testing framework by considering extreme events that could cause the Group to fail. This testing also improves risk identification and risk management more generally. Results of reverse stress testing are also approved by the Board, as part of the Group's ICAAP.

The Group's capital planning process includes a review of the Group's expected capital position (including the targeted level of capital based upon risk appetite) which is reviewed and challenged on a monthly basis by senior management. The Group's capital plan (which is approved at least annually by the Board) also includes sensitivities to ensure the continued resilience of the underlying assumptions under adverse conditions.

3 Capital management (continued)

CRD IV requirements
The CRD IV and the CRR were published in the Official Journal of the EU on 27 June 2013. The CRR had direct effect in EU member states while the CRD IV was required to be implemented through national legislation in EU member states by 31 December 2013. CRD IV includes requirements for regulatory and technical standards, some of which are as yet outstanding as the CRD IV legislation is being implemented on a phased basis from 1 January 2014 with full implementation by 2019. The Group's key capital ratios are set out on page 22 to 25 of the strategic report.

CRD IV is divided into three sections commonly referred to as Pillars.

Pillar 1 contains mechanisms and requirements for the calculation by financial institutions of their minimum capital requirements for credit risk, market risk and operational risk.

Pillar 2 is intended to ensure that each financial institution has sound internal processes in place to assess the adequacy of its capital, based on a thorough evaluation of its risks. Supervisors are tasked with evaluating how well financial institutions are assessing their capital adequacy needs relative to their risks. Risks not considered under Pillar 1 are considered under this Pillar.

Pillar 3 is intended to complement Pillar 1 and Pillar 2. It requires that financial institutions disclose information annually on the scope of application of CRD IV requirements, particularly covering capital requirements / RWA and capital resources, risk exposures and the risk assessment processes.

The Group's Pillar 3 disclosures for the year ended 31 December 2015 should be read in conjunction with this section of the risk management report.

Capital resources
The following table sets out the Group's capital resources.

Group capital resources (audited)	**31 December 2015 £m**	31 December 2014 £m
Equity (including other equity reserves)	2,104	1,467
Preference shares	-	300
Dated subordinated loan capital	335	658
Total capital resources	**2,439**	**2,425**

Details of the Group's equity are set out on the consolidated balance sheet on page 89.

Further detail of the Group's regulatory capital, including ratios, are set out in section 1.6.14 of the Strategic Report.

Governance

Directors and other information

Chairman	Mr. Christopher Fisher (N) (RE)
Non-executive Directors	Mr. Donal Collins Mr. Patrick Haren (N) (RE) Ms. Susan Harris (A) (RI) Mr. John Maltby (A) (RI) Mr. Peter Shaw (A) (N) (RI) (RE) Mr. David Weymouth (A) (RI)
Executive Directors	Mr. Desmond Crowley Mr. Neil Fuller Ms. Lorraine Smyth

(A) Member of the Audit Committee
(N) Member of the Nomination Committee
(RI) Member of the Risk Committee
(RE) Member of the Remuneration Committee

Company Secretary
Hill Wilson Secretarial Limited

Registered Office
Bow Bells House,
1 Bread Street,
London,
EC4M 9BE.

Registered Number
07022885

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside,
London,
SE1 2RT.

Directors and other information (continued)

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Chairman

Christopher Fisher (62)
Appointed Chairman of Bank of Ireland (UK) plc in June 2012, having served as an independent Non-executive Director since March 2010. Chair of the Nomination Committee and a member of the Remuneration Committee. Over 30 years of corporate finance experience, principally at Lazard, where he became a Managing Director, subsequently at KPMG, where he was Vice Chairman (Corporate Finance), and most recently at Penfida, the financial adviser to pension scheme trustees, where he was a Senior Partner and now serves as a Senior Adviser. Other current appointments include serving as a non-executive director of Segro, the FTSE 200 property company, Chairman of the governing body of the University of Reading, and Chair of the Marshall Aid Commemoration Commission.

Chief Executive Officer

Desmond Crowley, BA (Mod) Econ, FCMA (56)
Joined Bank of Ireland Group in 1988. In March 2000 became a member of the Bank of Ireland Group Executive Committee, on being appointed Chief Executive of Retail Banking Ireland. Appointed Chief Executive of UK Financial Services, Director of Bristol & West plc and Bank of Ireland UK Holdings plc in January 2006. Appointed Director of the Parent in October 2006, until his retirement from this position in June 2011. Appointed as CEO - Retail UK Division and Bank of Ireland (UK) plc in March 2012. A Director of First Rate Exchange Services Holdings Limited and First Rate Exchange Services Limited, the foreign exchange joint venture with UK Post Office. He is also a Director of New Ireland Assurance Company plc.

Chief Risk Officer

Neil Fuller (49)
Appointed Director of Bank of Ireland (UK) plc and CRO in October 2015. Neil joined the Bank of Ireland from GE Capital UK, where he held the role of CRO since 2011. He has over 30 years of financial services experience, having previously worked for Royal Bank of Scotland, where he held the role of CRO, UK Retail Division, and having previously held a number of senior management roles in UK Retail Banking across Credit Risk, Enterprise & Operational Risk and Operations. Prior to that, Neil worked for NatWest Bank in a number of Branch and Regional Management roles.

Chief Financial Officer

Lorraine Smyth, BA, FCA, AITI (44)
Appointed Director of Bank of Ireland (UK) plc and CFO in September 2014. Lorraine joined Bank of Ireland Group in 2008 having previously worked for PricewaterhouseCoopers, Aviva Ireland and Irish Life & Permanent. Prior to taking up her role as CFO, Lorraine was the Head of Tax for the Bank of Ireland Group. She is a Director of a number of companies in the Bank of Ireland Group, including BoI Insurance Limited and Bank of Ireland Home Mortgages Limited. She is also a Director of a number of companies in the Bank of Ireland (UK) plc Group including NIIB Group limited, Bank of Ireland Trustee Company Limited, First Rate Exchange Services Limited and First Rate Exchange Services Holdings Limited. She is also a council member of Chartered Accountants Ireland.

Group Nominated Non-executive Directors

Patrick Haren, BSc, PhD, MBA, FR Eng. (65)
Appointed Director of Bank of Ireland (UK) plc in June 2012. Chair of the Remuneration Committee and a member of the Nomination Committee. Patrick joined Northern Ireland Electricity (NIE) as Chief Executive in 1992 and took the company through privatisation. He later became Group Chief Executive of Viridian Group plc, as part of the restructuring of NIE which he led in 1998 and led the enlarged group to become a leading FTSE 250 company, employing over 1,600 staff, before overseeing the sale of the business to Arcapita in 2006. Between 2007 and 2012 Patrick served as Deputy Chairman and Chairman of Viridian Group. He was awarded a knighthood in 2008 for services to the electricity industry in Northern Ireland. He was appointed to the Court of Directors of the Bank of Ireland Group in January 2012.

Directors and other information (continued)

Group Nominated Non-executive Director (continued)

Donal Collins, BComm MBA, FCA, AITI (56)
Appointed Director of Bank of Ireland (UK) plc in July 2015. Donal joined Bank of Ireland Group in 1999 and became a member of the Group Executive Committee in 2014. He has held a number of senior management positions including Director, Corporate Banking; Head of Group Projects and Head of Group Strategy Development. Prior to joining Bank of Ireland, Donal worked for KBC Bank in a range of international senior management roles in aerospace, infrastructure and asset financing and KPMG Ireland as Director, Taxation. Donal is a graduate of University College Dublin.

Independent Non-executive Directors

Peter Shaw, BA, ACIB, DipFS, FCIOBS (56)
Appointed Director of Bank of Ireland (UK) plc in January 2013. Chair of the Risk Committee and member of the Audit, Remuneration and Nomination Committees. Peter is a non-executive director of Aldermore Bank plc and Chair of its Risk Committee. He formerly held a variety of senior executive positions, most recently as Interim CRO of the Co-operative Banking Group, and prior to that in Royal Bank of Scotland Group and NatWest where he was CRO for the Retail, Wealth and Ulster businesses. Peter has a wide range of experience in both risk and business roles throughout a career in Financial Services of over 30 years.

Susan Harris, BSc (Hons), ACMA (55)
Appointed Director of Bank of Ireland (UK) plc in July 2015, and member of the Audit and Risk Committees. Sue was previously a non-executive director of St James's Place, Chair of the Finance and Audit Committees at Mencap, and Chair of Trustees of KCP Youth. She has held a number of senior executive positions in the financial services and retail sectors, including at Lloyds Banking Group (LBG), Group Audit Director, Finance Director Group Finance, Finance Director of LBG's Retail Banks and Finance Director of Cheltenham & Gloucester. Sue has also held a number of other senior finance executive positions including Managing Director Finance at Standard Life, and Head of Corporate Development and Group Treasurer of Marks & Spencer. She is an Independent non-executive director of Abcam, where she chairs the Audit and Risk Committee and a member of the Codes and Standards Committee and the Audit and Assurance Council of the Financial Reporting Council.

David Weymouth, BA, MBA (60)
Appointed Director of Bank of Ireland (UK) plc in June 2015. Chair of the Audit Committee and member of the Risk Committee. David retired from RSA Insurance plc in May 2015 where he was CRO and a member of the Executive Committee. He has nearly 40 years' experience in Financial Services holding senior roles across Operations Risk Technology and Business Leadership including five years as Chief Information Officer and member of the Executive Committee at Barclays. He has also consulted for Government and major financial services institutions on risk and technology enabled change. David is a Fellow of the Institute of Bankers and has a BA from University College London and an MBA from the University of Exeter.

John Maltby BSc (Hons) (54)
Appointed Director of Bank of Ireland (UK) plc in November 2015 and a member of the Audit and Risk Committees. John is currently Chairman of Good Energy Group plc, and a member of its Audit and Remuneration Committees. Previous board appointments include Chief Executive and member of the transitional Board of Williams & Glynn, Chairman of the Board of Lloyds Commercial Finance, Member of the Board of Cheltenham & Gloucester plc, Chairman of the Board of Start Mortgages Ireland and Member of the Board of Lombard Bank. He has also previously been Group Chief Executive of Kensington Group plc, a specialist mortgage business and Group Director Commercial Banking for Lloyds Banking Group. John has also held senior executive roles throughout the financial services industry, including Natwest Group plc, Barclays Bank plc and Abbey National plc.

Report of the Directors

The Directors of Bank of Ireland (UK) plc present their consolidated audited report and financial statements for the year ended 31 December 2015. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, in accordance with the provisions of the Companies Act 2006. Directors are listed in the Governance section on pages 80 to 82. The future developments of the Group are incorporated in the strategic report in section 1.5.

Principal activities

The Bank is an 'authorised institution' under the Financial Services and Markets Act 2000 and is regulated by the FCA and the PRA. The principal activities of the Group are the provision of an extensive range of banking and other financial services in Great Britain and Northern Ireland.

Financial performance

The Group's profit for the year ended 31 December 2015 was £188 million (year ended 31 December 2014: £172 million profit). There was no profit or loss attributable to non-controlling interests for the year ended 31 December 2015 (year ended 31 December 2014: £nil). An analysis of performance is set out in the strategic report on pages 16 to 26.

Dividends

On 31 March 2015 the fourth non-cumulative preference dividend fell due; this was not paid as the relevant terms and conditions were not met.

Board membership

The following Directors were appointed during the year and up to the date of signing:

- David Weymouth, Non-executive, 1 June 2015;
- Susan Harris , Non-executive, 1 July 2015;
- Donal Collins, Non-executive, 16 July 2015;
- Neil Fuller, Executive, 5 October 2015; and
- John Maltby, Non-executive, 18 November 2015.

The following Directors resigned during the year:

- David Bennett, Non-executive, 31 March 2015;
- Laurel Powers-Freeling, Non-executive, 30 September 2015;
- David McGowan, Executive, 7 October 2015; and
- Senan Murphy, Non-executive, 31 October 2015;

Corporate governance

It is the Group's policy not to include the disclosures in respect of the voluntary corporate governance codes of practice, as it is a wholly owned subsidiary of The Governor and Company of the Bank of Ireland, a company incorporated by charter in the Republic of Ireland. The Consolidated Annual Report of the Bank of Ireland Group details the Corporate Governance framework applicable to the Group and its subsidiaries. Bank of Ireland Group financial statements are available on www.bankofireland.com or at Bank of Ireland, Head Office, 40 Mespil Road, Dublin 4.

Corporate responsibility

The Group strives to make a positive contribution to the economy by supporting our customers and investing in the communities in which we operate. The Group participates in a number of Parent initiatives including Give Together, a community giving initiative under which employees are supported in raising money and volunteering days for good causes. The Parent is also conscious of its impact on the environment and has taken steps to reduce energy consumption at high usage locations that provide services to the Group.

Risk management

The Group's principal risks and uncertainties are discussed in the strategic report on pages 27 to 32.

Additional risk disclosures for the Group can be found in the Risk Management section.

Employees

At 31 December 2015, the Group had 129 direct employees (for the year ended December 2014: 121 direct employees) and 315 employees (for the year ended 31 December 2014: 278 employees) who work under long-term secondment arrangements from the Parent.

Report of the Directors (continued)

Employees (continued)

The Group is committed to employment practices and policies which recognise the diversity of the Group's workforce and are based on equal opportunities for all employees. In recruitment and employment practices, the Group does not discriminate against individuals on the basis of any factor which is not relevant to performance including an individuals' sex, race, colour, disability, sexual orientation, marital status or religious beliefs.

The Group has a number of programmes to support colleagues who become disabled or acquire a long-term health condition.

To support continued employment and training, career development and promotion of all employees, including disabled persons, the Group provides a suite of learning and development activities which are facilitated in conjunction with the Parent. Through the Group's ongoing employee performance monitoring and appraisal process, incorporating frequent line manager and employee discussions, individual employees are encouraged and supported to pursue their own personal development.

The Group also endeavours to ensure that employees are provided with information on matters of concern to them and encourages active involvement of employees to ensure that their views are taken into account in reaching decisions. To facilitate this, there is regular consultation with employees or their representatives, through regular meetings, bulletins and the use of the Group's intranet, which provides a flexible communication channel for employees.

Political donations

No political donations were made during the year ended 31 December 2015 or in the year ended 31 December 2014.

Going concern

The Directors have considered the appropriateness of the going concern basis in preparing the financial statements, for the year ended 31 December 2015, on page 95 which forms part of the Report of the Directors.

Third party indemnity provision

A qualifying third party indemnity provision (as defined in Section 234 of the Companies Act 2006) was, and remains, in force for the benefit of all Directors of the Group and former Directors who held office during the year. The indemnity is granted under article 137 of the Bank's Articles of Association.

Post balance sheet events

These are described in note 39 to the consolidated financial statements.

As approved by the Board and signed on its behalf by:

Lorraine Smyth

Lorraine Smyth
Director
2 March 2016
Company Number: 07022885

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with applicable law and regulations.

UK company law requires the Directors to prepare financial statements for each financial year. In accordance with that law, the Directors have prepared the Group's and the Bank's financial statements, in accordance with IFRS and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union (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 the Bank and of the profit or loss of the Group and Bank for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRS, as adopted by the EU, have been followed, subject to any material departures being disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

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

Audit confirmation

In accordance with Section 418 of the Companies Act 2006, the Directors Report shall include a statement in the case of each Director in office at the date the Director's report is approved, that:

(a) So far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and

(b) He / she has taken all the steps that 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 Group's auditors are aware of that information.

As approved by the Board and signed on its behalf by:

Lorraine Smyth

Lorraine Smyth
Director
2 March 2016

Company Number: 07022885

Independent auditors' report to the members of Bank of Ireland (UK) plc

Report on the Group financial statements

Our Opinion

In our opinion, Bank of Ireland (UK) plc's group financial statements (the 'financial statements'):

- give a true and fair view of the state of the group's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

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

- the Consolidated balance sheet as at 31 December 2015;
- the Consolidated income statement and the Consolidated statement of Other Comprehensive Income for the year then ended;
- the Consolidated cash flow statement for the year then ended;
- the Consolidated statement of changes in equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the EU.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 85, 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) (ISAs (UK & Ireland)). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Company financial statements of Bank of Ireland (UK) plc for the year ended 31 December 2015.

Hamish Anderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 March 2016

The maintenance and integrity of the Bank of Ireland UK website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Financial Statements

Consolidated income statement for the year ended 31 December 2015

	Notes	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Interest income	2	814	901
Interest expense	3	(319)	(400)
Net interest income		**495**	**501**
Fee and commission income	4	115	114
Fee and commission expense	4	(118)	(108)
Net trading expense	5	(1)	-
Other operating income	6	1	5
Total operating income		**492**	**512**
Operating expenses	7	(300)	(287)
Operating profit before impairment charges on financial assets		**192**	**225**
Impairment charges on financial assets	9	(44)	(61)
Operating profit		148	164
Share of profit after tax of joint venture	10	35	35
Profit on disposal of business activities	11	41	-
Profit before taxation		**224**	**199**
Taxation charge	12	(36)	(27)
Profit for the year		**188**	**172**

Consolidated statement of other comprehensive income for the year ended 31 December 2015

	Notes	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Profit for the year		**188**	**172**
Other comprehensive (expense) / income, net of tax:			
Net change in cash flow hedge reserve (net of tax)[1]		(15)	26
Net change in available for sale reserve (net of tax)[2]		(1)	6
Total items that may be reclassified to profit or loss in subsequent periods		**(16)**	**32**
Net actuarial gain on defined benefit schemes[3]	27	-	-
Total items that will not be reclassified to profit or loss in subsequent periods		**-**	**-**
Other comprehensive (expense) / income for the year, net of tax		**(16)**	**32**
Total comprehensive income for the year, net of tax		**172**	**204**

[1] *Net of tax of £2 million (2014: £6 million)*
[2] *Net of tax of £0.3 million (2014: £2 million)*
[3] *Net of tax of £0.1 million (2014: £0.2 million)*

Consolidated balance sheet
as at 31 December 2015

	Notes	31 December 2015 £m	31 December 2014 £m
Assets			
Cash and balances at central banks	13	3,269	2,964
Items in the course of collection from other banks		147	276
Derivative financial instruments	14	45	59
Loans and advances to banks	15	3,949	6,312
Available for sale financial assets	16	956	991
Loans and advances to customers	17	19,255	18,301
Interest in joint venture	19	60	60
Intangible assets	20	30	39
Property, plant and equipment	21	8	5
Current tax assets		-	4
Other assets	22	132	92
Deferred tax assets	28	86	105
Retirement benefit asset	27	2	1
Total assets		**27,939**	**29,209**
Equity and liabilities			
Deposits from banks	23	2,606	5,234
Customer accounts	24	21,574	20,180
Items in the course of transmission to other banks		74	221
Derivative financial instruments	14	56	64
Other liabilities	25	1,175	1,074
Provisions	26	13	9
Current tax liability		2	2
Subordinated liabilities	29	335	658
Total liabilities		**25,835**	**27,442**
Equity			
Share capital	31	851	1,151
Retained earnings		374	186
Other reserves		579	430
Other equity instruments	32	300	-
Total equity attributable to owners of the Bank		**2,104**	**1,767**
Total equity and liabilities		**27,939**	**29,209**

The financial statements on pages 88 to 158 were approved by the Board on 2 March 2016 and were signed on its behalf by:

Lorraine Smyth
Director
2 March 2016
Company Number: 07022885

Consolidated statement of changes in equity for the year ended 31 December 2015

	Notes	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Share capital			
Balance at 1 January		1,151	1,151
Repurchase of preference shares	31	(300)	-
Balance at 31 December		**851**	**1,151**
Retained earnings			
Balance at 1 January		186	14
Profit for the year attributable to equity holders of the Bank		188	172
Balance at 31 December		**374**	**186**
Other equity instruments			
Balance at 1 January		-	-
Issued during the period	32	300	-
Balance at 31 December		**300**	**-**
Other reserves:			
Available for sale reserve			
Balance at 1 January		3	(3)
Changes in fair value, net of hedge accounting adjustments		(1)	8
Deferred tax on reserve movements		-	(2)
Balance at 31 December		**2**	**3**
Cash flow hedge reserve			
Balance at 1 January		26	-
Changes in fair value		(17)	32
Deferred tax on reserve movements		2	(6)
Balance at 31 December		**11**	**26**
Capital contribution			
Balance at 1 January		401	386
Contribution during the period		165	15
Transfer to capital redemption reserve fund[1]		(300)	-
Balance at 31 December		**266**	**401**
Capital redemption reserve fund			
Balance at 1 January		-	-
Transfer from capital contribution[1]		300	-
Balance at 31 December		**300**	**-**
Total other reserves		**579**	430
Total equity		**2,104**	**1,767**
Included in the above:			
Total comprehensive income attributable to owners of the Bank		172	204
Total comprehensive income for the year		**172**	**204**

[1] *See page 108 and note 31 for further information.*

Consolidated cash flow statement
for the year ended 31 December 2015

	Notes	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Cash flows from operating activities			
Profit before taxation		224	199
Interest expense on subordinated liabilities and other capital instruments	3	50	52
Depreciation and amortisation	7,16	12	11
Impairment charges on loans and advances to customers	9	44	61
Share of results of joint venture	10	(35)	(35)
Profit on disposal of business activities	11	(41)	-
Net change in prepayments and interest receivable	22	9	8
Net change in accruals and interest payable	25	9	(20)
Charge for provisions	26	17	15
Retirement benefit obligation	27	1	2
Other non-cash items		5	-
Cash flows from operating activities before changes in operating assets and liabilities		**295**	**293**
Net change in items in the course of collection (to) / from banks		(18)	33
Net change in derivative financial instruments	14	(8)	(9)
Net change in loans and advances to banks	15	1,962	6,872
Net change in loans and advances to customers	17	(996)	(434)
Net change in deposits from banks	23	(2,628)	(6,426)
Net change in customer accounts	24	1,397	(679)
Net change in provisions	26	(13)	(15)
Net change in retirement benefit obligation	27	(1)	(2)
Net change in other assets and other liabilities	22,25	43	44
Net cash flow from operating assets and liabilities		**(262)**	**(616)**
Net cash flow from operating activities before taxation		**33**	**(323)**
Taxation (paid) / refunded		(11)	5
Net cash flow from operating activities		**22**	**(318)**
Investing activities (section (a) - see below)		98	(457)
Financing activities (section (b) - see below)		(208)	(52)
Net change in cash and cash equivalents		**(88)**	**(827)**
Opening cash and cash equivalents		5,091	5,918
Closing cash and cash equivalents	13	**5,003**	**5,091**

Consolidated cash flow statement
for the year ended 31 December 2015 (continued)

	Notes	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
(a) Investing activities			
Profit on disposal of business activities	11	41	-
Additions to available for sale financial assets	16	-	(553)
Redemptions and disposals of available for sale financial assets	16	26	71
Dividends received from joint venture	19	35	30
Additions to intangible assets	20	-	(1)
Additions to property, plant and equipment	21	(4)	(4)
Cash flows from investing activities		**98**	**(457)**
(b) Financing activities			
Interest paid on subordinated liabilities	3	(50)	(52)
Capital contribution		165	-
Repurchase of subordinated liabilities	29	(523)	-
Issue of subordinated liabilities	29	200	-
Repurchase of preference shares	31	(300)	-
Net proceeds from the issue of other equity instruments	32	300	-
Cash flows from financing activities		**(208)**	**(52)**

Group Accounting Policies

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Accounting policies

The following are the principal accounting policies for the Bank of Ireland (UK) plc Group and Bank. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements comprise the Consolidated and Bank income statements, the Consolidated and Bank statements of Other Comprehensive Income, the Consolidated and Bank balance sheets, the Consolidated and Bank statements of changes in equity, the Consolidated and Bank cash flow statements, the Group and Bank accounting policies, the notes to the Consolidated financial statements and the notes to the Bank financial statements. The notes include the information contained in those parts of sections 2.1, 2.2, 2.3 and 3 of the Risk Management Report, that are described as being an integral part of the financial statements. The Consolidated financial statements comprise the Bank and its controlled entities, as per note 38.

The financial statements have been prepared on the going concern basis, in accordance with IFRS and IFRS IC interpretations, as adopted for use in the EU and as applied in accordance with the provisions of the Companies Act 2006.

The financial statements have been prepared under the historical cost convention, as modified to include the fair valuation of certain financial instruments.

The preparation of the financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. A description of the critical estimates and judgements is set out on pages 113 and 114.

Adoption of new accounting standards

The following new amendments have been adopted and consistently applied by the Group during the year ended 31 December 2015.

Annual improvements 2011-2013: The annual improvements process by the International Accounting Standards Board (IASB) provides a vehicle for making non-urgent but necessary amendments to IFRSs. These amendments had no impact on the financial position of the Group.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Comparatives

Comparative information has been amended where necessary to ensure consistency with the current period.

Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2015 is a period of twelve months from the date of approval of these financial statements (the ‘period of assessment’).

In making this assessment, the Directors considered the Group’s business, profitability projections, funding and capital plans, under both base and stress scenarios, together with a range of other factors such as the outlook for the UK economy. The Directors also considered the position of the Bank’s Parent, the Governor and Company of the Bank of Ireland, as in addition to being the Bank’s sole shareholder, it is a provider of significant services to the Bank under outsourcing arrangements.

The matters of primary consideration by the Directors are set out below:

Profitability
The Group continues to trade profitably and the Directors are confident that the Group is well placed to continue to generate profits for the period of assessment.

Capital
The Group has developed capital plans in both base and stress scenarios and the Directors believe that the Group has sufficient capital to meet its regulatory capital requirements throughout the period of assessment.

Liquidity and funding
The Directors have considered the Group’s funding and liquidity position and are satisfied that the Group has sufficient funding and liquidity throughout the period of assessment, including sufficient collateral for funding if required from the Bank of England.

The Bank’s Parent
The Bank’s Parent is its sole shareholder and provider of capital and is also a major provider of services under outsourcing arrangements. The Court of the Bank’s Parent has concluded that there are no material uncertainties that may cast significant doubt about the Bank of Ireland Group’s ability to continue as a going concern and that it is appropriate to prepare accounts on a going concern basis. The audit report on the financial statements of the Bank’s Parent is not qualified and does not contain an emphasis of matter paragraph in respect of going concern.

Conclusion
On the basis of the above, the Directors consider it appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern over the period of assessment.

Group financial statements

(1) Subsidiaries

Subsidiary undertakings are investees (including structured entities) controlled by the Group. The Group controls an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it controls an investee when facts and circumstances indicate that there are changes to one or more elements of control.

A structured entity is an entity designed so that its activities are not governed by way of voting rights. The Group assesses whether it has control over such entities by considering factors such as the purpose and design of the entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns from the entity.

Assets, liabilities and results of all Group undertakings have been included in the Group financial statements on the basis of financial statements made up to the end of the financial period.

The existence and effect of potential voting rights are considered when assessing whether the Group controls an investee only if the rights are substantive.

Business combinations

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The Group uses the acquisition method of accounting to account for business combinations other than business combinations involving entities or business under common control. Under the acquisition method of accounting, the consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Foreign exchange gains and losses which arise on the retranslation to functional currency of intercompany monetary assets and liabilities are not eliminated.

Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

(2) Associates and Joint Ventures

Associates are all entities over which the Group has significant influence but not control, over the entity's financial and operating decisions, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint arrangement is an arrangement of which two or more parties have joint control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

Investments in associates and joint ventures are accounted for by the equity method of accounting and, except for interests aquired from entities under common control, are initially recognised at cost. Under the equity method, the Group's share of the post-acquisition profits or losses in associates and joint ventures is recognised in the Group's income statement, its share of Other Comprehensive Income is recognised in the Group's Other Comprehensive Income and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Group financial statements (continued)

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associate / joint venture; unrealised losses are also eliminated on the same basis unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates and joint ventures includes goodwill (net of any accumulated impairment losses) on acquisition.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in joint operations in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

Accounting policies of associates and joint ventures have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

(3) Common control transactions

A business combination involving entities or businesses under common control is excluded from the scope of IFRS 3: Business Combinations. The exemption is applicable where the combining entities or businesses are controlled by the same party, both before and after the combination. Where such transactions occur, the Group, in accordance with IAS 8, uses its judgement in developing and applying an accounting policy that is relevant and reliable. In making this judgement, management considers the requirements of IFRS dealing with similar and related issues and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the framework. Management also considers the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards, to the extent that these do not conflict with the IFRS Framework or any other IFRS or interpretation. Accordingly, the Group applies the guidance set out in FRS 6 Acquisitions and Mergers, as issued by the Accounting Standards Board.

Where a transaction meets the definition of a group reconstruction or achieves a similar result, predecessor accounting is applied. The assets and liabilities of the business transferred are measured in the acquiring entity, upon initial recognition, at their existing book value in the consolidated financial statements of the Bank of Ireland Group, as measured under IFRS. The Group incorporates the results of the acquired businesses only from the date on which the business combination occurs.

Similarly, where the Group acquires an investment in an associate or joint venture from an entity under common control with the Group, the investment is recognised initially at its existing book value in the consolidated financial statements of the Bank of Ireland Group.

(4) Non-controlling Interests

Transactions with non-controlling interests where the Group has control over the entity are accounted for using the Economic entity model. This accounting model requires that any surplus or deficit that arises on any transaction(s) with non-controlling interests to dispose of or to acquire additional interests in the entity, is settled through equity.

(5) Securitisations

Certain Group undertakings have entered into securitisation transactions in order to finance specific loans and advances to customers.

All financial assets continue to be held on the Group balance sheet, and a liability recognised for the proceeds of the funding transaction, unless:

- the rights to the cash flows have expired or been transferred;
- substantially all the risks and rewards associated with the financial instruments have been transferred outside the Group, in which case the assets are derecognised in full; or
- a significant portion, but not all, of the risks and rewards have been transferred outside the Group. In this case the asset is derecognised entirely if the transferee has the ability to sell the financial asset. Otherwise the asset continues to be recognised only to the extent of the Group's continuing involvement.

Where the above conditions apply to a fully proportionate share of all or specifically identified cash flows, the relevant accounting treatment is applied to that proportion of the asset.

Foreign currency translation

The consolidated financial statements of the Group and the financial statements of the Bank are presented in GBP. Foreign currency transactions are translated into functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the transaction at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equities, classified as available for sale, are recognised in Other Comprehensive Income.

Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset, or a financial liability, and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates cash flows, considering all contractual terms of the financial instrument (for example, prepayment options), but does not consider future credit losses. The calculation includes all fees and points, paid or received, between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset, or group of similar financial assets, has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purposes of measuring the impairment loss.

Where the Group revises its estimates of payments or receipts on a financial instrument measured at amortised cost, the carrying amount of the financial instrument (or group of financial instruments) is adjusted to reflect actual and revised estimated cash flows. The Group recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised in profit or loss as income or expense.

Fee and commission income and expense

Fees and commissions which are not an integral part of the effective interest rate of a financial instrument are generally recognised as the related services are provided. Service fee income arising from other money transmission services, including ATM and credit cards, is accrued once the transactions take place. Similarly, fees and commissions due to third parties in relation to credit card, ATM, and other banking services, including sales commissions, are accrued over the period the service is provided.

Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Loan commitment fees for loans that are likely to be drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan once drawn.

Operating profit

Operating profit includes the Group’s earnings from ongoing activities after impairment charges and before share of profit or loss on joint ventures (after tax) and profit on disposal of business activities.

Leases

Lessor
When assets are held under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is included in net interest income and is recognised over the term of the lease reflecting a constant periodic rate of return on the net investment in the lease. The total payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in long term payables. The interest element of the finance costs is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Financial assets

(1) Classification, recognition and measurement
The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; and available for sale financial assets. The Group determines the classification of its financial assets at initial recognition.

Regular way purchases and sales of financial assets are recognised on the trade date, which is the date the Group commits to purchase or sell the asset.

(a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss can either be held for trading, if acquired principally for the purpose of selling in the short term, or designated at fair value through profit or loss at inception.

A financial asset may be designated at fair value through profit or loss only when:
(i) it eliminates, or significantly reduces, a measurement or recognition inconsistency (an accounting mismatch), that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis;
(ii) a group of financial assets, financial liabilities, or both, is managed and its performance is evaluated on a fair value basis, in accordance with documented risk management or investment strategy; or
(iii) a contract contains one or more embedded derivatives that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods, or services directly to a debtor with no intention of trading the receivable. Loans are recorded at fair value plus transaction costs on initial recognition. They are subsequently accounted for at amortised cost, using the effective interest method.

Where the Group acquires a portfolio of financial assets from an entity under common control with the Group, in a transaction which is not a business combination, the financial assets are measured on initial recognition at their fair value plus transaction costs.

To establish fair value, the Group uses a valuation technique, which reasonably reflects how the market could be expected to price the assets, and whose variables include market data. This valuation technique incorporates both expected credit losses and the differential between the contractual interest rates on the assets and current market interest rates for similar assets.

The difference between the initial carrying value of the assets and their principal balances is considered to be a 'fair value adjustment'. The portion of this fair value adjustment which relates to interest rate differentials is amortised to the income statement, as part of the effective interest rate of the assets, over their remaining lives.

Financial assets (continued)

The portion of the fair value adjustment which relates to expected credit losses is subsequently reduced by actual write offs of loans during each period. Additionally, an annual review is performed to ensure that the remaining amount of this portion of the fair value adjustment is adequate to cover future expected losses on the assets. This review identifies either the amount of any impairment provision required to be immediately recognised, if the remaining adjustment is less than the incurred losses on the assets, or any surplus amount of fair value adjustment which must be released to the income statement if it is no longer required to cover future expected losses.

(c) Available for sale

Available for sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates.

Purchases and sales of available for sale financial assets are recognised on trade date. They are initially recognised at fair value plus transaction costs. Fair value movements are recognised in Other Comprehensive Income. Interest is calculated using the effective interest method and is recognised in the income statement.

If an available for sale financial asset is derecognised or impaired, the cumulative gain or loss previously recognised in Other Comprehensive Income is reclassified to the income statement.

Dividends on available for sale equity instruments are recognised in the income statement when the Group's right to receive payment is established.

(2) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities

The Group has two categories of financial liabilities: those that are carried at amortised cost and those that are carried at fair value through profit or loss. Financial liabilities are initially recognised at fair value (normally the issue proceeds i.e. the fair value of consideration received) less, in the case of financial liabilities subsequently carried at amortised cost, transaction costs. For liabilities carried at amortised cost, any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement using the effective interest method.

A liability may be designated as fair value through profit or loss only when:

(i) it eliminates, or significantly reduces, a measurement or recognition inconsistency ('an accounting mismatch'), that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis;

(ii) a group of financial assets, financial liabilities, or both, is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy; or

(iii) a contract contains one or more embedded derivatives that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

The Group designates certain financial liabilities at fair value through profit or loss, as set out in note 34 to the consolidated financial statements and note x to the Bank financial statements.

Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

Valuation of financial instruments

The Group recognises assets and liabilities designated at fair value through profit or loss, derivatives and available-for-sale financial assets at fair value in the balance sheet. 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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date.

The fair values of financial assets and liabilities traded in active markets are based on unadjusted bid and offer prices respectively. If an active market does not exist, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, DCF analysis, option pricing models and other valuation techniques commonly used by market participants. To the extent possible, these valuation techniques use observable market data. Where observable data does not exist, the Group used estimates based on the best information available.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, in an arm's length transaction, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which uses only observable market inputs. When such evidence exists, the initial valuation of the instrument may result in the Group recognising a profit on initial recognition. In the absence of such evidence, the instrument is initially valued at the transaction price. Any day one profit is deferred and recognised in the income statement to the extent that it arises from a change in a factor that market participants would consider in setting a price. Straight line amortisation is used where it approximates to the amount. Subsequent changes in fair value are recognised immediately in the income statement without the reversal of deferred day one profits or losses. Where a transaction price in an arm's length transaction is not available, the fair value of the instrument at initial recognition is measured using a valuation technique.

For liabilities designated at fair value through profit or loss, the fair values reflect changes in the Group's own credit spread.

The fair values of the Group's assets and liabilities are disclosed in note 35, together with a description of the valuation technique used for each asset or liability category. For assets or liabilities recognised at fair value on the balance sheet, a description is given of any inputs into valuation models that have the potential to significantly impact the fair value, together with an estimate of the impact of using reasonably possible alternative assumptions.

Transfers between levels of the fair value hierarchy
The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred. The Group provides these disclosures in note 35.

Sale and repurchase agreements

Assets sold subject to repurchase agreements (repos) are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in deposits by banks or customer accounts, as appropriate.

Securities purchased under agreements to resell (reverse repos) are treated as collateralised loans and recorded as loans and advances to banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and recognised in the income statement over the life of the agreement using the effective interest method. Securities lent to counterparties are also retained on the balance sheet.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return the securities is recorded at fair value as a trading liability.

Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value at each balance sheet date. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Fair value gains or losses on derivatives are normally recognised in the income statement. However where they are designated as hedging instruments, the treatment of the fair value gains and losses depends on the nature of the hedging relationship.

The Group designates certain derivatives as either:
(i) hedges of the exposure to changes in the fair value of recognised assets or liabilities that is attributable to a particular risk (fair value hedge); or
(ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge).

Hedge accounting is applied to these derivatives provided certain criteria are met. The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge (micro)
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The hedged item in a micro fair value hedge is a single specified item e,g, a fixed commercial loan or an available for sale bond.

If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the effective interest method.

(b) Fair value hedge (macro)
Similar to micro fair value hedging, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The hedged item in a macro fair value hedge is a pool of assets or liabilities with similar risk characteristics and profiles, such as a pool of fixed rate mortgages. Unlike micro fair value hedge accounting, macro fair value hedge accounting is not discontinued if an individual asset or liability within the pool of hedged items is sold, so long as the overall pool of hedged items retains its characteristics as documented at inception of the hedge. In addition, hedge effectiveness testing is performed on a portfolio basis rather than on an individual hedge relationship by hedge relationship basis.

If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the effective interest method.

(c) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Other Comprehensive Income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in other comprehensive income are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised in the income statement when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately reclassified to the income statement.

Impairment of financial assets

Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset, or group of financial assets, is impaired. A financial asset, or a group of financial assets, is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset, or group of assets, is impaired includes observable data that comes to the attention of the Group about the following loss events:

(i) delinquency in contractual payments of principal or interest;
(ii) cash flow difficulties;
(iii) breach of loan covenants or conditions;
(iv) deterioration of the borrower's competitive position;
(v) deterioration in the value of collateral;
(vi) external rating downgrade below an acceptable level;
(vii) initiation of bankruptcy proceedings; and
(viii) granting a concession to a loan borrower for economic or legal reasons relating to the borrower's financial difficulty that would not be considered.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss, is or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and advances carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan is deemed uncollectible, it is derecognised and the provision for impairment is utilised. Subsequent recoveries decrease the amount of the charge for loan impairment in the income statement.

Impairment of financial assets (continued)

Forbearance
Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change ('forbearance measure') to a loan for reasons relating to the actual or apparent financial stress or distress of that borrower. Forbearance has not occurred if the concession or agreed change to a loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower.

Prior to any decision to grant forbearance the Group performs an assessment of a customer's financial circumstances and ability to repay. This assessment includes an individual assessment for impairment of the loan. If the Group determines that no objective evidence of impairment exists for an individually assessed forborne asset, whether significant or not, it includes the asset in a group of loans with similar credit risk characteristics and collectively assesses them for impairment.

Where the forborne loan is considered to be impaired the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate before the modification of terms. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a forborne asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract before the modification of terms. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

Where a forborne loan in the non-mortgage book is subject to forbearance and no specific provision is required, the asset is reported as forborne. However, where a specific provision is required the asset is reported as impaired and is not reported as forborne. For residential mortgages, exposures that are subject to forbearance and have a specific provision are reported as both forborne and impaired.

Assets to which forbearance has been applied continue to be reported as forborne until the forbearance measure expires or the asset is repaid.

Where the cash flows from a forborne loan are considered to have expired, the original asset is derecognised and a new asset is recognised, initially measured at fair value. Any difference between the carrying value of the original asset and the fair value of the new asset on initial recognition are recognised in the income statement. Interest accrues on the new asset based on the current market rates in place at the time of the renegotiation.

Non-forbearance renegotiation
Where a concession or agreed change to a loan is not directly linked to apparent financial stress or distress, these amendments are not considered forbearance. Any changes in expected cash flows are accounted for under IAS 39 i.e. the carrying amount of the asset is adjusted to reflect any change to estimated cash flows discounted at the original effective interest rate, before the modification of terms. If a renegotiated asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. Any difference between the asset's carrying amount and the present value of estimated future cash flows is reflected in the income statement. However, where cash flows on the original asset are considered to have expired, the original asset is derecognised and a new asset is recognised at fair value. Any difference arising between the derecognised asset and the new asset is recognised in the income statement.

Available for sale financial assets
The Group assesses, at each balance sheet date, whether there is objective evidence that an available for sale financial asset is impaired. In addition to the factors set out above, a significant or prolonged decline in the fair value of an investment in an available for sale equity instrument below its cost is considered in determining whether an impairment loss has been incurred. If an impairment loss has been incurred, the cumulative loss that had been recognised in Other Comprehensive Income is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Property, plant and equipment

Freehold and long leasehold land and buildings are initially recognised at cost, and subsequently are revalued annually to open market value by independent external valuers. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from the open market value at the balance sheet date.

All other property, plant and equipment, including freehold and leasehold adaptations, are stated at historical cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on the revaluation of land and buildings are recognised in Other Comprehensive Income. Decreases that offset previous increases on the same asset are recognised in Other Comprehensive Income: all other decreases are charged to the income statement.

The Directors consider that residual values of freehold and long leasehold property based on prices prevailing at the time of acquisition or subsequent valuation are such that depreciation is not material.

Depreciation is calculated on the straight line method to write down the carrying value of other items of property, plant and equipment to their residual values over their estimated useful lives as follows:
- Adaptation works on freehold and leasehold property - fifteen years, or the remaining period of the lease; and
- Computer and other equipment - maximum of ten years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or its value in use.

Gains and losses on the disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining profit before tax. If the asset being disposed of had previously been revalued then any amount in Other Comprehensive Income relating to that asset is reclassified directly to retained earnings on disposal, rather than the income statement.

Intangible assets

(a) Computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives, which is normally five years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development, employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their useful lives, which is normally between five and ten years.

Computer software is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

(b) Other intangible assets
Other intangible assets are carried at cost less amortisation and impairment, if any, and are amortised on a straight line basis over their useful lives which range from five years to twenty years and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or its value in use.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provision is made for the anticipated costs of restructuring, including related redundancy costs, when an obligation exists. An obligation exists when the Group has a detailed formal plan for restructuring a business and has raised valid expectations in those employees affected by the restructuring by starting to implement the plan or announcing its main features.

A levy payable to a Government is provided for on the occurrence of the event identified by the legislation that triggers the obligation to pay the levy.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless the probability of their occurrence is remote.

Employee benefits

(a) Pension obligations

The Group operates one defined benefit scheme, the NIIB Group Limited (1975) Pension Scheme. In addition, certain of the Group's employees are members of other Bank of Ireland Group schemes, and these are accounted for as defined contribution schemes in the Group.

The schemes are funded and the assets of the schemes are held in separate trustee administered funds. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Service cost and net interest on the net defined benefit liability / (asset) are recognised in profit or loss in operating expenses.

Remeasurements of the net defined benefit liability / (asset), including:
- actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions; and
- the return on plan assets, excluding amounts included in net interest on the net defined benefit liability / (asset);

are recognised in Other Comprehensive Income.

Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment, and is recognised as an expense at the earlier of:
- when the plan amendment or curtailment occurs; and
- when the Group recognises related restructuring costs or termination benefits.

Past service cost and settlements are recognised within operating expenses unless they meet the criteria for separate presentation as set out in IAS 1.

A plan amendment occurs when the Group introduces, or withdraws, a defined benefit plan, or changes the benefits payable under an existing plan. A curtailment occurs when the Group significantly reduces the number of employees covered by a plan. Past service cost may be either positive or negative. A settlement is a transaction that eliminates all further legal and constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

Employee benefits (continued)

(b) Short term employee benefits
Short term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period in which the employees' service is rendered. Bonuses are recognised where the Group has a legal or constructive obligation to employees that can be reliably measured.

(c) Termination payments
Termination payments are recognised as an expense at the earlier of:
- when the Group can no longer withdraw the offer of those benefits; and
- when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

For this purpose, in relation to termination benefits for voluntary redundancies, the Group is considered to be no longer able to withdraw the offer on the earlier of the following dates:
- when the employee accepts the offer; and
- when a restriction (e.g. a legal, regulatory or contractual requirement) on the Group's ability to withdraw the offer takes effect.

Termination benefits are recognised in operating expenses unless they meet the criteria for separate presentation, as set out in IAS 1. The Group measures termination benefits on initial recognition and measures and recognises subsequent changes in accordance with the nature of the benefit.

Income taxes

(a) Current income tax
Income tax payable on profits is recognised as an expense in the year in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available, against which these losses can be utilised.

(b) Deferred income tax
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and tax laws) that have been enacted, or substantively enacted, by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The rates enacted, or substantively enacted, at the balance sheet date, are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised and by reference to the expiry dates (if any) of the relevant unused tax losses or tax credits. Deferred tax assets and liabilities are not discounted.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax on items taken to Other Comprehensive Income is also recognised in Other Comprehensive Income and is subsequently reclassified to the income statement, together with the deferred gain or loss.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and balances with central banks and other banks, which can be withdrawn on demand. It also comprises balances with an original maturity of less than three months.

Share capital and reserves

(a) Equity transaction costs
Incremental external costs, directly attributable to equity transactions, including the issue of new equity stock or options, are shown in equity as a deduction from equity, net of tax.

(b) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the year in which they are approved by the Bank's shareholders or the Board of Directors, as appropriate.

(c) Available for sale reserve
The available for sale reserve represents the cumulative change in fair value of available for sale financial assets (net of tax and hedge accounting adjustments).

(d) Cash flow hedge reserve
The cash flow hedge reserve represents the cumulative changes in fair value (net of tax) excluding any ineffectiveness of cash flow hedging derivatives. These are transferred to the income statement when the hedged transactions impact the Group's profit or loss.

(e) Capital contribution
The capital contribution is measured as the initial amount of cash or other assets received.

Where a financial instrument is issued by the Group to a party, acting in its capacity as a stockholder, other than at arm's length, which results in an increase of the net assets of the Group, the difference between the fair value of the transaction and the transaction price is considered to be a capital contribution from the stockholder and is credited to this reserve.

(f) Capital redemption reserve fund
On 1 May 2015, preference stock of £300 million was repurchased as set out in note 31. On the same date £300 million was transferred from capital contribution to the capital redemption reserve fund in order to identify these reserves as non-distributable.

(g) Other equity instruments
Other equity instruments represents the issuance of Subordinated Perpetual Contingent Conversion Additional tier 1 Capital Securities (AT1 securities) by the Group to the Parent. See note 32 for details.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is currently a legally enforceable right of set off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Collateral

The Group enters into master netting agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis.

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future liabilities. The collateral is, in general, not recorded on the Group's balance sheet.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts, in order to reduce credit risk. Collateral received in the form of cash is recorded on the balance sheet, with a corresponding liability recognised in deposits from banks or deposits from customers. Any interest payable arising is recorded as interest expense.

In certain circumstances, the Group pledges collateral in respect of liabilities or borrowings. Collateral pledged, in the form of securities or loans and advances, continues to be recorded on the balance sheet. Collateral placed in the form of cash is recorded in loans and advances to banks or customers. Any interest receivable arising is recorded as interest income.

Financial guarantees

Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities ('facility guarantees'), and to other parties in connection with the performance of customers under obligations related to contracts, advance payments made by other parties, tenders, retentions, and the payment of import duties. Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee is given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the year, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date.

Any increase in the liability relating to guarantees is taken to the income statement and recognised on the balance sheet in provisions for undrawn contractually committed facilities and guarantees.

Operating segments

The segmental analysis of the Group's results and financial position is set out in note 1. The Group has identified four reportable operating segments, which are as follows: Great Britain (GB) Consumer Banking, Northern Ireland (NI), Great Britain (GB) Business Banking and Group Centre.

These segments have been identified on the basis that the chief operating decision-maker uses information based on these segments to make decisions about assessing performance and allocating resources. The analysis of results by operating segment is based on management accounts information.

Transactions between the operating segments are on normal commercial terms and conditions. Internal charges and transfer pricing adjustments have been reflected in the performance of each segment. Revenue sharing agreements are used to allocate external customer revenues to operating segments on a reasonable basis.

Materiality

In its assessment of materiality, the Group considers the impact of any misstatements based on both:
- the amount of the misstatement originating in the current year income statement; and
- the effects of correcting the misstatement existing in the balance sheet at the end of the current year irrespective of the year in which the misstatement occurred.

Impact of new accounting standards not yet adopted

The following standards, interpretations and amendments to standards will be relevant to the Group but were not effective at 31 December 2015 and have not been applied in preparing these financial statements. The Group's initial view of the impact of these accounting changes is outlined below.

Pronouncement	Nature of change	Effective date	Impact
Amendments to IAS 19 'Defined benefit plans employee contributions'	The amendments apply to contributions from employees or third parties to defined benefit plans. It simplifies the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.	Financial periods beginning on or after 1 February 2015 for entities that apply IFRS as adopted for use in the EU.	These amendments are not expected to have an impact on the financial position of the Group.
Amendments to IAS 1 'Presentation of financial statements' on the disclosure initiative	These amendments are part of the IASB initiative to improve presentation and disclosure in financial reports. The revised standard was endorsed by the EU on 18 December 2015.	Financial periods beginning on or after 1 January 2016.	These amendments are not expected to have a significant impact on the financial position of the Group.
Amendments to IAS 27 'Separate financial statements'	These amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. The revised standard was endorsed by the EU on 18 December 2015.	Financial periods beginning on or after 1 January 2016.	These amendments are not applicable to the Group and are not expected to have a significant impact on the financial position of the Bank.
Amendment to IFRS 11 'Joint Arrangements' 'Accounting for Acquisitions of Interests in Joint Operations'	IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. The revised standard was endorsed by the EU on 24 November 2015.	Financial periods beginning on or after 1 January 2016.	This amendment is not expected to have a significant impact on the financial position of the Group.

Impact of new accounting standards not yet adopted (continued)

Pronouncement	Nature of change	Effective date	Impact
Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets'	The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The revised standard was endorsed by the EU on 2 December 2015.	Financial periods beginning on or after 1 January 2016.	These amendments are not expected to have a significant impact on the financial position of the Group.
Annual improvements 2012–2014	The annual improvements process by the IASB provides a vehicle for making non-urgent but necessary amendments to IFRSs.	Financial periods beginning on or after 1 January 2016.	These amendments are not expected to have a significant impact on the financial position of the Group.
IAS 7 , 'Statement of cash flows', - Narrow-scope amendments	The IASB has issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. The standard is still subject to EU endorsement.	The amendment is effective from 1 January 2017.	These amendments are not expected to have a significant impact on the financial position of the Group.
IAS 12, 'Income taxes', - Narrow-scope amendments	The IASB has issued amendments to IAS 12 'Income taxes'. These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. The standard is still subject to EU endorsement.	Financial periods beginning on or after 1 January 2017.	These amendments are not expected to have a significant impact on the financial position of the Group.
Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures'	The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The revised standard is still subject to EU endorsement.	The mandatory effective date has been deferred indefinitely until the IASB research project on the equity method has been concluded.	These amendments are not expected to have a significant impact on the financial position of the Group.

Impact of new accounting standards not yet adopted (continued)

Pronouncement	Nature of change	Effective date	Impact
IFRS 9 'Financial instruments'	IFRS 9 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI without recycling to the income statement. IFRS 9 contains a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there are no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. The revised standard is still subject to EU endorsement.	Financial periods beginning on or after 1 January 2018.	The Group expects that IFRS 9 is likely to have an impact on its reported financial position and the Group is currently assessing the nature and extent of those impacts. Further detail on the Group's IFRS 9 Programme is set out in the Credit Risk Section of the Risk Management Report on pages 43 to 66.
IFRS 15 'Revenue from Contracts with Customers'	IFRS 15 specifies how and when revenue will be recognised as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The revised standard is still subject to EU endorsement.	Financial periods beginning on or after 1 January 2018.	The Group is currently assessing the nature and extent of the impact of the standard, not expected to be significant to the financial position of the Group.
IFRS 16 'Leases'	IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The accounting for lessors will not materially change. The standard replaces IAS 17 'Leases' and related interpretations. The revised standard is still subject to EU endorsement.	Financial periods beginning on or after 1 January 2019 and earlier application is permitted subject to EU endorsement and the entity adopting IFRS 15 'Revenue from contracts with customers' at the same time.	The Group is currently assessing the impact of IFRS 16.

Critical accounting estimates and judgements

In preparing the financial statements, the Group makes estimates and judgements that affect the reported amounts of assets, liabilities, revenues, and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As management judgement involves an estimate of the likelihood of future events, actual results could differ from those estimates, and this could affect the future reported amounts of assets and liabilities. The estimates and judgements that have had the most significant effect on the amounts recognised in the Group's financial statements are set out below.

(a) Impairment charges on financial assets

The Group reviews its loan portfolios for impairment on an ongoing basis. The Group first assesses whether objective evidence of impairment exists. This assessment is performed individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Management uses estimates, based on historical loss experience for assets with credit risk characteristics, and objective evidence of impairment, similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The use of historical loss experience is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to differ from that suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess inherent loss in each portfolio. In other circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the balance sheet date; for example, where there have been changes in economic conditions, such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the impairment loss derived solely from historical loss experience.

The detailed methodologies, areas of estimation, and judgement, applied in the calculation of the Group's impairment charge on financial assets, are set out in the Risk Management section on pages 62 to 64. See note 18 for an analysis of impairment provisions.

The estimation of impairment losses is subject to uncertainty and is sensitive to factors such as the level of economic activity, unemployment rates, bankruptcy trends, property price trends, and interest rates. The assumptions underlying this judgement are subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly, in light of differences between loss estimates and actual loss experience.

(b) Taxation

The taxation charge accounts for amounts due to UK authorities, and includes estimates based on a judgement of the application of law and practice, in certain cases, to determine the quantification of any liabilities arising. In arriving at such estimates, management assesses the relative merits and risks of tax treatments assumed, taking into account statutory, judicial, and regulatory guidance and, where appropriate, external advice.

At 31 December 2015 the Group had a net deferred tax asset of £86 million (31 December 2014: £105 million), of which £84 million (31 December 2014: £105 million) related to trading losses. See note 28.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available, against which deductible temporary differences and unutilised tax losses can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of future taxable profits, and the future reversals of existing taxable temporary differences.

To the extent that the recognition of a deferred tax asset is dependent on sufficient future profitability, a degree of estimation and the use of assumptions are required. The Group's judgement takes into consideration the impact of both positive and negative evidence, including historical financial performance, projections of future taxable income, the impact of tax legislation, and future reversals of existing taxable temporary differences.

Critical accounting estimates and judgements (continued)

The most significant judgement relates to the Group's assessment of the recoverability of the portion of the deferred tax asset relating to trading losses. Under current UK tax legislation there is no time restriction on the utilisation of these losses.

Based on its projection of future taxable income, the Group has concluded that it is probable that sufficient taxable profits will be generated to recover this deferred asset and it has been recognised in full.

As at 31 December 2014, the Group had reassessed the value of losses acquired from its Parent undertaking on the transfer of business assets in 2010, and recognised a cumulative asset of £101 million in respect of the taxation benefit of losses transferred from the Parent. The Group did not provide any consideration for the losses and this amount was therefore treated as a capital contribution received. The amount recognised represents the Group's best estimate of the taxation benefit of these losses. There is a possibility that the ultimate outcome could be different from the amounts that are currently recorded and any such differences would impact the deferred tax assets in the period in which such outcome is determined.

(c) Unwind of fair value adjustments on acquired mortgages

Between 2012 and 2014 the Group acquired a number of tranches of mortgages from the Parent at fair value. These assets were initially recognised on the balance sheet at fair value plus transaction costs. The differential between the initial carrying value of the assets and the principal balances is considered to be a 'fair value adjustment'. The portion of this fair value adjustment which relates to interest rate differentials is amortised to the income statement, as part of the effective interest rate of the assets, over their remaining lives. The fair value adjustment also includes an element relating to the present value of expected losses, and the discount on this element also unwinds through the income statement over their remaining lives. At 31 December 2015 the impact of the fair value adjustment was to reduce the carrying amount of loans and advances to customers by £329 million. In 2015 there was a benefit of £53 million (2014: £53 million) to the income statement from the unwind of, and revisions to, the fair value adjustment.

There are two key judgements relating to the fair value adjustment. The first relates to the timing of the unwind of the fair value adjustment. This requires significant management judgement in relation to customer repayment assumptions which determines the expected lives of the relevant loans, and therefore impacts on the amount of interest income recognised in each financial year. In arriving at the expected lives and hence the amount of the unwind, sensitivity analysis is carried out which considers the impact of various scenarios, including lengthening or shortening the expected life on all mortgage portfolios by six months, and a separate scenario where the attrition level on the Buy to Let portfolio is retained at forecast 2016 levels for future years. The second area of judgement relates to management's assessment of the level of future expected losses in the portfolio, with changes in expected losses being adjusted through net interest income over the expected life under the effective interest rate method.

Notes to the Consolidated Financial Statements

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1 Operating segments

The Group has four reportable operating segments which reflect the internal financial and management reporting structure and are organised as follows:

Great Britain (GB) Consumer Banking
The business offers a wide range of products under the Bank of Ireland UK, Bristol & West and NIIB / Northridge brands and through partnerships with the Post Office and the AA. The Post Office product proposition includes deposits, mortgages, personal loans, current accounts, credit cards and travel cards, and foreign exchange services through the Group's joint venture operation under FRESH. The Group’s investment in FRESH at 31 December 2015 was £60 million (2014: £60 million). Since July 2015 the first AA products have been successfully launched and these include a range of credit cards, cash ISAs and personal loans.

Northern Ireland (NI)
The business includes the results of the Northern Ireland Bank of Ireland UK branch network and business centres, together with the credit card and mortgage portfolio and the note issuing activity in Northern Ireland.

Great Britain (GB) Business Banking
The business includes commercial lending and retail deposits. As a result of the Parent’s EU restructuring requirements and following agreement with the EU Commission during 2013, the strategy for the business is now a managed deleverage of the loan book over the medium term.

Group Centre
This comprises the associated costs of management of the Group’s funding, liquidity and capital position, together with the cost of central risk and control functions including initial setup costs relating to AA and regulatory costs including the FSCS levy.

Basis of preparation of segmental information
The analysis of results by operating segment is based on the information used by management to allocate resources and assess performance. Transactions between the business segments are on normal commercial terms and conditions. Internal charges and transfer pricing arrangements have been reflected in the performance of each business. The chief operating decision maker relies primarily on income reported on a net basis. As a result of this, segmental interest income is reported in the financial statements net of interest expense. The Group’s management reporting and controlling systems use accounting policies that are the same as those referenced in 'Group Accounting Policies' on pages 94 to 109. The Group measures the performance of its operating segments through a measure of segmental profit or loss which is referred to as ‘Underlying profit’ in its internal management reporting systems. Underlying profit excludes the profit on disposal of business activities (see note 11).

Geographical areas
The Group has no material operations outside the UK and therefore no secondary geographical area information is presented.

Revenue
There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Group's revenues.

1 Operating segments (continued)

Year ended 31 December 2015	**GB Consumer Banking £m**	**NI £m**	**GB Business Banking £m**	**Group Centre £m**	**Total £m**
Net interest income	363	118	23	(9)	495
Other income	(24)	19	4	(2)	(3)
Total operating income / (expense)	**339**	**137**	**27**	**(11)**	**492**
Amortisation of intangible assets	(9)	-	-	-	(9)
Other operating expenses	(138)	(83)	(15)	(55)	(291)
Operating profit / (loss) before impairment charges on financial assets	**192**	**54**	**12**	**(66)**	**192**
Impairment charges on financial assets	(13)	(47)	17	(1)	(44)
Share of profit after tax of joint venture	35	-	-	-	35
Underlying profit / (loss) before taxation	**214**	**7**	**29**	**(67)**	**183**
Profit on disposal of business activities	41	-	-	-	41
Profit / (loss) before tax	**255**	**7**	**29**	**(67)**	**224**

Year ended 31 December 2014	GB Consumer Banking £m	NI £m	GB Business Banking £m	Group Centre £m	Total £m
Net interest income	361	112	34	(6)	501
Other income	(18)	24	5	-	11
Total operating income / (expense)	343	136	39	(6)	512
Amortisation of intangible assets	(5)	-	-	(3)	(8)
Other operating expenses	(123)	(86)	(21)	(49)	(279)
Operating profit / (loss) before impairment charges on financial assets	215	50	18	(58)	225
Impairment charges on financial assets	(7)	(36)	(18)	-	(61)
Share of profit after tax of joint venture	35	-	-	-	35
Profit / (loss) before taxation	243	14	-	(58)	199

2 Interest income

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Loans and advances to customers	680	701
Cash and balances with central banks	18	21
Available for sale financial assets	15	13
Loans and advances to banks	48	119
Finance leases and hire purchase receivables	53	47
Interest income	**814**	**901**

2 Interest income (continued)

Included in interest income for the year ended 31 December 2015 is £48 million in respect of income earned by the Group on loans and advances to banks, relating to amounts placed with the Parent (year ended 31 December 2014: £119 million).

Also included in interest income for year ended 31 December 2015 is £16 million in respect of interest arising on financial assets, on which an impairment provision has been recognised (year ended 31 December 2014: £20 million). Interest income also includes £53 million relating to the unwind of, and revisions to, fair value adjustments associated with mortgages acquired from the Parent in prior years (year ended 31 December 2014: £53 million).

For the year ended 31 December 2015 interest recognised on total forborne loans and advances to customers was £27 million (year ended 31 December 2014: £25 million).

Finance lease and hire purchases receivables interest income arises from the consolidated results of NIIB Group Limited.

3 Interest expense

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Customer accounts	232	273
Deposits from banks	37	75
Subordinated liabilities	50	52
Interest expense	**319**	**400**

Included in interest expense for the year ended 31 December 2015 is £86 million in respect of interest paid to the Parent on deposits and subordinated liabilities (year ended 31 December 2014: £127 million).

4 Fee and commission income and expense

Fee and commission income	**Year ended 31 December 2015 £m**	Year ended 31 December 2014 £m
ATM service fees	69	64
Insurance commissions	6	8
Banking fees and other commissions	24	25
Foreign exchange and credit card	16	15
Other	-	2
Fee and commission income	**115**	**114**

Fee and commission expense	**Year ended 31 December 2015 £m**	Year ended 31 December 2014 £m
Fee and commission expense - external	111	102
Fees paid to the Parent	7	6
Fee and commission expense	**118**	**108**

5 Net trading expense

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Financial assets designated at fair value through profit or loss	-	5
Financial liabilities designated at fair value through profit or loss	-	(5)
Other financial instruments held for trading	1	-
Net trading expense	**1**	**-**
Amounts include:		
Net trading expense from the Parent	1	8

Financial assets designated at fair value through profit or loss relate to certain loans with the Parent designated at fair value, whose return is based on moves in various external indices. These deals represent transactions, booked to hedge the risk on certain customer accounts, which are accounted for as financial liabilities designated at fair value through profit or loss.

Other financial instruments held for trading relates to swaps with the Parent that are entirely or partially unhedged.

6 Other operating income

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Other operating income	1	5
Other operating income	**1**	**5**

7 Operating expenses

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Administrative expenses		
Staff costs (a)		
- Wages and salaries	25	22
- Social security costs	3	3
- Other pension costs[1]	5	6
Total staff costs	**33**	**31**
- Other administrative expenses (b)	64	46
- Other administrative expenses – related parties (c)	194	202
Amortisation on intangible assets (note 20)	9	8
Total operating expenses	**300**	**287**

[1] *Other pension costs include £1 million (31 December 2014: £2 million) in relation to the NIIB scheme which is accounted for as a defined benefit scheme (see note 27) and £4 million (31 December 2014: £4 million) in relation to other schemes which are accounted for on a defined contribution basis.*

7 Operating expenses (continued)

(a) Staff costs
Staff costs of £33 million (year ended 31 December 2014: £31 million) include all gross salaries, related social security costs, and pension contributions attributable to those employees directly employed by the Group. Gross salaries also include those costs associated with staff seconded to the Group from the Parent under a secondment agreement. The average number of staff (direct and seconded full time equivalents) was 444 (year ended 31 December 2014: 399). Refer to note 36 for details of compensation paid to key management personnel (KMP).

(b) Other administrative expenses includes a net charge of £11 million (year ended 31 December 2014: £15 million) in respect of the FSCS levy.

(c) Other administrative expenses – related parties
Other administrative expenses are the costs incurred by the Group in relation to services provided by the Parent under a number of service level agreements. These comprise services across a number of different activities and areas including, but not restricted to, product design, manufacture, distribution and management, customer service, and IT. Included in this management charge is the cost of a number of employees who carry out services for the Group on behalf of the Parent. These employees' employment contracts are with the Parent and their remuneration is included in the Parent's financial statements. Due to the nature of the services provided it is neither possible to ascertain separately the element of the management charge that reflects the employee staff charge, nor disclose separately employee numbers relevant to the Group's activities.

8 Auditors' remuneration

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Fees payable for the audit of the Bank and Group financial statements	413	401
Audit of the Bank's subsidiaries pursuant to legislation	100	97
Audit related assurance services	9	44
Tax advisory services	15	-
Other assurance services	22	19
Auditors' remuneration	**559**	**561**

During the year the auditors also earned fees payable by entities outside the Group in respect of the following:

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Fees payable for the audit of NIIB Group Limited (1975) Pension Scheme	4	4

The Group's Audit Committee has reviewed the level of fees and is satisfied that it has not affected the independence of the auditors. Audit related assurance services consist of fees in connection with accounting matters and regulatory compliance based work. It is the Group's policy to subject all major assignments to a competitive tender process.

9 Impairment charges on financial assets

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Loans and advances to customers (note 18)	44	61
Impairment charges on financial assets	**44**	**61**

10 Share of profit after tax of joint venture

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
First Rate Exchange Services Holdings Limited (FRESH)	35	35
Share of profit after tax of joint venture	**35**	**35**

This represents the Group's 50% share of profit after tax of its joint venture in FRESH with Post Office Limited. It is accounted for using the equity method of accounting. See note 19 for further information.

11 Profit on disposal of business activities

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Post Office Insurance joint operation	41	-

On 30 September 2015, the Post Office exercised a pre-existing option to acquire the Group's interest in the Post Office insurance joint operation. The Group recognised net cash consideration and a gain of £41 million as a result of this transaction.

12 Taxation charge

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Current tax		
Current year charge	14	6
Reallocation from deferred tax	-	(7)
Prior year adjustment	-	(1)
Total current taxation charge / (credit)	**14**	**(2)**
Deferred tax		
Current year charge	15	22
Impact of corporation tax rate change	7	-
Reallocation to current tax	-	7
Prior year adjustment	-	-
Total deferred taxation charge	**22**	**29**
Taxation charge	**36**	**27**

The effective taxation rate for the year ended 31 December 2015 is a charge of 16% (year ended 31 December 2014: charge of 14%). Excluding the impact of the results of the joint venture, FRESH, the effective taxation rate was a charge of 19% for the year ended 31 December 2015 (year ended 31 December 2014: charge of 16%).

12 Taxation charge (continued)

The reconciliation of tax on the profit before taxation, at the standard UK corporation tax rate, to the Group's actual tax charge for the years ended 31 December 2015 and 31 December 2014 is as follows:

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Profit before taxation	**224**	199
Multiplied by the standard rate of Corporation tax in UK of 20.25% (2014: 21.5%)	46	43
Effects of:		
Non allowable expenses	1	3
Share of results of joint venture after tax in the income statement	(7)	(8)
Impact of corporation tax rate change	7	-
Prior year adjustment	-	(1)
Other	(11)	(10)
Taxation charge	**36**	**27**

Other includes amounts in relation to non taxable income relating to the unwind of fair value adjustments on acquired mortgages.

13 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances:

	31 December 2015 £m	31 December 2014 £m
Cash	36	46
Balances at central banks	3,233	2,918
Total cash balances included in cash and cash equivalents	**3,269**	2,964
Loans and advances to banks	3,949	6,312
Less: amounts with a maturity of three months or more	(2,215)	(4,185)
Total loans and advances to banks included in cash and cash equivalents	**1,734**	2,127
Total cash and cash equivalents	**5,003**	**5,091**
Due from the Parent	481	917

14 Derivative financial instruments

The Group's utilisation of objectives and policies in relation to managing the risks that arise in connection with derivatives, are included in the Risk Management section, on pages 72 to 73. The notional amounts of certain types of financial instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit risk. The derivative instruments become assets or liabilities as a result of fluctuations in market rates or prices relative to their terms.

During the year, the Group continued the process of moving from a gross flow cash hedging model to a derivatives hedging model, principally for interest rate risk management. As a result, £1.9 billion of balances owed to the Parent and £2 billion of balances owed from the Parent were repaid during 2015. In place of this, the Group entered into new derivative transactions with the Parent. The Group has applied hedge accounting to the majority of these derivatives, which are classified as held for hedging in the table below.

The Group also holds certain derivatives to which hedge accounting is not applied and these are considered to be held for trading in the table below. These primarily include foreign exchange forward contracts with customers, with a corresponding foreign exchange contract to hedge foreign exchange risk with the Parent.

14 Derivative financial instruments (continued)

The notional amounts and fair values of derivative instruments held by the Group are set out in the following tables:

31 December 2015	Contract / notional amount £m	Fair Values Assets £m	Fair Values Liabilities £m
Derivatives held for trading			
Foreign exchange derivatives			
Currency forwards	149	1	3
Currency forwards – with the Parent	238	3	1
Currency swaps	189	1	3
Currency swaps - with the Parent	206	3	1
Total foreign exchange derivatives held for trading	**782**	**8**	**8**
Interest rate derivatives			
Interest rate swaps - with the Parent	408	4	1
Total interest rate derivatives held for trading	**408**	**4**	**1**
Total derivatives held for trading	**1,190**	**12**	**9**
Derivatives held as fair value hedges			
Interest rate swaps - with the Parent	4,193	7	43
Derivatives held as cash flow hedges			
Interest rate swaps - with the Parent	5,603	26	4
Total derivative assets / liabilities held for hedging	**9,796**	**33**	**47**
Total derivative assets / liabilities	**10,986**	**45**	**56**

31 December 2014	Contract / notional amount £m	Fair Values Assets £m	Fair Values Liabilities £m
Derivatives held for trading			
Foreign exchange derivatives			
Currency forwards	198	2	6
Currency forwards – with the Parent	323	6	2
Currency swaps	160	1	2
Currency swaps – with the Parent	160	2	1
Total foreign exchange derivatives held for trading	841	11	11
Interest rate derivatives			
Interest rate swaps - with the Parent	334	1	1
Total interest rate derivatives held for trading	334	1	1
Total derivatives held for trading	1,175	12	12
Derivatives held as fair value hedges			
Interest rate swaps - with the Parent	3,512	8	52
Derivatives held as cash flow hedges			
Interest rate swaps - with the Parent	4,821	39	-
Total derivative assets / liabilities held for hedging	8,333	47	52
Total derivative assets / liabilities	9,508	59	64

As set out in the risk management policy on page 45, the Group uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of £45 million at 31 December 2015 (31 December 2014: £59 million):

- £43 million (31 December 2014: £56 million) are available for offset against derivative liabilities under CSA and ISDA arrangements. These transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities.

14 Derivative financial instruments (continued)

At 31 December 2015 cash collateral of £11 million was placed against these liabilities and is reported in Loans and advances to banks (note 15). At 31 December 2014 cash collateral of £4 million was held against net derivative assets with the Parent and this was included in deposits and from banks; and

- £2 million (31 December 2014: £3 million) are not covered under CSA and ISDA arrangements.

Hedge accounting
In applying hedge accounting, the Group designates certain derivatives as hedging instruments in either fair value or cash flow hedge relationships.

Fair value hedges
Certain interest rate derivatives are designated as hedging instruments. These are primarily used to reduce the interest rate exposure on the Group's fixed rate financial assets and liabilities.

Cash flow hedges
The Group designates certain interest rate derivatives in cash flow hedge relationships in order to hedge the exposure to variability in future cash flows arising from floating rate assets.

The years in which the hedged cash flows are expected to occur are shown in the tables below:

31 December 2015	**Up to 1 year £m**	**1 to 2 years £m**	**2 to 5 years £m**	**Over 5 years £m**	**Total £m**
Forecast receivable cash flows	18	11	44	23	96
Forecast payable cash flows	(1)	(3)	(2)	-	(6)

31 December 2014	Up to 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Forecast receivable cash flows	14	8	23	11	56
Forecast payable cash flows	-	-	-	-	-

The hedged cash flows are expected to impact on the income statement in the following years:

31 December 2015	**Up to 1 year £m**	**1 to 2 years £m**	**2 to 5 years £m**	**Over 5 years £m**	**Total £m**
Forecast receivable cash flows	19	11	47	19	96
Forecast payable cash flows	(1)	(3)	(2)	-	(6)

31 December 2014	Up to 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Forecast receivable cash flows	15	7	16	18	56
Forecast payable cash flows	-	-	-	-	-

During the years ended 31 December 2015 and 31 December 2014, there were no forecast transactions to which the Group had applied hedge accounting which were no longer expected to occur.

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15 Loans and advances to banks

	31 December 2015 £m	31 December 2014 £m
Placements with other banks	2,858	5,277
Mandatory deposits with central banks	1,091	1,035
Loans and advances to banks	**3,949**	**6,312**
Amounts include:		
Due from the Parent	2,696	5,102

Represented in placements with other banks is:

- an amount of £2,696 million (31 December 2014: £5,102 million) arising from transactions with the Parent, which primarily relates to the management of the Group's interest rate risk position. Amounts due to the Parent of £2,589 million (31 December 2014: £5,193 million) are also disclosed in note 23. From a counterparty credit risk perspective, while these two amounts are disclosed on a gross basis, the Group has in place a contractual Master Netting Agreement with the Parent, whereby, in the event of default of either party, all amounts due or payable will be settled immediately on a net basis; and
- £193 million included in amounts due from the Parent, whose return is dependent on movements in various external indices (31 December 2014: £281 million). These loans are designated at fair value through profit or loss. Refer to note 35 for details on fair value.

During the year ended 31 December 2015 £2 billion of balances were repaid by the Parent. For further details see note 36.

Represented in mandatory deposits with central banks is:

- an amount of £1,055 million relating to collateral with the Bank of England in respect of notes in circulation (31 December 2014: £999 million). £590 million of this refers to non-interest bearing collateral (31 December 2014: £553 million); and
- an amount of £36 million in relation to mandatory cash ratio deposits, which are non-interest bearing deposits placed with the Bank of England under the provisions of the Bank of England Act 1998 (31 December 2014: £36 million).

16 Available for sale financial assets

	31 December 2015 £m	31 December 2014 £m
Government bonds	574	580
Debt securities listed	382	410
Equity securities listed	-	1
Available for sale financial assets	**956**	**991**

At 31 December 2015 and at 31 December 2014, no available for sale financial assets were pledged in sale and repurchase agreements.

The movements on available for sale financial assets are analysed as follows:	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
At 1 January	991	482
Revaluation adjustments	(6)	30
Additions	-	553
Redemptions / disposals	(26)	(71)
Amortisation	(3)	(3)
At 31 December	**956**	**991**

17 Loans and advances to customers

	31 December 2015 £m	31 December 2014 £m
Loans and advances to customers	18,619	17,982
Finance leases and hire purchase receivables (see below)	1,090	932
Gross loans and advances to customers	**19,709**	18,914
Less: allowance for impairment charges on loans and advances to customers (note 18)	(454)	(613)
Loans and advances to customers	**19,255**	**18,301**
Amounts include:		
Due from entities controlled by the Parent	6	7

Finance leases and hire purchase receivables

Loans and advances to customers include finance leases and hire purchase receivables, which are analysed as follows:

	31 December 2015 £m	31 December 2014 £m
Gross investment in finance leases:		
Not later than 1 year	417	363
Later than 1 year and not later than 5 years	769	656
Later than 5 years	3	2
	1,189	1,021
Unearned future finance income on finance leases	(99)	(89)
Net investment in finance leases	**1,090**	**932**
The net investment in finance leases is analysed as follows:		
Not later than 1 year	383	332
Later than 1 year and not later than 5 years	705	599
Later than 5 years	2	1
	1,090	932

The Group's material leasing arrangements include the provision of instalment credit and leasing finance for both consumer and business customers.

At 31 December 2015 the accumulated allowance for uncollectable minimum lease payments receivable was £nil (31 December 2014: £nil).

17 Loans and advances to customers (continued)

Securitisations

At 31 December 2015 loans and advances to customers include £4,047 million (31 December 2014: £4,671 million) of residential mortgage balances that have been securitised but not derecognised. Refer to note 38. The assets, or interests in the assets, were transferred to a structured entity, namely Bowbell No.1 plc which issued securities to the Group. These are capable of being pledged to monetary authorities, or used as security to secure external funding. Of these securities at 31 December 2015, £20 million (31 December 2014: £40 million) was pledged to secure funding against Indexed Long term Repos (ILTR). Refer to note 38 for further details.

18 Impairment provisions

The following tables show the movement in the impairment provisions during the year ended 31 December 2015 and 31 December 2014:

2015	**Residential mortgages £m**	**Non property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total impairment provisions £m**
Provision at 1 January 2015	33	130	418	32	613
Transfer between provisions	-	(4)	4	-	-
Exchange adjustments	-	(1)	(4)	-	(5)
Provisions utilised	(4)	(37)	(165)	(13)	(219)
Recoveries	-	1	7	5	13
Other movements	(4)	1	9	2	8
Charge to the income statement	5	2	26	11	44
Provision at 31 December 2015	**30**	**92**	**295**	**37**	**454**

2014	Residential mortgages £m	Non property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total impairment provisions £m
Provision at 1 January 2014	41	131	513	34	719
Transfer between provisions	-	11	(11)	-	-
Exchange adjustments	-	(2)	(5)	-	(7)
Provisions utilised	(7)	(31)	(127)	(20)	(185)
Recoveries	1	1	2	4	8
Other movements	-	3	12	2	17
Charge to the income statement	(2)	17	34	12	61
Provision at 31 December 2014	33	130	418	32	613

19 Interest in joint venture and joint operations

Joint arrangement	Holding	Classification	Country of operation	Nature of activities
First Rate Exchange Services Holdings Limited (FRESH)	50%	Joint venture	UK	Sale of foreign exchange products through the UK Post Office network
AA Financial Services	N/A	Joint operation	UK	Sale of AA branded credit cards, unsecured personal loans and savings
UK Post Office	N/A	Joint operation	UK	Sale of insurance products through the UK Post Office relationship[1]

[1] *During 2015, the Post Office exercised a pre-existing option to acquire the Group's interest in its business. This business was disposed of in September 2015. See note 11 for further details.*

A joint arrangement is an arrangement of which two or more parties have joint control i.e. contractually agreed sharing of control of an arrangement where decisions about the relevant activities require the unanimous consent of the parties sharing control. These arrangements are identified by reference to the power sharing agreements, ensuring that unanimous consent of all parties is a requirement. Where the arrangement has been structured through a separate vehicle, the Group has accounted for it as a joint venture. Where no separate vehicle exists, the arrangements are accounted for as a joint operation.

Joint venture

The Group owns 50% of the shares in FRESH, a company incorporated in United Kingdom which provides foreign exchange services.

The table below shows the movement in the Group's interest in FRESH during the year ended 31 December 2015 and 31 December 2014.

	31 December 2015 £m	31 December 2014 £m
At 1 January	60	55
Share of profit after taxation (note 10)	35	35
Dividends received	(35)	(30)
At 31 December	**60**	**60**

The investment in FRESH is unquoted and is measured using the equity method of accounting. There are no significant restrictions on the ability of this entity to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group, nor is there any unrecognised share of losses either for the year ended 31 December 2015 or cumulatively in respect of this entity. The Group does not have any further commitments or contingent liabilities in respect of this entity other than its investment to date.

There are no significant risks associated with the joint venture that have been identified which require disclosure.

19 Interest in joint venture and joint operations (continued)

The following amounts represent the Group's 50% share of the revenue, expenses, assets and liabilities of FRESH for the year ended 31 December 2015 and the year ended 31 December 2014.

	31 December 2015 £m	31 December 2014 £m
Revenue	67	68
Expenses[1]	(23)	(24)
Profit before taxation	**44**	44
Taxation charge	(9)	(9)
Profit after taxation	**35**	35
Non-current assets	6	6
Current assets[2]	187	152
Total assets	**193**	158
Current liabilities	(133)	(98)
Total liabilities	**(133)**	(98)
Net assets	**60**	60

[1] *Includes interest expense of £1 million (31 December 2014: £1 million)*
[2] *Includes cash and cash equivalents of £15 million (31 December 2014: £16 million)*

Joint operation – UK Post Office
On 31 August 2012, the Group entered into a joint arrangement with Post Office Limited for the sale of insurance products under the Post Office brand. As part of the arrangement, Post Office Limited had an option to purchase the Group's share of the joint operation under certain circumstances. During 2015, the Post Office exercised this option and acquired the Group's interest in this arrangement, resulting in a gain of £41 million being recognised by the Group in September 2015, as shown in note 11.

Joint operation – AA Financial Services
In July 2015, the Group entered into a new strategic partnership with AA Financial Services for the sale of AA branded credit cards, unsecured personal loans, savings and mortgages.

Both of the above joint arrangements have been accounted for as joint operations, on the basis that they are not separate legal entities. The Group combines its share of the joint operations in individual income and expenses, assets and liabilities and cash flows on a line-by-line basis. Neither of these joint operations had a significant impact on the Group during 2015 and 2014.

20 Intangible assets

2015	Computer software internally generated[1] £m	Other externally purchased intangible assets[2] £m	Total £m
Cost			
At 1 January 2015	34	76	110
At 31 December 2015	**34**	**76**	**110**
Accumulated amortisation			
At 1 January 2015	(30)	(41)	(71)
Charge to the income statement (note 7)	(4)	(5)	(9)
At 31 December 2015	(34)	(46)	(80)
Net book value at 31 December 2015	**-**	**30**	**30**

2014	Computer software internally generated £m	Other externally purchased intangible assets £m	Total £m
Cost			
At 1 January 2014	34	75	109
Additions	-	1	1
At 31 December 2014	34	76	110
Accumulated amortisation			
At 1 January 2014	(26)	(37)	(63)
Charge to the income statement (note 7)	(4)	(4)	(8)
At 31 December 2014	(30)	(41)	(71)
Net book value at 31 December 2014	4	35	39

Intangible assets have been reviewed for any indication that impairment may have occurred. Where any such indication exists, impairment has been measured by comparing the carrying value of the intangible asset to its recoverable amount. There was no impairment identified in the year ended 31 December 2015 or 31 December 2014.

Some of the assumptions in the calculation of the recoverable amount are subject to uncertainty and are sensitive to changes; for example in the discount rate assumptions or new business volumes and income. In testing for impairment, management notes that a possible break even scenario would be if the following assumptions were used:

- If the current forecast income was reduced by 6%; and
- If the current forecast costs increased by 5%.

[1] *Includes £34 million of Deposit System Software, which is fully amortised.*
[2] *Includes £76 million of Intangible assets, with a remaining amortisation period of between 5 and 8 years.*

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21 Property, plant and equipment

2015	**Computer and other equipment £m**	**Freehold land and buildings and long leaseholds (held at fair value) £m**	**Total £m**
Cost or valuation			
At 1 January 2015	1	4	5
Additions	1	3	4
Disposals / write offs	(1)	-	(1)
At 31 December 2015	**1**	**7**	**8**
Accumulated depreciation			
At 1 January 2015	-	-	-
Charge for the year	-	-	-
At 31 December 2015	**-**	**-**	**-**
Net book value at 31 December 2015	**1**	**7**	**8**

2014	Computer and other equipment £m	Freehold land and buildings and long leaseholds (held at fair value) £m	Total £m
Cost or valuation			
At 1 January 2014	-	-	-
Additions	-	4	4
Reclassifications[1]	1	-	1
At 31 December 2014	1	4	5
Accumulated depreciation			
At 1 January 2014	-	-	-
Charge for the year	-	-	-
At 31 December 2014	-	-	-
Net book value at 31 December 2014	1	4	5

[1] *Reclassified from other assets*

In 2015, the Group purchased a portfolio of eight freehold and long leased properties from the Parent for £3 million. The historical cost of property, plant and equipment held at fair value at 31 December 2015 was £7 million (31 December 2014: £4 million). No depreciation is charged on freehold land and buildings and long leaseholds, as these are revalued annually.

The Group has commitments on future rentals under non-cancellable operating leases as follows:

Operating Leases	**Payable 31 December 2015 £m**	Payable 31 December 2014 £m
Not later than 1 year	1	-
Later than 1 year and not later than 5 years	3	-
Later than 5 years	16	-
	20	-

22 Other assets

	31 December 2015 £m	31 December 2014 £m
Sundry and other receivables	63	14
Interest receivable	30	36
Accounts receivable and prepayments	39	42
Other assets	**132**	**92**
Amounts include:		
Due from the Parent	11	14
Maturity profile of other assets		
Amounts receivable within 1 year	107	64
Amounts receivable after 1 year	25	28

23 Deposits from banks

	31 December 2015 £m	31 December 2014 £m
Deposits from banks	2,606	5,234
Deposits from banks	**2,606**	**5,234**
Amounts include:		
Due to the Parent	2,589	5,193

Amounts due to the Parent of £2,589 million (31 December 2014: £5,193 million) relates to borrowings in place to fund and manage interest rate risk on the Group's assets. Refer to note 15 for details of amounts due from the Parent, and note 36 in respect of changes in these balances during 2015.

24 Customer accounts

	31 December 2015 £m	31 December 2014 £m
Term deposits	10,445	9,564
Demand deposits	8,706	8,373
Interest bearing current accounts	474	431
Non-interest bearing current accounts	1,949	1,812
Customer accounts	**21,574**	**20,180**
Amounts include:		
Due to entities controlled by the Parent	6	10

Term deposits include deposits of £193 million (31 December 2014: £281 million), whose return is dependent on movements in various external indices; these deposits are designated at fair value through profit or loss. Refer to note 35 for details on fair value.

25 Other liabilities

	31 December 2015 £m	31 December 2014 £m
Accrued interest payable	114	105
Notes in circulation	952	873
Sundry payables	89	76
Accruals and deferred income	20	20
Other liabilities	**1,175**	**1,074**
Amounts include:		
Due to the Parent	9	14
Maturity profile of other liabilities		
Amounts payable within 1 year	1,174	1,073
Amounts payable after 1 year	1	1

The Bank is authorised to issue banknotes in Northern Ireland under the Bank of Ireland (UK) plc Act 2012.

26 Provisions

31 December 2015	Financial services compensation scheme £m	Other £m	Total £m
At 1 January	8	1	9
Charge to the income statement	11	6	17
Utilised during the year	(13)	-	(13)
At 31 December	**6**	**7**	**13**
Expected utilisation period			
Used within 1 year	6	7	13

Financial services compensation scheme (FSCS)

The FSCS is the UK's independent statutory compensation fund for customers of authorised financial services firms and pays compensation if a firm is unable to pay claims against it. The FSCS is funded by levies on the industry. Following the default of a number of financial institutions, the FSCS borrowed funds from HM Treasury to cover compensation in relation to protected deposits. The FSCS recovers the interest cost and capital repayments, together with ongoing management expenses, by way of annual levies on member firms. If the assets of the failed institutions are insufficient to repay the Government loan, additional levies may become payable in future periods. The provision at 31 December 2015 represents the Group's estimate of the interest element of the levy due for the FSCS levy year from 1 April 2015 to 31 March 2016. This is calculated based on the Group's share of industry protected deposits at 31 December 2014.

Other

As at 31 December 2015 the Group has a provision of £7 million to cover potential payments to customers in relation to various compliance matters. The provision is based upon management's current expectations of future payments to be made to customers.

27 Retirement benefit obligations

The Group's employees' membership of a particular pension scheme is dependent on their specific employment contract. Where an employee is seconded directly to the Group, the Group only incurs the cost of the future service contribution to those particular schemes. The Group does not have any liability for payment in respect of increases to pension contributions arising from any historic or future shortfall in the pension assets relative to the pension liabilities of the BoI Group operated schemes. This is set out in an agreement between the Bank and its Parent. Consequently, the schemes have been accounted for as defined contribution schemes in these financial statements and where applicable will be included in the disclosures for defined benefit schemes in the financial statements of BoI Group.

NIIB Group Limited (1975) Pension Scheme (the 'NIIB scheme')

The NIIB defined benefit scheme is based on final pensionable salary and operates for eligible employees of NIIB Group Limited and its subsidiaries. Contributions by NIIB and the employees are invested in a trustee-administered fund. As the scheme's underlying assets and liabilities are identifiable as those of the Group the scheme has been accounted for as a defined benefit scheme (as set out in the accounting policy for pension obligations) and the disclosures set out in the remainder of this note relate to this scheme.

In determining the level of contributions required to be made to the scheme and the relevant charge to the income statement the Group has been advised by independent actuaries, Willis Towers Watson.

The scheme has been closed to new members since late 2006.

Regulatory framework

The NIIB scheme operates under the UK pension regulatory framework. Benefits are paid to members from a trustee-administered fund. The trustees are responsible for ensuring that the plan is sufficiently funded to meet current and future benefit payments. If the plan experience is worse than expected, the Group's obligations are increased.

Under UK pensions legislation, the trustees must agree a funding plan with the Group such that any funding shortfall is expected to be met by additional contributions and investment outperformance. In order to assess the level of contributions required, triennial valuations are carried out with the scheme's obligations measured using prudent assumptions (relative to those used to measure accounting liabilities) and discounted based on the return expected from assets held in accordance with the actual scheme investment policy.

The trustees' other duties include managing the investment of the plan assets, administration of the plan benefits, ensuring contributions are received, compliance with relevant legislation and exercising of discretionary powers. The Group works closely with the trustees, who manage the plan.

Actuarial valuation of the NIIB scheme

A formal valuation of the NIIB scheme was carried out as at 1 May 2013. The funding method used measures liabilities taking account of the projected future levels of pensionable earnings at the time of commencement of benefits i.e. at normal retirement date. Discussions in relation to the valuation were completed in 2014 and a schedule of contributions and recovery plans, setting out how the shortfall in the scheme will be met, was agreed between the trustees and the Group and submitted to, and signed off by, the Pensions Regulator.

Under the schedule of contributions the Group agreed to make contributions of £1.31 million per annum for four years beginning 1 August 2014 plus £0.85 million by 1 April 2018, to meet the shortfall in the scheme of £5.9 million as at the date of the triennial valuation, in addition to the cost of future benefit accrual.

27 Retirement benefit obligations (continued)

Plan details

The following table sets out details of the membership of the NIIB scheme.

Plan details at last valuation date	By number	By % of scheme liability
Scheme members		
Active	69	31%
Deferred	134	39%
Pensioners	50	30%

Financial and demographic assumptions

The assumptions used in calculating the accounting costs and obligations of the NIIB scheme, as detailed below, were set after consultation with Willis Towers Watson.

The discount rate used to determine the present value of the obligations is set by reference to market yields on high quality corporate bonds. The assumption for RPI price inflation is set by reference to the difference between yields on longer-term conventional government bonds and index-linked bonds with an appropriate adjustment to reflect distortions due to supply and demand. The assumption for CPI inflation is set by reference to RPI inflation, with an adjustment applied, as no CPI linked bonds exist.

The salary assumption takes into account inflation, seniority, promotion and current employment market relevant to the Group.

The financial assumptions used in measuring the Group's defined benefit liability under IAS 19 are set out in the table below.

Financial assumptions	31 December 2015 % p.a.	31 December 2014 % p.a.
Consumer price inflation (CPI)	2.30	2.25
Retail price inflation (RPI)	3.30	3.25
Discount rate	3.80	3.70
Rate of general increase in salaries	3.80	3.75
Rate of increase in pensions in payment	3.00	3.00
Rate of increase in deferred pensions	2.30	2.25

27 Retirement benefit obligations (continued)

Mortality assumptions

The mortality assumptions adopted are outlined in the table below.

Post retirement mortality assumptions	31 December 2015 Years	31 December 2014 Years
Longevity at age 70 for current pensioners		
Men	19.0	18.9
Women	21.2	21.1
Longevity at age 60 for active members currently aged 60 years		
Men	28.3	28.2
Women	31.0	30.9
Longevity at age 60 for active members currently aged 40 years		
Men	30.4	30.3
Women	33.0	32.9

Amounts recognised in financial statements

The table below outlines where the Group's defined benefit plans are recognised in the financial statements.

	31 December 2015 £m	31 December 2014 £m
Total charge in operating expenses	**(1)**	**(2)**
Total gain in remeasurements[1]	**0**	**1**
Total asset in the balance sheet	**2**	**1**

[1] *Shown before deferred tax.*

27 Retirement benefit obligations (continued)

The movement in the net defined benefit obligation is as follows:

	Present value of obligation £m	**Fair value of plan assets £m**	**Surplus / (deficit) of plan £m**
At 1 January 2015	**(30)**	**31**	**1**
Current service cost	(1)	-	(1)
Interest (expense) / income	(1)	1	-
Total amount in recognised income statement	**(2)**	**1**	**(1)**
Return on plan assets not included in income statement	-	(1)	(1)
Change in financial assumptions	1	-	1
Total remeasurements in other comprehensive income (OCI)	**1**	**(1)**	**0**
Benefit payments	1	(1)	-
Employer contributions	-	2	2
Other movements	**1**	**1**	**2**
At 31 December 2015	**(30)**	**32**	**2**

	Present value of obligation £m	Fair value of plan assets £m	Surplus / (deficit) of plan £m
At 1 January 2014	(25)	25	-
Current service cost	(1)	-	(1)
Interest (expense) / income	(1)	1	-
Past service cost	(1)	-	(1)
Total amount in recognised income statement	(3)	1	(2)
Return on plan assets not included in income statement	-	3	3
Change in financial assumptions	(2)	-	(2)
Total remeasurements in other comprehensive income (OCI)	(2)	3	1
Employer contributions	-	2	2
Other movements	-	2	2
At 31 December 2014	(30)	31	1

Asset breakdown	**31 December 2015 £m**	31 December 2014 £m
Equities (quoted)	20	19
Index linked government bonds (quoted)	12	12
Total fair value of assets	**32**	**31**

27 Retirement benefit obligations (continued)

Sensitivity of defined benefit obligation to key assumptions

The table below sets out how the defined benefit obligation would have been affected by changes in the significant actuarial assumptions that were reasonably possible at 31 December 2015:

Impact on defined benefit obligation	Change in assumptions	Increase in assumptions £m	Decrease in assumptions £m
Discount rate	0.25%	(1.7)	1.7
Inflation[1]	0.1%	0.4	(0.4)
Salary growth	0.1%	0.1	(0.1)
Life expectancy	1 year	0.8	(0.8)

[1] *Including other inflation-linked assumptions (CPI inflation, pension increases, salary growth).*

Some of the above changes in assumptions may have an impact on the value of the scheme's investment holdings. For example, the plan holds a proportion of its assets in index-linked bonds. A fall in the rate of inflation would be expected to lead to a reduction in the value of these assets, thus partly offsetting the reduction in the defined benefit obligation. The extent to which these sensitivities are managed is discussed further below. The methods and types of assumptions used in preparing the sensitivity analysis are unchanged compared to the prior year.

Future cash flows

The plan's liabilities represent a long-term obligation and most of the payments due under the plan will occur several decades into the future. The duration, or average term to payment for the benefits due, weighted by liability, is c. 22 years.

Expected employer contributions for the year ended 31 December 2016 are £1.9 million. Expected employee contributions for the year ended 31 December 2016 are £50,000.

Years	Benefit payments from plan assets (£m)
2015 - 2024	8
2025 - 2034	16
2035 - 2044	23
2045 - 2054	28
2055 - 2064	23
2065 - 2074	16
2075 - 2084	7
2085 - 2094	2
After 2095	-
	123

27 Retirement benefit obligations (continued)

Risks and risk management

The NIIB scheme has a number of areas of risk. The key areas of risk, and the ways in which the Group has sought to manage them, are set out in the table below.

The risks are considered from both a funding perspective, which drives the cash commitments of the Group, and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements.

Risk	Description
Asset volatility	The funding liabilities are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. The defined benefit obligation in the Group's financial statements is calculated using a discount rate set with reference to high quality corporate bond yields. The plan holds a significant proportion of its assets in equities and other return-seeking assets. The returns on such assets tend to be volatile and are not correlated to government bonds. This means that the funding level is likely to be volatile in the short-term, potentially resulting in short-term cash requirements and an increase in the net defined benefit liability recorded on the balance sheet.
Changes in bond yields	Interest rate and inflation risks, along with equity risk, are the scheme's largest risks. From an accounting liability perspective, the scheme is also exposed to movements in corporate bond spreads. The scheme uses an investment in index-linked bonds to manage its interest rate and inflation risk. This portfolio is used to broadly hedge against movements in long-term interest rates and inflation expectations. The portfolio does not completely eliminate risk and addresses only a portion of the scheme's interest rate and inflation risks. Furthermore, it does not hedge against changes in the credit spread available on corporate bonds used to derive the accounting liabilities. The investment in index-linked bonds offers a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is reduced.
Inflation risk	The majority of the scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities, although in most cases caps on the level of inflationary increases are in place to protect the plan against inflation.
Life expectancy	The majority of the plan's obligations are to provide a pension for the life of the member, which means that increases in life expectancy will result in an increase in the plan's liabilities.

28 Deferred tax

	31 December 2015 £m	31 December 2014 £m
The movement on the deferred tax account is as follows:		
At 1 January	105	128
Income statement charge for the year (note 12)	(22)	(29)
Losses transferred from Parent	-	15
Available for sale securities - charge to other comprehensive income	-	(2)
Cash flow hedges - credit / (charge) to other comprehensive income	2	(6)
Other movements	1	(1)
At 31 December	**86**	**105**

Deferred tax assets and liabilities are attributable to the following items:

	31 December 2015 £m	31 December 2014 £m
Deferred tax assets		
Unutilised tax losses	84	105
Fixed / leased assets	7	6
Other	-	1
Total deferred tax assets	**91**	**112**
Deferred tax liabilities		
Cash flow hedges	(4)	(6)
Deferred tax on property held at fair value	(1)	(1)
Total deferred tax liabilities	**(5)**	**(7)**
Represented on the balance sheet as follows:		
Deferred tax assets	86	105
Total deferred tax	**86**	**105**

In accordance with IAS 12, in presenting the deferred tax balances above the Group offsets deferred tax assets and liabilities where:

- an entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

As at 31 December 2014, the Group had reassessed the value of losses acquired from its Parent undertaking on the transfer of business assets in 2010, and recognised a cumulative asset of £101 million in respect of the taxation benefit of losses transferred from the Parent. The Group did not provide any consideration for the losses and this amount was therefore treated as a capital contribution received.

The UK Government has announced that the main rate of corporation tax will reduce to 19% from 1 April 2017 and 18% for years beginning on or after 1 April 2020. The reduction in the corporation tax rate to 18% was enacted at the balance sheet date and the effect of this change has been to reduce the deferred tax asset at 31 December 2015 by £7 million. Refer to note 12.

The UK Government has also announced a new 8% corporation tax surcharge on the taxable profits of UK banks from 1 January 2016. The surcharge will be based on banks' taxable profits before the utilisation of brought forward trading losses.

28 Deferred tax (continued)

The deferred tax charge in the income statement comprises the following temporary differences:

	31 December 2015 £m	31 December 2014 £m
Current year charge	15	22
Impact of corporation tax rate change	7	-
Reallocation to current tax	-	7
Total deferred tax charge	**22**	**29**

29 Subordinated liabilities

	31 December 2015 £m	31 December 2014 £m
£523 million subordinated floating rate loans 2020[1]	-	523
£90 million subordinated floating rate loans 2022[2]	90	90
£45 million subordinated floating rate loans 2022[3]	45	45
£200 million subordinated floating rate notes 2025[4]	200	-
Subordinated liabilities	**335**	**658**

[1] On 26 November 2015 £523 million subordinated floating rate loans were repurchased in full. These loans had an initial call date of 7 October 2015 and a final maturity date of 7 October 2020. They bore interest at a floating rate of 6.5% per annum above the sterling LIBOR six month rate.
[2] Initial call date 18 July 2017. If not repaid at this point, they are due in full on their final maturity date of 21 July 2022. They bear interest at a floating rate of 11% per annum above the sterling LIBOR six month rate.
[3] Initial call date 21 December 2017. If not repaid at this point, they are due in full on their final maturity date of 21 December 2022. They bear interest at a floating rate of 9% per annum above the sterling LIBOR six month rate.
[4] Inital call date 26 November 2020. If not repaid at this point, they are due in full on their final maturity date of 26 November 2025. They bear interest at a floating rate of 4.225% per annum above the sterling LIBOR three month rate.

The movement on subordinated liabilities are analysed as follows:

	31 December 2015 £m	31 December 2014 £m
At 1 January	658	658
Issued during the year	200	-
Repurchased	(523)	-
At 31 December	**335**	**658**

These liabilities constitute unsecured obligations of the Group to its Parent, subordinated in right of payments to the claim of depositors, and other unsubordinated creditors of the Group. The subordinated liabilities meet the definition of a financial liability as the Group does not have an unconditional right to avoid the repayment of the principal or interest. Therefore, the liabilities are recognised on the balance sheet at amortised cost, using the effective interest method.

All of the current notes are redeemable in whole but not in part, subject to the prior approval of the PRA, on the fifth anniversary of their drawdown date. In the event of a wind up of the Group, the loans will become immediately due and payable without demand, together with all interest accrued thereon.

30 Contingent liabilities and commitments

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

	31 December 2015 Contractual amount £m	31 December 2014 Contractual amount £m
Contingent liabilities		
Guarantees and irrevocable letters of credit	9	9
Other contingent liabilities	6	6
Total contingent liabilities	**15**	**15**
Commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend		
- revocable or irrevocable with original maturity of 1 year or less	3,376	2,980
- irrevocable with original maturity of over 1 year	168	169
Total commitments	**3,544**	**3,149**

Guarantees and letters of credit are given as security to support the performance of a customer to third parties. As the Group will be required to meet these obligations only in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Other contingent liabilities primarily include performance bonds and are generally short term commitments to third parties which are not directly dependent on the customer's credit worthiness. Other contingent liabilities also include documentary credits which commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions.

At 31 December 2015 the Group continues to monitor an industry-wide issue with respect to technical compliance with the Consumer Credit Act (CCA). In accordance with IAS 37.92, the Group has not provided further information on this issue.

31 Share capital

Movements in issued ordinary and preference shares	Ordinary Shares[1] 31 December 2015 £m	Ordinary Shares[1] 31 December 2014 £m	Preference Shares[1] 31 December 2015 £m	Preference Shares[1] 31 December 2014 £m
At 1 January	851	851	300	300
Repurchased during the year	-	-	(300)	-
At 31 December	**851**	**851**	**-**	**300**

[1] *All shares issued are in denominations of £1, therefore the table above also represents unit values.*

At 31 December 2015 and at 31 December 2014, all shares issued by the Group were held by the Parent.

All shares issued were fully paid at 31 December 2015 and 31 December 2014.

Preference shares

On 31 March 2015 the fourth non-cumulative preference dividend fell due. This preference dividend was not paid as the relevant terms and conditions were not met.

On 1 May 2015 the £300 million preference shares which were held by the Parent at nominal value were repurchased. As the preference shares were required to be redeemed out of distributable reserves, an amount of £300 million was transferred from capital contribution to the capital redemption reserve fund in order to identify these reserves as non-distributable.

The terms and conditions attaching to the preference shares, which were repurchased during the year, are outlined below:

- the preference shares were perpetual, with an option for the Group to repurchased them at 31 March 2016 and at any dividend payment date thereafter, subject to approval from the PRA and compliance with the Companies Act 2006;
- dividends were payable annually in arrears at a rate of 13% and were payable unfettered at the discretion of the Group, subject to approval from the PRA and compliance with the Companies Act 2006; and
- the holders of preference shares were not entitled to receive notice of, or to attend or vote at, any general meeting of the Group.

On a winding-up or other return of capital of the Group, the assets of the Group available to the holders of the preference shares would have been applied in priority to any payment to the holders of ordinary shares and any other class of shares in the capital of the Group then in issue, ranking junior to the preference shares on such return of capital and pari passu on such return of capital with the holders of any other class of shares in the capital of the Group then in issue.

Distribution upon winding up would have been a sum equal to the aggregate of:

(a) an amount equal to dividends accrued thereon for the then current dividend period to the date of the commencement of the winding-up or other such return of capital; and

(b) an amount equal to £1 per preference share.

Authorised share capital

The authorised share capital is £2.5 billion.

32 Other equity instruments

	31 December 2015 £m	31 December 2014 £m
At 1 January	-	-
Additional tier 1 securities issued	300	-
At 31 December	**300**	**-**

On 1 May 2015 the Group issued £200 million Additional tier 1 (AT1) securities to the Parent. On 26 November 2015 the Group issued a further £100 million AT1 securities to the Parent. All securities were issued at their nominal value.

The principal terms of the AT1 securities are as follows:

- the securities constitute direct, unsecured and subordinated obligations of the Group, rank behind Tier 2 instruments and in priority to ordinary shareholders;
- the securities bear a fixed rate of interest (7.875% for the May 2015 issuance; 8.4% for the November 2015 issuance) until the first call date (1 May 2020 and 26 November 2020 respectively). After the initial call date, in the event that they are not redeemed, the AT1 securities will bear interest at rates fixed periodically in advance for five-year periods based on market rates at that time;
- the Group may elect at its sole and full discretion to cancel (in whole or in part) the interest otherwise scheduled to be paid on any interest payment date;
- the securities have no fixed redemption date, and the security holders will have no right to require the Group to redeem or purchase the securities at any time;
- the Group may, in its sole and full discretion, but subject to the satisfaction of certain conditions, elect to redeem all (but not some only) of the securities on the initial call date or on any interest payment date thereafter. In addition, the AT1 securities are repayable, at the option of the Group, due to certain regulatory or tax reasons. Any repayments require the prior consent of the regulatory authorities; and
- the securities will convert into ordinary shares if the Group's CET 1 (on a CRD IV full implementation basis) ratio falls below 7%.

33 Liquidity risk

The tables below summarise the maturity profile of the Group's financial liabilities, at 31 December 2015 and at 31 December 2014, based on contractual undiscounted repayment obligations. See also Risk Management section 2.2 for details of the maturity of assets and liabilities on a discounted basis.

The Group does not manage liquidity risk on the basis of contractual maturity. Instead, the Group manages liquidity risk based on expected cash flows. The balances shown below will not agree directly to the balance sheet because the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

Customer accounts include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in a financial penalty being paid by the customer. For such accounts the portion subject to the potential early access has been classified accordingly in the table below as 'demand'.

Maturity profile of financial liabilities

31 December 2015	**Demand £m**	**Up to 3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Deposits from banks	380	14	443	1,775	85	2,697
Customer accounts	13,333	3,441	3,782	1,295	5	21,856
Subordinated liabilities	-	8	17	101	419	545
Contingent liabilities	15	-	-	-	-	15
Commitments	2,712	16	648	168	-	3,544
Total	**16,440**	**3,479**	**4,890**	**3,339**	**509**	**28,657**

31 December 2014	Demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Deposits from banks	855	231	2,298	1,847	113	5,344
Customer accounts	12,302	2,546	3,104	2,285	-	20,237
Subordinated liabilities	-	5	50	251	763	1,069
Contingent liabilities	15	-	-	-	-	15
Commitments	2,608	20	352	169	-	3,149
Total	15,780	2,802	5,804	4,552	876	29,814

The table below summarises the maturity profile of the Group's derivative liabilities. The Group manages liquidity risk based on expected cash flows, therefore the undiscounted cash flows payable on derivatives liabilities are classified according to their contractual maturity.

Maturity profile of derivative liabilities

31 December 2015	**Demand £m**	**Up to 3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Gross settled derivative liabilities - outflows	-	(245)	(172)	(11)	-	(428)
Gross settled derivative liabilities - inflows	-	241	168	11	-	420
Gross settled derivative liabilities - net flows	-	(4)	(4)	-	-	(8)
Net settled derivative liabilities	-	(9)	(12)	(21)	(7)	(49)
Total derivatives cash flows	**-**	**(13)**	**(16)**	**(21)**	**(7)**	**(57)**

33 Liquidity risk (continued)

31 December 2014	Demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Gross settled derivative liabilities - outflows	-	(394)	(114)	(4)	-	(512)
Gross settled derivative liabilities - inflows	-	387	110	4	-	501
Gross settled derivative liabilities - net flows	-	(7)	(4)	-	-	(11)
Net settled derivative liabilities	-	(8)	(14)	(28)	(4)	(54)
Total derivatives cash flows	-	(15)	(18)	(28)	(4)	(65)

34 Measurement basis of financial assets and financial liabilities

The table below analyses the carrying amounts of the financial assets and financial liabilities, by accounting treatment and by balance sheet heading.

	At fair value through profit or loss			At fair value through other comprehensive income			
31 December 2015	**Derivatives designated as fair value hedging instruments £m**	**Held for trading £m**	**Designated upon initial recognition £m**	**Available for sale £m**	**Cash flow hedge derivatives £m**	**Held at amortised cost £m**	**Total £m**
Financial assets							
Cash and balances with central banks	-	-	-	-	-	3,269	3,269
Items in the course of collection from other banks	-	-	-	-	-	147	147
Derivative financial instruments	7	12	-	-	26	-	45
Loans and advances to banks	-	-	193	-	-	3,756	3,949
Available for sale financial assets	-	-	-	956	-	-	956
Loans and advances to customers	-	-	-	-	-	19,255	19,255
Total financial assets	**7**	**12**	**193**	**956**	**26**	**26,427**	**27,621**
Financial liabilities							
Deposits from banks	-	-	-	-	-	2,606	2,606
Customer accounts	-	-	193	-	-	21,381	21,574
Items in the course of transmission to other banks	-	-	-	-	-	74	74
Derivative financial instruments	43	9	-	-	4	-	56
Subordinated liabilities	-	-	-	-	-	335	335
Total financial liabilities	**43**	**9**	**193**	**-**	**4**	**24,396**	**24,645**

34 Measurement basis of financial assets and financial liabilities (continued)

31 December 2014	At fair value through profit or loss			At fair value through other comprehensive income (OCI)			
	Derivatives designated as fair value hedging instruments £m	Held for trading £m	Designated upon initial recognition £m	Available for sale £m	Cash flow hedge derivatives £m	Held at amortised cost £m	Total £m
Financial assets							
Cash and balances with central banks	-	-	-	-	-	2,964	2,964
Items in the course of collection from other banks	-	-	-	-	-	276	276
Derivative financial instruments	8	12	-	-	39	-	59
Loans and advances to banks	-	-	281	-	-	6,031	6,312
Available for sale financial assets	-	-	-	991	-	-	991
Loans and advances to customers	-	-	-	-	-	18,301	18,301
Total financial assets	8	12	281	991	39	27,572	28,903
Financial liabilities							
Deposits from banks	-	-	-	-	-	5,234	5,234
Customer accounts	-	-	281	-	-	19,899	20,180
Items in the course of transmission to other banks	-	-	-	-	-	221	221
Derivative financial instruments	52	12	-	-	-	-	64
Subordinated liabilities	-	-	-	-	-	658	658
Total financial liabilities	52	12	281	-	-	26,012	26,357

The fair value and contractual amount due on maturity, of financial liabilities designated at fair value upon initial recognition, are shown in the table below.

	31 December 2015		31 December 2014	
	Fair values £m	**Contractual amount due on maturity £m**	Fair Values £m	Contractual amount due on maturity £m
Customer accounts	193	185	281	275

35 Fair value of assets and liabilities

Fair value of assets and liabilities
Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

Where possible, the Group calculates fair value using observable market prices. Where market prices are not available, fair values are determined using valuation techniques which may include DCF models or comparisons to instruments with characteristics either identical or similar to those of the instruments held by the Group or recent arm's length market transactions.
These fair values are classified within a three-level fair value hierarchy, based on the inputs used to value the instrument. Where the inputs might be categorised within different levels of the fair value hierarchy, the fair value measurement in its entirety is categorised in the same level of the hierarchy as the lowest level input that is significant to the entire measurement. The levels are defined as:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

Transfers between different levels are assessed at the end of all reporting periods.

(a) Financial assets and liabilities recognised and subsequently measured at fair value
All financial instruments are initially recognised at fair value. The Group subsequently measures derivatives, available for sale financial assets and certain other financial assets and liabilities designated at fair value through profit or loss at fair value in the balance sheet. These instruments are shown as at fair value through profit or loss or at fair value through other comprehensive income in note 34 on the measurement basis of financial assets and liabilities. A description of the methods and assumptions used to calculate fair values of these assets and liabilities is set out below.

Derivative financial instruments
The Group's derivative financial instruments are valued using valuation techniques commonly used by market participants. These consist of DCF and options pricing models, which typically incorporate observable market data, principally interest rates, basis spreads, foreign exchange rates, equity prices and counterparty credit (level 2 inputs).

Available for sale financial assets
Substantially all of the Group's available for sale financial assets trade in an active market; fair value has been determined directly from observable market prices (level 1 inputs).

Loans and advances to banks
Loans and advances to banks designated at fair value through profit or loss consist of loans, which contain an embedded derivative (typically an equity option). These instruments are valued using valuation techniques, which use observable market data (level 2 inputs).

Customer accounts
Customer accounts designated at fair value through profit or loss consist of deposits, which contain an embedded derivative (typically an equity option). These instruments are typically valued using valuation techniques, which use observable market data. The Group incorporates the effect of changes in its own credit spread when valuing these instruments. The Group estimates this spread by reference to recent transactions in the same instrument or in similar instruments issued by the Parent (level 2 inputs).

35 Fair value of assets and liabilities (continued)

(b) Financial assets and liabilities held at amortised cost

For financial assets and liabilities which are not subsequently measured at fair value on the balance sheet, the Group discloses their fair value in a way that permits them to be compared to their carrying amounts. The methods and assumptions used to calculate the fair values of these assets and liabilities are set out below.

Loans and advances to banks

The estimated fair value of floating rate placements and overnight placings is their carrying amount. The estimated fair value of fixed interest bearing placements is based on discounted cash flows, using prevailing money market interest rates for assets with similar credit risk and remaining maturity (level 2 inputs).

Loans and advances to customers

Loans and advances to customers are carried net of provisions for impairment. The fair value of both fixed and variable rate loans and advances to customers is estimated using valuation techniques, which include:

- recent arm's length transactions in similar assets (level 2 inputs); and
- the discounting of estimated future cash flows at current market rates, incorporating the impact of current credit spreads and margins. The fair value reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans (level 3 inputs).

Deposits from banks and customer accounts

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounted cash flows, using interest rates for new deposits with similar remaining maturity (level 2 inputs).

Subordinated liabilities

As quoted market prices are not available, the fair value is estimated by benchmarking the yield against similar bonds issued by the Parent, which have similar maturity dates (level 2 inputs).

(c) Fair value of non-financial assets

Property

A revaluation of Group property was carried out as at 31 December 2015. All freehold and long leasehold commercial properties were valued by Lisney, with the exception of certain properties which were valued by the Bank's internal qualified surveyors. Lisney valuations were made on the basis of observable inputs such as comparable lettings and sales (level 2 inputs). Unobservable inputs such as profile, lot size, layout and presentation of accommodation are also used (level 3 inputs).

(d) Fair value hierarchy

31 December 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets held at fair value				
Derivative financial instruments	-	45	-	45
Loans and advances to banks	-	193	-	193
Available for sale financial assets	956	-	-	956
Non-financial assets held at fair value				
Property held at fair value	-	-	7	7
Total assets held at fair value	**956**	**238**	**7**	**1,201**
As a % of fair value assets	**80%**	**20%**	**-**	**100%**
Financial liabilities held at fair value				
Customer accounts	-	193	-	193
Derivative financial instruments	-	56	-	56
Total financial liabilities held at fair value	**-**	**249**	**-**	**249**
As a % of fair value liabilities	**-**	**100%**	**-**	**100%**

35 Fair value of assets and liabilities (continued)

31 December 2015	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Fair value of financial assets held at amortised cost				
Loans and advances to banks	-	3,816	-	3,816
Loans and advances to customers	-	-	19,257	19,257
Total	**-**	**3,816**	**19,257**	**23,073**
Fair value of financial liabilities held at amortised cost				
Deposits from banks	-	2,630	-	2,630
Customer accounts	-	21,416	-	21,416
Subordinated liabilities	-	366	-	366
Total	**-**	**24,412**	**-**	**24,412**

The Group had non-financial assets held at fair value on the balance sheet in Level 3 at 31 December 2015 and 31 December 2014 due to the purchase of freehold land and buildings and long leaseholds from the Parent.

There were no transfers between levels 1, 2 or 3 during the year ended 31 December 2015 or 31 December 2014.

31 December 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets held at fair value				
Derivative financial instruments	-	59	-	59
Loans and advances to banks	-	281	-	281
Available for sale financial assets	990	1	-	991
Non-financial assets held at fair value				
Property held at fair value	-	-	4	4
Total assets held at fair value	990	341	4	1,335
As a % of fair value assets	74%	26%	-	100%
Financial liabilities held at fair value				
Customer accounts	-	281	-	281
Derivative financial instruments	-	64	-	64
Total financial liabilities held at fair value	-	345	-	345
As a % of fair value liabilities	-	100%	-	100%

31 December 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Fair value of financial assets held at amortised cost				
Loans and advances to banks	-	6,178	-	6,178
Loans and advances to customers	-	-	18,108	18,108
Total	-	6,178	18,108	24,286
Fair value of financial liabilities held at amortised cost				
Deposits from banks	-	5,300	-	5,300
Customer accounts	-	19,944	-	19,944
Subordinated liabilities	-	694	-	694
Total	-	25,938	-	25,938

35 Fair values of assets and liabilities (continued)

Movements in level 3 assets

Property held at fair value	31 December 2015 £m	31 December 2014 £m
At 1 January	4	-
Additions	3	4
At 31 December	7	4

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

			Fair Value		Range	
Level 3 assets	Valuation technique	Unobservable input	31 December 2015 £m	31 December 2014 £m	31 December 2015 %	31 December 2014 %
Property held at fair value	Market comparable property transactions	Property valuation assumptions	7	4	Third party pricing	Third party pricing

The carrying amount and the fair value of the Group’s financial assets and liabilities which are carried at amortised cost are set out in the table below. Items where the carrying amount is a reasonable approximation of fair value are not included, as permitted by IFRS 7.

	31 December 2015		31 December 2014	
	Carrying amount £m	Fair values £m	Carrying amount £m	Fair values £m
Financial Assets				
Loans and advances to banks	3,949	4,009	6,312	6,459
Loans and advances to customers	19,255	19,257	18,301	18,108
Financial Liabilities				
Deposits from banks	2,606	2,630	5,234	5,300
Customer accounts	21,574	21,609	20,180	20,225
Subordinated liabilities	335	366	658	694

36 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or one other party controls both. The definition includes subsidiaries, joint ventures and the Parent, as well as key management personnel.

(a) Parent

The Group is a wholly owned controlled subsidiary of The Governor and Company of the Bank of Ireland, a corporation established in Ireland in 1783 under Royal Charter, with a primary listing on the Irish Stock Exchange and a premium listing on the London Stock Exchange. This is the ultimate controlling party of the Group and BoI Group. The results of the Group are consolidated in the Bank of Ireland Group financial statements, which are available at Bank of Ireland, Head Office, 40 Mespil Road, Dublin 4, Ireland. The Governor and Company of the Bank of Ireland is the smallest and largest group to consolidate these financial statements.

The Governor and Company of the Bank of Ireland acts as guarantor for the Bank in its transactions with the Bank of England. If in any circumstances the Bank fails to make payment of guaranteed amounts to the Bank of England or does not perform any of its other obligations under the relevant agreement, the Governor and Company of the Bank of Ireland shall pay the amounts or perform its obligations upon written demand from the Bank of England.

The Group receives a range of services from its Parent and related parties, including loans and deposits, forward exchange, interest rate cover including derivatives and various administrative services. In the course of operating its business, the Group utilises a number of key services from its Parent, which are subject to a number of Service Level Agreements and costs, and these are disclosed in note 7 of the financial statements.

Other transactions with the Parent in 2015 and 2014

(i) On 1 May 2015 the Group repurchased £300 million of preference shares held by the Parent. On the same date the Group issued a contingent capital note with a par value of £200 million to the Parent. This qualified as an Alternative tier 1 (AT1) instrument for regulatory purposes under CRD IV and is included in Other equity instruments.

On 26 November 2015 the Group repaid £523 million of subordinated debt to the Parent. On the same date the Parent made a capital contribution of £165 million. In addition the Group issued to the Parent a further contingent capital note with a par value of £100 million, which also qualified as an AT1 instrument and is included within other equity instruments. The Group also issued a £200 million subordinated floating rate note to the Parent on that date.

See notes 29, 31 and 32 for further details of the transactions.

(ii) During 2015, the Group continued the process of moving from a gross flow cash hedging model to a derivatives hedging model. As a result, £1.9 billion (2014: £6.8 billion) of balances owed to the Parent and £2 billion (2014: £6.7 billion) of balances owed from the Parent were repaid during 2015.

(iii) During the year ended 31 December 2015 the Group purchased eight (2014: 18) freehold and long leasehold properties from the Parent for £3 million.

(iv) In 2013 the Group started to develop its own internal transfer pricing process, which was based on its own deposit funding costs rather than the funding cost of the Parent. It was agreed that the Group would phase off the Parent's transfer pricing funding methodology gradually over the three years from 2012 to 2014. This phase off has resulted in the net funding income being allocated to the Group from the Parent reducing to nil by 2015, compared to £30 million for the year ended 31 December 2014, with the changes in methodology having contributed to this result.

(v) During the year ended 31 December 2014 the Group purchased a portfolio of mortgage assets from the Parent for £1.4 billion. There were no such purchases in 2015. These assets were measured on initial recognition at fair value. To establish fair value the Group used a valuation technique which reasonably reflects how the market could be expected to price the assets, and whose variables include market data. The assets purchased were external to the Group and are reported under loans and advances to customers.

(vi) In 2014, the Group recognised an asset of £15 million in respect of the taxation benefit of trading losses acquired from its ultimate Parent. The Group did not provide any consideration for the losses and this amount was therefore treated as a capital contribution received.

36 Related party transactions (continued)

Summary	31 December 2015 Parent[1] £m	31 December 2014 Parent[1] £m
Income statement		
Interest income (note 2)	48	119
Interest expense (note 3)	(86)	(127)
Fees and commissions expense (note 4)	(7)	(6)
Net trading expense (note 5)	(1)	(8)
Operating expenses paid for services provided[2] (note 7)	(194)	(202)
Total	**(240)**	**(224)**
Assets		
Loans and advances to banks (note 15)	2,696	5,102
Loans and advances to customers (note 17)	6	7
Other assets (note 22)	11	14
Derivatives (note 14)	43	56
Total assets	**2,756**	**5,179**
Liabilities		
Deposits from banks (note 23)	2,589	5,193
Customer accounts (note 24)	6	10
Other liabilities (note 25)	9	14
Derivatives (note 14)	50	56
Subordinated liabilities (note 29)	335	658
Total liabilities	**2,989**	**5,931**
Net exposure	**(233)**	**(752)**

[1] *This relates to amounts in respect of the Parent and entities controlled by the Parent.*
[2] *Included within this amount is a fee of £42,700 (year ended 31 December 2014: £48,000) to Archie Kane, Governor and Non-executive Director of the Parent who was appointed as consultant advisor to the Group in June 2012.*

(b) Pension funds

The Group provides a range of normal banking and financial services, which are not material to the Group, to various pension funds operated by the BoI Group for the benefit of employees, which are conducted on similar terms to third party transactions.

36 Related party transactions (continued)

(c) Transactions with key management personnel (KMP)

i. Loans to Directors

The following information is presented in accordance with Section 413 of the Companies Act 2006. For the purposes of the Companies Act disclosures, 'Directors' means the Board of Directors and any past Directors who were Directors during the relevant year.

Companies Act disclosures Loans to Directors 2015	**Balance as at 1 January 2015 £'000**	**Balance as at 31 December 2015[1,3] £'000**	**Aggregate maximum amount outstanding during the year ended 31 December 2015[2] £'000**
Loans to Directors	250	23	250

Companies Act Disclosures Loans to Directors 2014	Balance as at 1 January 2014 £'000	Balance as at 31 December 2014[1,3] £'000	Aggregate maximum amount outstanding during the year ended 31 December 2014[2] £'000
Loans to Directors	602	250	707

[1] Balance includes principal and interest.
[2] These figures include credit card exposures at the maximum statement balance. In all cases, Directors have not exceeded their approved limits. The maximum approved credit limit on any credit card held by any Director is £10,000.
[3] Foreign currency amounts are converted to GBP, using exchange rates at 31 December 2015, 31 December 2014 and the average exchange rate for the year, as appropriate.

All loans to Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons, unconnected with the Group and of similar financial standing except a credit card and a current account (with overdraft facility) for Executive Directors, which are on terms similar to those available to staff generally. They do not involve more than the normal risk of collectability.

ii. Key management personnel (KMP) - loans and deposits (IAS 24)

For the purposes of IAS 24 Related Party Disclosures, 'key management personnel' (KMP) comprise the Directors of the Board, the COO, the Managing Director of Northern Ireland and Business Banking GB, the Managing Director of Post Office Businesses, the Managing Director of AA Business, the Director of Consumer Banking UK, the HR Director and any past KMP, who was a KMP during the relevant year.

KMP, including Directors, hold products with the Group in the ordinary course of business. All loans to non-executive Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to KMP, other than non-executive Directors, are made on terms similar to those available to staff generally, and / or in the ordinary course of business on normal commercial terms.

36 Related party transactions (continued)

The aggregate amounts outstanding, in respect of all loans, quasi-loans and credit transactions, between the Group, its KMP (as defined above) and KMP of the Parent, including members of their close families and entities influenced by them are shown in the table below.

2015 **Key management personnel (KMP)**	**Balance as at 1 January 2015[5] £'000**	**Balance as at 31 December 2015[1,4] £'000**	**Aggregate maximum amounts outstanding during the year ended 31 December 2015[2,3] £'000**	**Total number of KMP as at 1 January 2015**	**Total number of KMP as at 31 December 2015**
Loans	254	25	333	5	5
Deposits	269	569	2,759	14	14

There are no provisions in respect of any failure, or anticipated failure, to repay any of the above loans or interest thereon. There is no interest, which, having fallen due on the above loans has not been paid.

There are no guarantees or security entered into by the Group in favour of any of its Directors. A guarantee of €400,000 has been entered into by one Director, in favour of the Group. There was no call on this guarantee during the year ended 31 December 2015.

2014 Key management personnel (KMP)	Balance as at 1 January 2014[5] £'000	Balance as at 31 December 2014[1,4] £'000	Aggregate maximum amounts outstanding during the year ended 31 December 2014[2,3] £'000	Total number of KMP as at 1 January 2014	Total number of KMP as at 31 December 2014
Loans	611	254	724	9	5
Deposits	886	269	1,553	16	14

1 Balance includes principal and interest.
2 These figures include credit card exposures at the maximum statement balance. In all cases, KMP have not exceeded their approved limits. The maximum approved credit limit on any credit card held by KMP is £10,000.
3 The maximum amount outstanding was calculated using the maximum balance on each account. The highest maximum outstanding liability, during the year ended 31 December 2015 for any member of KMP and their close family did not exceed £321,206 (31 December 2014: £699,026). The closing balance includes interest accrued and interest paid; the maximum balance includes interest paid.
4 Foreign currency amounts are converted to GBP, using exchange rates at 31 December 2015, 31 December 2014 and the average exchange rate for the year, as appropriate.
5 The opening balance includes balances and transactions with KMP who retired during the previous year and are not therefore related parties during the year.

CRD IV Pillar 3 disclosures for the Group also include information on remuneration. This can be found on the website of the Bank of Ireland (UK) plc at www.bankofirelanduk.com.

36 Related party transactions (continued)

(d) Compensation of key management personnel (KMP)	**Year ended 31 December 2015 £'000**	Year ended 31 December 2014 £'000
Remuneration		
Salaries and other short term benefits	3,249	2,972
Pension benefits	285	238
Total	**3,534**	**3,210**

- Total compensation paid to KMP was £3.5 million for the year ended 31 December 2015 and of this amount £1.5 million was paid to Directors. This compared to £3.2 million and £1.4 million respectively for the comparative year ended 31 December 2014;
- During the year ended 31 December 2015 or the year ended 31 December 2014, there was no remuneration paid to the Executive Directors of the Parent in respect of their services as non-executive Directors of the Group, or for managing the Group or its subsidiaries;
- The highest total amount paid to any Director for the year ended 31 December 2015 was £307,087, comprising salary and other benefits (year ended 31 December 2014: £338,958). The total accrued pension and accrued lump sum of this Director at the year ended 31 December 2015 is £nil;
- Two Executive Directors accrued retirement benefits under a defined benefit BoI Group Pension Scheme for year ended 31 December 2015, one of whom retired during the year (two Executive Directors for year ended 31 December 2014, none of whom retired during the year);
- Pension costs were paid by the Parent and the costs incurred recharged on an agreed basis through the service level agreements; and
- There were no additional benefits, paid by the Group or any other party, in respect of compensation to the Directors for their services for managing the Group or its subsidiaries, either for the year ended 31 December 2015 or the year ended 31 December 2014.

37 Offsetting financial assets and liabilities

The following tables set out the effect or potential effect of netting arrangements on the Group's financial position. This includes the effect or potential effect of rights of set-off associated with the Group's recognised financial assets and recognised financial liabilities that are subject to an enforceable master netting arrangement, irrespective of whether they are set off in accordance with paragraph 42 of IAS 32.

31 December 2015 **Assets**	**Gross amounts of recognised financial assets £m**	**Gross amounts of recognised financial liabilities[1] set off in the balance sheet £m**	**Net amounts of financial assets presented in the balance sheet £m**
Loans and advances to customers	1,065	(1,065)	-

31 December 2014 Assets	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities[1] set off in the balance sheet £m	Net amounts of financial assets presented in the balance sheet £m
Loans and advances to customers	1,163	(1,163)	-

[1] *Loans and advances to customers represent loan agreements entered into by the Group that are fully collateralised by the Parent. Ultimate recourse is to the Parent. These loans are netted on the balance sheet against deposits received from the Parent.*

38 Interests in other entities

The Group holds ordinary shares and voting rights in a number of entities.

Names	Principal activity	Country of incorporation	Statutory year end	Percentage of ordinary share capital held %	Percentage of voting rights held %
NIIB Group Limited	Personal finance and leasing	Northern Ireland	31 December	100	100
Northridge Finance Limited	Personal finance and leasing	Northern Ireland	31 December	100	100
Bank of Ireland Personal Finance Limited	Personal finance	Northern Ireland	31 December	100	100
Bank of Ireland Trustee Company Limited	Client Investment Services	Northern Ireland	31 December	100	100
Midasgrange Limited	Retail Financial Services	England and Wales	30 September	100	100
First Rate Exchange Services Holdings Limited (FRESH)[1]	Foreign Exchange	England and Wales	31 March	50	50
First Rate Exchange Services Limited (FRES)	Foreign Exchange	England and Wales	31 December	50	50

[1] *This entity is a joint venture with the UK Post Office in which the Group holds 50% of the equity of the company. FRESH holds 100% of the equity in FRES.*

Copies of the financial statements of these undertakings can be obtained from the relevant addresses listed on page 189.

Management has assessed its involvement in all entities in accordance with the definitions and guidance in:
- IFRS 10: Consolidated Financial Statements;
- IFRS 11: Joint Arrangements;
- IAS 28: Investments in Associates and Joint Ventures; and
- IFRS 12: Disclosure of interests in other entities.

The Group controls an entity when it has power over the entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Generally, control or significant influence is identified by the level of ownership of ordinary shares and the level of management involvement in the relevant activities of the entity. However, in the case of 'structured entities', management's judgement is required in determining how the investee should be accounted for.

Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. The Group assesses whether it has power over the relevant activities in assessing control over such an entity by considering factors such as who manages the assets of these entities, if the Group has lending to them or has a residual interest in them.

In the case of structured entities, the Group considers it has control over the investee where it is a securitisation vehicle whose purpose is to finance specific loans and advances to customers. In each case the Group considers that it has power over the entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group has a structured entity (Bowbell No 1 plc), whose purpose is to acquire mortgage loans and other financial assets and issue mortgage backed securities. This entity is consolidated in the Group's financial statements. All of the assets and liabilities are restricted. The Group does not foresee any significant events or circumstances that could expose it to a loss as a result of its holding in Bowbell No 1 plc.

Total assets amounted to £4 billion (31 December 2014: £4.7 billion) and liabilities amounted to £2.1 billion (31 December 2014: £2.7 billion). There are no contractual arrangements that require the Group to provide financial support. In the years ended 31 December 2015 or 31 December 2014 the Group did not provide financial or other support, nor does it expect or intend to do so.

38 Interests in other entities (continued)

		31 December 2015		31 December 2014	
Activity	**Company**	**Loan assets £m**	**Notes in issue £m**	Loan assets £m	Notes in issue £m
Acquiring mortgage loans and issuing mortgage backed securities	Bowbell No 1 plc	4,047	2,070	4,671	2,693

The assets of Bowbell No 1 plc (Bowbell) are consolidated in the Group's financial statements and are collateral for its obligations. The creditors of Bowbell have no recourse to the Group.

The Group holds all notes issued by Bowbell and at 31 December 2015, £20 million (31 December 2014: £40 million) of these securities was pledged to secure funding against Indexed Long Term Repos.

The ultimate holding company of Bowbell, owning 100% of its ordinary share capital and voting rights, is Bowbell No 1 Holdings Limited. Bowbell No 1 plc was incorporated in Great Britain.

There are no significant restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group.

39 Post balance sheet events

There are no post balance sheet events that require disclosure in the financial statements.

40 Approval of financial statements

The Board of Directors approved the financial statements on 2 March 2016.

Bank Financial Statements and Notes

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Independent auditors' report to the members of Bank of Ireland (UK) plc

Report on the Company financial statements

Our Opinion

In our opinion, Bank of Ireland (UK) plc's company financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

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

- the Bank balance sheet as at 31 December 2015;
- the Bank income statement and the Bank statement of other comprehensive income for the year then ended;
- the Bank cash flow statement for the year then ended;
- the Bank statement of changes in equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the EU.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 85, 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) (ISAs (UK & Ireland)). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the group financial statements of Bank of Ireland (UK) plc for the year ended 31 December 2015.

Hamish Anderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 March 2016

The maintenance and integrity of the Bank of Ireland UK website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Bank Financial Statements and Notes

Bank income statement
for the year ended 31 December 2015

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Interest income	777	868
Interest expense	(320)	(405)
Net interest income	**457**	**463**
Fee and commission income	115	114
Fee and commission expense	(118)	(108)
Net trading expense	(1)	-
Other operating income	76	32
Total operating income	**529**	**501**
Operating expenses	(289)	(276)
Operating profit before impairment charges on financial assets	**240**	**225**
Impairment charges on financial assets	(42)	(62)
Operating profit	**198**	**163**
Profit on disposal of business activities[3]	41	-
Profit before taxation	**239**	**163**
Taxation charge	(32)	(19)
Profit for the year	**207**	**144**

Bank statement of other comprehensive income
for the year ended 31 December 2015

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Profit for the year	**207**	**144**
Items that may be reclassified to profit or loss in subsequent periods		
Net change in cash flow hedge reserve (net of tax)[1]	(15)	26
Net change in available for sale reserve (net of tax)[2]	(1)	6
Total comprehensive income for the year, net of tax	**191**	**176**

[1] *Net of tax of £2 million (2014: £6 million).*
[2] *Net of tax of £0.3 million (2014: £2 million).*
[3] *Refer to note 11 in the consolidated financial statement for further details.*

Bank balance sheet
as at 31 December 2015

	Notes	31 December 2015 £m	31 December 2014 £m
Assets			
Cash and balances at central banks	c	3,269	2,964
Items in the course of collection from other banks		147	276
Derivative financial instruments	d	45	59
Loans and advances to banks	e	3,789	6,143
Available for sale financial assets	f	956	991
Loans and advances to customers	g	19,495	18,407
Investment in subsidiaries	i	9	9
Interest in joint venture		2	2
Intangible assets	j	30	39
Property, plant and equipment	k	7	4
Current tax assets		-	6
Other assets	l	131	91
Deferred tax assets	r	80	98
Total assets		**27,960**	**29,089**
Equity and liabilities			
Deposits from banks	n	2,603	5,231
Customer accounts	o	21,702	20,187
Items in the course of transmission to other banks		74	221
Derivative financial instruments	d	56	64
Other liabilities	p	1,170	1,069
Provisions	q	13	8
Subordinated liabilities	s	335	658
Total liabilities		**25,953**	**27,438**
Equity			
Share capital	u	851	1,151
Retained earnings		277	70
Other reserves		579	430
Other equity instruments	v	300	-
Total equity		**2,007**	**1,651**
Total equity and liabilities		**27,960**	**29,089**

The financial statements on pages 162 to 188 were approved by the Board on 2 March 2016 and were signed on its behalf by:

Lorraine Smyth
Director
2 March 2016
Company Number: 07022885

Bank statement of changes in equity for the year ended 31 December 2015

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Share capital		
Balance at 1 January	1,151	1,151
Repurchased of preference shares	(300)	-
Balance at 31 December	**851**	**1,151**
Retained earnings		
Balance at 1 January	70	(74)
Profit for the year	207	144
Balance at 31 December	**277**	**70**
Other equity instruments		
Balance at 1 January	-	-
Issued during the period	300	-
Balance at 31 December	**300**	**-**
Other reserves:		
Available for sale reserve		
Balance at 1 January	3	(3)
Changes in fair value, net of hedge accounting adjustments	(1)	8
Deferred tax on reserve movements	-	(2)
Balance at 31 December	**2**	**3**
Cash flow hedge reserve		
Balance at 1 January	26	-
Changes in fair value	(17)	32
Deferred tax on reserve movements	2	(6)
Balance at 31 December	**11**	**26**
Capital contribution		
Balance at 1 January	401	386
Contribution during the period	165	15
Transfer to capital redemption reserve fund[1]	(300)	-
Balance at 31 December	**266**	**401**
Capital redemption reserve fund		
Balance at 1 January	-	-
Transfer from capital contribution[1]	300	-
Balance at 31 December	**300**	**-**
Total other reserves	**579**	**430**
Total shareholders' equity	**2,007**	**1,651**
Included in the above:		
Total comprehensive income for the year, net of tax	**191**	**176**

[1] *See page 108 and note 31 for further information.*

Bank cash flow statement
for the year ended 31 December 2015

	Notes	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Cash flows from operating activities			
Profit before taxation		239	163
Interest expense on subordinated liabilities and other capital instruments		50	52
Depreciation and amortisation	f,j	12	11
Impairment charges on loans and advances to customers	h	42	62
Profit on disposal of business activities		(41)	-
Net change in prepayments and interest receivable	l	8	9
Net change in accruals and interest payable	p	9	(19)
Dividend income		(75)	(30)
Charge for provisions	q	17	15
Other non-cash items		5	-
Cash flows from operating activities before changes in operating assets and liabilities		**266**	**263**
Net change in items in the course of collection (to) / from banks		(18)	33
Net change in derivative financial instruments	d	(8)	(9)
Net change in loans and advances to banks	e	1,963	6,871
Net change in loans and advances to customers	g	(1,128)	(390)
Net change in deposits from banks	n	(2,628)	(6,407)
Net change in customer accounts	o	1,516	(694)
Net change in provisions	q	(13)	(16)
Net change in other assets and other liabilities	l,q	45	39
Net cash flow from operating assets and liabilities		**(271)**	**(573)**
Net cash flow from operating activities before taxation		**(5)**	(310)
Taxation (paid) / refunded		(5)	12
Net cash flow from operating activities		**(10)**	**(298)**
Investing activities (section (a) - see below)		139	(457)
Financing activities (section (b) - see below)		(208)	(52)
Net change in cash and cash equivalents		**(79)**	**(807)**
Opening cash and cash equivalents		4,922	5,729
Closing cash and cash equivalents	c	**4,843**	**4,922**

Bank cash flow statement
for the year ended 31 December 2015 (continued)

	Notes	**Year ended 31 December 2015 £m**	Year ended 31 December 2014 £m
(a) Investing activities			
Profit on disposal of business activities		41	-
Additions to available for sale financial assets	f	-	(553)
Redemptions and disposals of available for sale financial assets	f	26	71
Dividends received from joint venture and subsidiaries		75	30
Additions to intangible assets	j	-	(1)
Additions to property, plant and equipment	k	(3)	(4)
Cash flows from investing activities		**139**	**(457)**
(b) Financing activities			
Interest paid on subordinated liabilities		(50)	(52)
Capital contribution		165	-
Repurchase of subordinated liabilities	s	(523)	-
Issue of subordinated liabilities	s	200	-
Repurchase of preference shares	u	(300)	-
Net proceeds from the issue of other equity instruments	v	300	-
Cash flows from financing activities		**(208)**	**(52)**

Notes to the Bank financial statements

a Accounting policies

The Bank financial statements comprise the income statement, the statement of other comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the notes to the Bank financial statements.

The financial statements have been prepared on the going concern basis, in accordance with IFRS and IFRS IC interpretations, as adopted for use in the EU and as applied in accordance with the provisions of the Companies Act 2006.

The financial statements have been prepared under the historical cost convention, as modified to include the fair valuation of certain financial instruments and properties. They have been prepared to allow the reader to assess the performance and position of the Bank.

The financial statements reflect the financial position of the Bank only and do not consolidate the results of any subsidiaries.

The accounting policies of the Bank are the same as those of the Group which are set out in the Group accounting policies section on pages 93 to 114, where applicable.

The Bank's investment in subsidiaries is stated at cost less impairment.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. A description of the critical estimates and judgements is set out on pages 113 to 114 in the accounting policies section.

b Auditors' remuneration

	Year ended 31 December 2015 £000's	Year ended 31 December 2014 £000's
Fees payable for the audit of the Bank and Group financial statements	413	401
Audit related assurance services	9	44
Tax advisory service	15	-
Other assurance services	22	19
Auditors' remuneration	**459**	**464**

The Group's Audit Committee has reviewed the level of fees and is satisfied that it has not affected the independence of the auditors. Audit related assurance services consist of fees in connection with accounting matters. It is the Bank's policy to subject all major assignments to a competitive tender process.

c Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances:

	31 December 2015 £m	31 December 2014 £m
Cash	36	46
Balances with central banks	3,233	2,918
Total cash balances included in cash and cash equivalents	**3,269**	**2,964**
Loans and advances to banks	3,789	6,143
Less: amounts with a maturity of three months or more	(2,215)	(4,185)
Total loans and advances to banks included in cash and cash equivalents	**1,574**	**1,958**
Total cash and cash equivalents	**4,843**	4,922
Due from the Parent	471	908

d Derivative financial instruments

The notional amounts and fair values of derivative instruments held by the Bank are set out in the tables below. Further information on derivatives is outlined in note 14 of the consolidated financial statements.

		Fair Value	
31 December 2015	**Contract / notional amount £m**	**Assets £m**	**Liabilities £m**
Derivatives held for trading			
Foreign exchange derivatives			
Currency forwards	149	1	3
Currency forwards - with the Parent	238	3	1
Currency swaps	189	1	3
Currency swaps - with the Parent	206	3	1
Total foreign exchange derivatives held for trading	**782**	**8**	**8**
Interest rate derivatives			
Interest rate swaps - with the Parent	408	4	1
Total interest rate derivatives held for trading	**408**	**4**	**1**
Total derivatives held for trading	**1,190**	**12**	**9**
Derivatives held as fair value hedges			
Interest rate swaps - with the Parent	4,193	7	43
Derivatives held as cash flow hedges			
Interest rate swaps - with the Parent	5,603	26	4
Total derivative assets / liabilities held for hedging	**9,796**	**33**	**47**
Total derivative assets / liabilities	**10,986**	**45**	**56**

d Derivative financial instruments (continued)

31 December 2014	Contract / notional amount £m	Fair Value Assets £m	Fair Value Liabilities £m
Derivatives held for trading			
Foreign exchange derivatives			
Currency forwards	198	2	6
Currency forwards - with the Parent	323	6	2
Currency swaps	160	1	2
Currency swaps - with the Parent	160	2	1
Total foreign exchange derivatives held for trading	841	11	11
Interest rate derivatives			
Interest rate swaps - with the Parent	334	1	1
Total interest rate derivatives held for trading	334	1	1
Total derivatives held for trading	1,175	12	12
Derivatives held as fair value hedges			
Interest rate swaps - with the Parent	3,512	8	52
Derivatives held as cash flow hedges			
Interest rate swaps - with the Parent	4,821	39	-
Total derivative assets / liabilities held for hedging	8,333	47	52
Total derivative assets / liabilities	9,508	59	64

The years in which the hedged cash flows are expected to occur are shown in the tables below:

31 December 2015	**Up to 1 year £m**	**1 to 2 years £m**	**2 to 5 years £m**	**Over 5 years £m**	**Total £m**
Forecast receivable cash flows	18	11	44	23	96
Forecast payable cash flows	(1)	(3)	(2)	-	(6)

31 December 2014	Up to 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Forecast receivable cash flows	14	8	23	11	56
Forecast payable cash flows	-	-	-	-	-

The hedged cash flows are expected to impact on the income statement in the following years:

31 December 2015	**Up to 1 year £m**	**1 to 2 years £m**	**2 to 5 years £m**	**Over 5 years £m**	**Total £m**
Forecast receivable cash flows	19	11	47	19	96
Forecast payable cash flows	(1)	(3)	(2)	-	(6)

31 December 2014	Up to 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Forecast receivable cash flows	15	7	16	18	56
Forecast payable cash flows	-	-	-	-	-

During the years ended 31 December 2015 and 31 December 2014, there were no forecast transactions to which the Bank had applied hedge accounting which were no longer expected to occur.

e Loans and advances to banks

	31 December 2015 £m	31 December 2014 £m
Placements with other banks	2,698	5,108
Mandatory deposits with central banks	1,091	1,035
Loans and advances to banks	**3,789**	**6,143**
Amounts include:		
Due from the Parent	2,686	5,093

Represented in placements with other banks are:

- an amount of £2,686 million (31 December 2014: £5,093 million) arising from transactions with the Parent, which primarily relates to the management of the Bank's interest rate risk position. Amounts due to the Parent of £2,586 million (31 December 2014: £5,190 million) are also disclosed in note n. From a counterparty credit risk perspective, while these two amounts are disclosed on a gross basis, the Bank has in place a contractual Master Netting Agreement with the Parent, whereby, in the event of default of either party, all amounts due or payable will be settled immediately on a net basis; and
- £193 million of loans included in amounts due from the Parent, whose return is dependent on movements in various external indices (31 December 2014: £281 million). These loans are designated at fair value through profit or loss.

During the year ended 31 December 2015 £2 billion of balances were repaid by the Parent. For further details, refer to note 36 in the consolidated financial statements.

Represented in mandatory deposits with central banks are:

- an amount of £1,055 million relating to collateral with the Bank of England in respect of notes in circulation (31 December 2014: £999 million). £590 million of this refers to non-interest bearing collateral (31 December 2014: £553 million); and
- an amount of £36 million in relation to mandatory cash ratio deposits, which are non-interest bearing deposits placed with the Bank of England under the provisions of the Bank of England Act 1998 (31 December 2014: £36 million).

f Available for sale financial assets

	31 December 2015 £m	31 December 2014 £m
Government bonds	574	580
Debt securities listed	382	410
Equity securities listed	-	1
Available for sale financial assets	**956**	**991**

At 31 December 2015 and at 31 December 2014, no available for sale financial assets were pledged in sale and repurchase agreements.

The movements on available for sale financial assets are analysed as follows:	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
At 1 January	991	482
Revaluation adjustments	(6)	30
Additions	-	553
Redemptions / Disposals	(26)	(71)
Amortisation	(3)	(3)
At 31 December	**956**	**991**

g Loans and advances to customers

	31 December 2015 £m	31 December 2014 £m
Residential mortgages	15,465	14,187
Non-property SME and corporate	2,634	2,531
Commercial property and construction	1,376	1,917
Consumer	463	375
Gross loans and advances to customers	**19,938**	**19,010**
Less: allowance for impairment charges on loans and advances to customers (note h)	(443)	(603)
Loans and advances to customers	**19,495**	**18,407**
Amounts include:		
Due from subsidiaries	1,406	1,133
Due from entities controlled by the Parent	6	7

h Impairment provisions

The following tables show the movement in the impairment provisions during the year ended 31 December 2015 and 31 December 2014:

2015	Residential mortgages £m	Non property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total impairment provisions £m
Provision at 1 January 2015	33	128	418	24	603
Transfer between provisions	-	(4)	4	-	-
Exchange adjustments	-	(1)	(4)	-	(5)
Provisions utilised	(4)	(37)	(165)	(11)	(217)
Recoveries	-	1	7	4	12
Other movements	(4)	2	9	1	8
Charge to the income statement	5	2	26	9	42
Provision at 31 December 2015	**30**	**91**	**295**	**27**	**443**

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h Impairment provisions (continued)

2014	Residential mortgages £m	Non property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total impairment provisions £m
Provision at 1 January 2014	41	129	513	24	707
Transfer between provisions	-	11	(11)	-	-
Exchange adjustments	-	(2)	(5)	-	(7)
Provisions utilised	(7)	(31)	(127)	(17)	(182)
Recoveries	1	1	2	4	8
Other movements	(1)	3	12	1	15
Charge to the income statement	(1)	17	34	12	62
Provision at 31 December 2014	33	128	418	24	603

i Investment in subsidiaries

	31 December 2015 £m	31 December 2014 £m
Investment in subsidiaries	9	9
Investment in subsidiaries	**9**	**9**

Impairment review

The Bank's investment in subsidiaries are reviewed if events or circumstances indicate that impairment may have occurred by comparing the carrying value of each investment to its recoverable amount. An impairment charge arises if the carrying value exceeds the recoverable amount. No impairment was identified in the year ended 31 December 2015 or the year ended 31 December 2014.

The interests in all entities held by the Group is disclosed in note 38.

j Intangible assets

2015	Computer software internally generated £m	Other externally purchased intangible assets £m	Total £m
Cost			
At 1 January 2015	34	76	110
At 31 December 2015	**34**	**76**	**110**
Accumulated amortisation			
At 1 January 2015	(30)	(41)	(71)
Charge to the income statement	(4)	(5)	(9)
At 31 December 2015	**(34)**	**(46)**	**(80)**
Net book value at 31 December 2015	**-**	**30**	**30**

2014	Computer software internally generated £m	Other externally purchased intangible assets £m	Total £m
Cost			
At 1 January 2014	34	75	109
Additions	-	1	1
At 31 December 2014	34	76	110
Accumulated amortisation			
At 1 January 2014	(26)	(37)	(63)
Charge to the income statement	(4)	(4)	(8)
At 31 December 2014	(30)	(41)	(71)
Net book value at 31 December 2014	4	35	39

Refer to note 20 in the consolidated financial statements for further details.

k Property, plant and equipment

Freehold land and buildings and long leaseholds (held at fair value)	**31 December 2015 £m**	31 December 2014 £m
Cost or valuation		
At 1 January	4	-
Additions	3	4
At 31 December	**7**	4
Net book value at 31 December	**7**	**4**

Refer to note 21 in the consolidated financial statements for further details.

l Other assets

	31 December 2015 £m	31 December 2014 £m
Sundry and other receivables	61	14
Interest receivable	31	36
Accounts receivable and prepayments	39	41
Other assets	**131**	**91**
Amounts include:		
Due from the Parent	11	14
Maturity profile of other assets		
Amounts receivable within 1 year	107	63
Amounts receivable after 1 year	24	28

m Credit risk exposures

The following tables represent the credit risk exposures of the Bank for its loans and advances to customers and other financial instruments. The Group exposures can be found in Risk Management section 2.1.

Asset quality - loans and advances to customers

The table and analysis below summarise the Bank's loans and advances to customers by risk profile (before impairment provisions).

31 December 2015	**Residential mortgages £m**	**Non-property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total loans and advances to customers £m**	**Total loans and advances to customers %**
High quality	14,955	264	56	432	15,707	79%
Satisfactory quality	23	2,006	322	-	2,351	12%
Acceptable quality	36	83	137	-	256	1%
Lower quality but not past due nor impaired	3	106	216	-	325	2%
Neither past due nor impaired	**15,017**	**2,459**	**731**	**432**	**18,639**	**94%**
Past due but not impaired	375	16	104	14	509	2%
Impaired	73	159	541	17	790	4%
Total	**15,465**	**2,634**	**1,376**	**463**	**19,938**	**100%**

31 December 2014	Residential mortgages £m	Non-property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total loans and advances to customers £m	Total loans and advances to customers %
High quality	13,607	292	87	341	14,327	75%
Satisfactory quality	20	1,793	416	-	2,229	12%
Acceptable quality	42	83	183	-	308	2%
Lower quality but not past due nor impaired	3	84	290	-	377	2%
Neither past due nor impaired	13,672	2,252	976	341	17,241	91%
Past due but not impaired	441	28	95	16	580	3%
Impaired	74	251	846	18	1,189	6%
Total	14,187	2,531	1,917	375	19,010	100%

At 31 December 2015 included in the non-property SME and corporate book is £1,412 million (31 December 2014: £1,140 million) in relation to intra-group funding balances with the Bank's subsidiaries with no banking license, the largest balance being £1,260 million (31 December 2014: £977 million) relating to balances with NIIB. All of these balances were classified as satisfactory quality.

m Credit risk exposures (continued)

Financial assets - 'past due but not impaired': loans and advances to customers

The tables below provide an aged analysis of loans and advances to customers 'past due but not impaired' by asset classification.

31 December 2015	**Residential mortgages £m**	**Non-property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Past due up to 30 days	87	8	5	8	108
Past due 31-60 days	185	7	33	3	228
Past due 61-90 days	46	1	66	3	116
Past due more than 90 days but not impaired	57	-	-	-	57
Total	**375**	**16**	**104**	**14**	**509**

31 December 2014	Residential mortgages £m	Non-property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total £m
Past due up to 30 days	91	9	16	8	124
Past due 31-60 days	219	14	76	5	314
Past due 61-90 days	55	5	3	3	66
Past due more than 90 days but not impaired	76	-	-	-	76
Total	441	28	95	16	580

Financial assets - 'impaired': loans and advances to customers

The tables below provide an analysis of impaired loans and advances to customers by asset classification.

31 December 2015	**Advances £m**	**Impaired loans £m**	**Impaired loans as % of advances %**	**Impairment provisions £m**	**Impairment provisions as % of impaired loans %**
Residential mortgages	15,465	73	-	30	41%
Non-property SME and corporate	2,634	159	6%	91	57%
Commercial property and construction	1,376	541	39%	295	55%
Consumer	463	17	4%	27	159%
Total	**19,938**	**790**	**4%**	**443**	**56%**

31 December 2014	Advances £m	Impaired loans £m	Impaired loans as % of advances %	Impairment provisions £m	Impairment provisions as % of impaired loans %
Residential mortgages	14,187	74	1%	33	44%
Non-property SME and corporate	2,531	251	10%	128	51%
Commercial property and construction	1,917	846	44%	418	49%
Consumer	375	18	5%	24	133%
Total	19,010	1,189	6%	603	51%

m Credit risk exposures (continued)

Impairment provision

The tables below split out the impairment provisions by its nature and composition.

	31 December 2015 £m	31 December 2014 £m
Specific provisions	380	530
Incurred but not reported (IBNR)	63	73
Total impairment provision	**443**	**603**

	31 December 2015			31 December 2014		
	Specific £m	**IBNR £m**	**Total £m**	Specific £m	IBNR £m	Total £m
Residential mortgages	2	3	5	4	(5)	(1)
Non-property SME and corporate	2	-	2	20	(3)	17
Commercial property and construction	36	(10)	26	35	(1)	34
Consumer	7	2	9	8	4	12
Total loan impairment charge	**47**	**(5)**	**42**	**67**	**(5)**	**62**

Asset quality: other financial instruments

Other financial instruments include available for sale assets, derivative financial instruments and loans and advances to banks.

Other financial instruments with ratings equivalent to:	**31 December 2015 £m**	31 December 2014 £m
Aaa to Aa3	2,047	2,026
A1 to A3	14	18
Baa1 to Baa3	2,729	-
Ba1 to Ba3	-	5,149
Total	**4,790**	**7,193**

Refer to the Risk Management section for further details on Asset quality: other financial instruments page 60.

n Deposits from banks

	31 December 2015 £m	31 December 2014 £m
Deposits from banks	2,603	5,231
Deposits from banks	**2,603**	**5,231**
Amounts include:		
Due to the Parent	2,586	5,190

Amounts due to the Parent of £2,586 million (31 December 2014: £5,190 million) primarily relates to borrowing in place to fund and manage interest rate risk on the Bank's assets. Refer to note e for details of amounts due from the Parent, and note 36 of the consolidated financial statements in respect of changes in these balances during 2015.

o Customer accounts

	31 December 2015 £m	31 December 2014 £m
Term deposits	10,445	9,564
Demand deposits	8,706	8,372
Interest bearing current accounts	473	431
Non-interest bearing current accounts	2,078	1,820
Customer accounts	**21,702**	**20,187**
Amounts include:		
Due to subsidiaries	129	38
Due to entities controlled by the Parent	6	10

Term deposits include deposits of £193 million (31 December 2014: £281 million), whose return is dependent on movements in various external indices; these deposits are designated at fair value through profit or loss.

p Other liabilities

	31 December 2015 £m	31 December 2014 £m
Accrued interest payable	114	105
Notes in circulation	952	873
Sundry payables	84	71
Accruals and deferred income	20	20
Other liabilities	**1,170**	**1,069**
Amounts include:		
Due to the Parent	9	14
Maturity profile of other liabilities		
Amounts payable within 1 year	1,170	1,068
Amounts payable after 1 year	-	1

q Provisions

	31 December 2015		
	Financial services compensation scheme £m	Other £m	Total £m
At 1 January	8	1	9
Charge to the income statement	11	6	17
Utilised during the year	(13)	-	(13)
At 31 December	**6**	**7**	**13**
Expected utilisation period			
Used within 1 year	6	7	13

q Provisions (continued)

Financial services compensation scheme (FSCS)

The FSCS is the UK's independent statutory compensation fund for customers of authorised financial services firms and pays compensation if a firm is unable to pay claims against it. The FSCS is funded by levies on the industry. Following the default of a number of financial institutions, the FSCS borrowed funds from HM Treasury to cover compensation in relation to protected deposits. The FSCS recovers the interest cost and capital repayments, together with ongoing management expenses, by way of annual levies on member firms. If the assets of the failed institutions are insufficient to repay the Government loan, additional levies may become payable in future periods. The provision at 31 December 2015 represents the Bank's estimate of the interest element of the levy due for the FSCS levy year from 1 April 2015 to 31 March 2016. This is calculated based on the Bank's share of industry protected deposits at 31 December 2014.

Other

As at 31 December 2015 the Bank is holding a provision of £7 million to cover potential payments to customers in relation to various compliance matters. The provision is based upon management's current expectations of future payments to be made to customers.

r Deferred tax

	31 December 2015 £m	31 December 2014 £m
The movement on the deferred tax account is as follows:		
At 1 January	98	117
Income statement charge for year	(21)	(25)
Losses transferred from Parent	-	15
Cash flow hedges - charge to other comprehensive income	2	(6)
Available for sale securities - charge to other comprehensive income	-	(2)
Other	1	(1)
At 31 December	**80**	**98**
Deferred tax assets and liabilities are attributable to the following items:		
Deferred tax assets		
Unutilised tax losses	84	105
Fixed / leased assets	1	-
Total deferred tax assets	**85**	**105**
Deferred tax liabilities		
Cash flow hedges - transferred to reserves	(4)	(6)
Deferred tax on property held at fair value	(1)	(1)
Total deferred tax liabilities	**(5)**	**(7)**
Represented on the balance sheet as follows:		
Deferred tax assets	**80**	**98**

Refer to note 28 of the consolidated financial statements for further details, in relation to the transfer of losses from the Parent.

s Subordinated liabilities

	31 December 2015 £m	31 December 2014 £m
£523 million subordinated floating rate loans 2020	-	523
£90 million subordinated floating rate loans 2022	90	90
£45 million subordinated floating rate loans 2022	45	45
£200 million subordinated floating notes loans 2025	200	-
Subordinated liabilities	**335**	**658**

Refer to note 29 of the consolidated financial statements for further details.

t Contingent liabilities and commitments

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

	31 December 2015 Contractual amount £m	31 December 2014 Contractual amount £m
Contingent liabilities		
Guarantees and irrevocable letters of credit	9	9
Other contingent liabilities	6	6
Total contingent liabilities	**15**	**15**
Commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend		
- revocable or irrevocable with original maturity of 1 year or less	3,360	2,960
- irrevocable with original maturity of over 1 year	168	169
Total commitments	**3,528**	**3,129**

Refer to note 30 of the consolidated financial statements for further details.

u Share capital

	Ordinary shares[1]		Preference shares[1]	
Movements in issued ordinary and preference shares	**31 December 2015 £m**	31 December 2014 £m	**31 December 2015 £m**	31 December 2014 £m
At 1 January	851	851	300	300
Repurchased during the year	-	-	(300)	-
At 31 December	**851**	**851**	**-**	**300**

[1] *All shares issued are in denominations of £1, therefore the table above also represents unit values.*

Refer to note 31 of the consolidated financial statements for further details.

v Other equity instruments

	31 December 2015 £m	31 December 2014 £m
At 1 January	-	-
Additional tier 1 securities issued	300	-
At 31 December	**300**	**-**

On 1 May 2015 the Group issued Additional tier 1 (AT1) securities with a par value of £200 million to the Parent. On 26 November 2015 the Group issued AT1 securities with a par value of £100 million to the Parent.

Refer to note 32 of the consolidated financial statements for further details.

w Liquidity risk

The tables below summarise the maturity profile of the Bank's financial liabilities at 31 December 2015 and at 31 December 2014, based on contractual undiscounted repayment obligations.

The Bank does not manage liquidity risk on the basis of contractual maturity. Instead, the Bank manages liquidity risk based on expected cash flows. The balances shown below will not agree directly to the balance sheet because the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

Customer accounts include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result on a financial penalty being paid by the customer. For such accounts the portion subject to the potential early access has been classified accordingly in the table below as 'demand'.

Maturity profile of financial liabilities

31 December 2015	**Demand £m**	**Up to 3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Deposits from banks	376	14	443	1,775	85	2,693
Customer accounts	13,334	3,457	3,782	1,406	5	21,984
Subordinated liabilities	-	8	17	101	419	545
Contingent liabilities	15	-	-	-	-	15
Commitments	2,712	-	648	168	-	3,528
Total	**16,437**	**3,479**	**4,890**	**3,450**	**509**	**28,765**

31 December 2014	Demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Deposits from banks	852	231	2,298	1,847	113	5,341
Customer accounts	12,309	2,546	3,104	2,285	-	20,244
Subordinated liabilities	-	5	50	251	763	1,069
Contingent liabilities	15	-	-	-	-	15
Commitments	2,608	-	352	169	-	3,129
Total	15,784	2,782	5,804	4,552	876	29,798

w Liquidity risk (continued)

The table below summarises the maturity profile of the Bank's derivative liabilities. The undiscounted cash flows payable on derivatives liabilities are classified according to their contractual maturity.

Maturity profile of derivative liabilities

31 December 2015	**Demand £m**	**Up to 3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Gross settled derivative liabilities - outflows	-	(245)	(172)	(11)	-	(428)
Gross settled derivative liabilities - inflows	-	241	168	11	-	420
Gross settled derivative liabilities - net flows	-	(4)	(4)	-	-	(8)
Net settled derivative liabilities	-	(9)	(12)	(21)	(7)	(49)
Total derivatives cash flows	**-**	**(13)**	**(16)**	**(21)**	**(7)**	**(57)**

31 December 2014	Demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Gross settled derivative liabilities - outflows	-	(394)	(114)	(4)	-	(512)
Gross settled derivative liabilities - inflows	-	387	110	4	-	501
Gross settled derivative liabilities - net flows	-	(7)	(4)	-	-	(11)
Net settled derivative liabilities	-	(8)	(14)	(28)	(4)	(54)
Total derivatives cash flows	-	(15)	(18)	(28)	(4)	(65)

x Measurement basis of financial assets and financial liabilities

The table below analyses the carrying amounts of the financial assets and financial liabilities, by accounting treatment and by balance sheet heading.

	At fair value through profit or loss			**At fair value through other comprehensive income**			
31 December 2015	**Derivatives designated as fair value hedging instruments £m**	**Held for trading £m**	**Designated upon initial recognition £m**	**Available for sale £m**	**Cash flow hedge derivatives £m**	**Held at amortised cost £m**	**Total £m**
Financial assets							
Cash and balances with central banks	-	-	-	-	-	3,269	3,269
Items in course of collection from other banks	-	-	-	-	-	147	147
Derivative financial instruments	7	12	-	-	26	-	45
Loans and advances to banks	-	-	193	-	-	3,596	3,789
Available for sale financial assets	-	-	-	956	-	-	956
Loans and advances to customers	-	-	-	-	-	19,495	19,495
Total financial assets	**7**	**12**	**193**	**956**	**26**	**26,507**	**27,701**
Financial liabilities							
Deposits by banks	-	-	-	-	-	2,603	2,603
Customer accounts	-	-	193	-	-	21,509	21,702
Items in course of transmission to other banks	-	-	-	-	-	74	74
Derivative financial instruments	43	9	-	-	4	-	56
Subordinated liabilities	-	-	-	-	-	335	335
Total financial liabilities	**43**	**9**	**193**	**-**	**4**	**24,521**	**24,770**

x Measurement basis of financial assets and financial liabilities (continued)

31 December 2014	Derivatives designated as fair value hedging instruments £m	Held for trading £m	Designated upon initial recognition £m	Available for sale £m	Cash flow hedge derivatives £m	Held at amortised cost £m	Total £m
	At fair value through profit or loss			At fair value through other comprehensive income			
Financial assets							
Cash and balances with central banks	-	-	-	-	-	2,964	2,964
Items in course of collection from other banks	-	-	-	-	-	276	276
Derivative financial instruments	8	12	-	-	39	-	59
Loans and advances to banks	-	-	281	-	-	5,862	6,143
Available for sale financial assets	-	-	-	991	-	-	991
Loans and advances to customers	-	-	-	-	-	18,407	18,407
Total financial assets	8	12	281	991	39	27,509	28,840
Financial liabilities							
Deposits by banks	-	-	-	-	-	5,231	5,231
Customer accounts	-	-	281	-	-	19,906	20,187
Items in course of transmission to other banks	-	-	-	-	-	221	221
Derivative financial instruments	52	12	-	-	-	-	64
Subordinated liabilities	-	-	-	-	-	658	658
Total financial liabilities	52	12	281	-	-	26,016	26,361

The fair value and contractual amount due on maturity, of financial liabilities designated at fair value upon initial recognition, are shown in the table below.

	31 December 2015		31 December 2014	
	Fair values £m	**Contractual amount due on maturity £m**	Fair Values £m	Contractual amount due on maturity £m
Customer accounts	193	185	281	275

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y Transferred financial assets

Securitisation	Carrying amount of assets £m	Carrying amount of associated liabilities £m	Fair value of transferred assets £m	Fair value of associated liabilities (Fair value of notes in issue) £m
Residential mortgage book (Bowbell)[1]	3,901	3,901	3,725	3,725

Nature of risks and rewards to which the entity is exposed

The Bank is exposed substantially to all risks and rewards including credit and market risk associated with the transferred assets.

The Bowbell mortgage book is ring-fenced whereby the cash flows associated with assets can only be used to repay the Bowbell notes holders plus associated issuance fees or costs.

Entity continuing to recognise assets to the extent of its continuing involvement

The Bank is not recognising any asset to the extent of its continuing involvement.

[1] *For the purposes of this disclosure, associated liabilities include liabilities issued by Bowbell, held by the Bank.*

z Fair value of assets and liabilities

Fair value hierarchy

Further information on fair value, including the definitions of level 1, level 2 and level 3 is shown in note 35 of the consolidated financial statements.

31 December 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets held at fair value				
Derivative financial instruments	-	45	-	45
Loans and advances to banks	-	193	-	193
Available for sale financial assets	956	-	-	956
Non-financial assets held at fair value				
Property held at fair value	-	-	7	7
Total assets held at fair value	**956**	**238**	**7**	**1,201**
As a % of fair value assets	**80%**	**20%**	**-**	**100%**
Financial liabilities held at fair value				
Customer accounts	-	193	-	193
Derivative financial instruments	-	56	-	56
Total financial liabilities held at fair value	**-**	**249**	**-**	**249**
As a % of fair value liabilities	**-**	**100%**	**-**	**100%**

z Fair value of assets and liabilities (continued)

31 December 2015	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Fair value of financial assets held at amortised cost				
Loans and advances to banks	-	3,656	-	3,656
Loans and advances to customers	-	-	19,496	19,496
Total	**-**	**3,656**	**19,496**	**23,152**
Fair value of financial liabilities held at amortised cost				
Deposits from banks	-	2,627	-	2,627
Customer accounts	-	21,545	-	21,545
Subordinated liabilities	-	366	-	366
Total	**-**	**24,538**	**-**	**24,538**

The Bank had non-financial assets held at fair value on the balance sheet in Level 3 at 31 December 2015 and 31 December 2014 due to the purchase of freehold land and buildings and long leaseholds from the Parent.

There were no transfers between levels 1, 2 or 3 during the year ended 31 December 2015 or 31 December 2014.

31 December 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets held at fair value				
Derivative financial instruments	-	59	-	59
Loans and advances to banks	-	281	-	281
Available for sale financial assets	990	1	-	991
Non-financial assets held at fair value				
Property held at fair value	-	-	4	4
Total assets held at fair value	990	341	4	1,335
As a % of fair value assets	74%	26%	-	100%
Financial liabilities held at fair value				
Customer accounts	-	281	-	281
Derivative financial instruments	-	64	-	64
Total financial liabilities held at fair value	-	345	-	345
As a % of fair value liabilities	-	100%	-	100%

z Fair value of assets and liabilities (continued)

31 December 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Fair value of financial assets held at amortised cost				
Loans and advances to banks	-	6,009	-	6,009
Loans and advances to customers	-	-	18,220	18,220
Total	-	6,009	18,220	24,229
Fair value of financial liabilities held at amortised cost				
Deposits from banks	-	5,298	-	5,298
Customer accounts	-	19,951	-	19,951
Subordinated liabilities	-	694	-	694
Total	-	25,943	-	25,943

Movements in level 3 assets

Property held at fair value	**31 December 2015 £m**	31 December 2014 £m
At 1 January	4	-
Additions	3	4
At 31 December	**7**	**4**

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

			Fair Value		**Range**	
Level 3 assets	**Valuation technique**	**Unobservable input**	**31 December 2015 £m**	31 December 2014 £m	**31 December 2015 %**	31 December 2014 %
Property held at fair value	Market comparable property transactions	Property valuation assumptions	7	4	Third party pricing	Third party pricing

The carrying amount and the fair value of the Bank's financial assets and liabilities, which are carried at amortised cost, are set out in the table below. Items where the carrying amount is a reasonable approximation of fair value are not included, as permitted by IFRS 7.

	31 December 2015		31 December 2014	
	Carrying amount £m	**Fair values £m**	Carrying amount £m	Fair values £m
Financial assets				
Loans and advances to banks	3,789	3,849	6,143	6,290
Loans and advances to customers	19,495	19,496	18,407	18,220
Financial liabilities				
Deposits from banks	2,603	2,627	5,231	5,298
Customer accounts	21,702	21,738	20,187	20,232
Subordinated liabilities	335	366	658	694

aa Related party transactions

The Bank was incorporated in England and Wales on 17 September 2009 and is a wholly controlled entity of the Governor and Company of the Bank of Ireland (the 'Parent').

A number of banking transactions are entered into between the Bank, its subsidiaries, joint ventures and the Parent in the normal course of business. These include loans, deposits and foreign currency transactions. The amounts included in the financial statements are set out by category in the following tables.

Further information on related parties and key management personnel is shown in note 36 of the consolidated financial statements and a list of the Bank's principal undertakings can be found in note 38 of the consolidated financial statements.

Amounts included in the financial statements at 31 December 2015, in aggregate, by category of related party, are as follows:

31 December 2015	Parent[1] £m	Subsidiaries £m	Joint venture £m	Total £m
Income statement:				
Interest income	48	26	-	74
Interest expense	(86)	(1)	-	(87)
Fees and commission expense	(7)	-	-	(7)
Net trading expense	(1)	-	-	(1)
Other operating income	-	40	35	75
Operating expenses paid for services provided[2]	(194)	-	-	(194)
Total income / (expense)	**(240)**	**65**	**35**	**(140)**
Assets:				
Loans and advances to banks	2,686	-	-	2,686
Loans and advances to customers	6	1,406	-	1,412
Other assets	11	-	-	11
Derivatives	43	-	-	43
Total assets	**2,746**	**1,406**	**-**	**4,152**
Liabilities:				
Deposits from banks	2,586	-	-	2,586
Customer accounts	6	129	-	135
Other liabilities	9	-	-	9
Derivatives	50	-	-	50
Subordinated liabilities	335	-	-	335
Total liabilities	**2,986**	**129**	**-**	**3,115**
Net exposure	**(240)**	**1,277**	**-**	**1,037**

[1] *This relates to amounts in respect of the Parent and entities controlled by the Parent.*
[2] *Included within this amount is a fee of £42,700 (year ended 31 December 2014: £48,000) to Archie Kane, Governor and Non-executive Director of the Parent who was appointed as consultant advisor to the Group in June 2012.*

aa Related party transactions (continued)

31 December 2014	Parent[1] £m	Subsidiaries £m	Joint venture £m	Total £m
Income statement:				
Interest income	119	23	-	142
Interest expense	(127)	-	-	(127)
Fee and commission income	-	-	-	-
Fees and commission expense	(6)	-	-	(6)
Net trading (expense)	(8)	-	-	(8)
Other operating income	-	-	30	30
Operating expenses paid for services provided[2]	(202)	-	-	(202)
Total income / (expense)	(224)	23	30	(171)
Assets:				
Loans and advances to banks	5,093	-	-	5,093
Loans and advances to customers	7	1,133	-	1,140
Other assets	14	-	-	14
Derivatives	56	-	-	56
Total assets	5,170	1,133	-	6,303
Liabilities:				
Deposits from banks	5,190	-	-	5,190
Customer accounts	10	38	-	48
Other liabilities	14	-	-	14
Derivatives	56	-	-	56
Subordinated liabilities	658	-	-	658
Total liabilities	5,928	38	-	5,966
Net exposure	(758)	1,095	-	337

[1] This relates to amounts in respect of the Parent and entities controlled by the Parent.
[2] Included in this amount is a fee of £48,000 to Archie Kane, Governor and Non-executive Director of the Parent who was appointed as consultant advisor to the Group in June 2012.

ab Post balance sheet events

There are no post balance sheet events that require disclosure in the financial statements.

ac Approval of financial statements

The Board of Directors approved the financial statements on 2 March 2016.

Other Information

Principal business units and addresses

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Managing Director: Gordon Gourlay

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Pillar 3 disclosures

The Group's Pillar 3 document for the year ended 31 December 2015 can be accessed on the Group's website: www.bankofirelanduk.com. The Group's obligations under Article 89 of the CRD IV have been met by consolidation of Group data in the Parent’s country by country reporting which is published on the Bank of Ireland Group website www.bankofireland.com.

Abbreviations

AFS	Available for Sale
ALCo	Asset and Liability Committee
AML	Anti Money Laundering
AMM	Additional Monetary Metrics
ATM	Automatic Teller Machine
BBA	British Bankers Association
BCBS	Basel Committee on Banking Supervision
BoE	Bank of England
BoI	Bank of Ireland
bps	Basis points
BRC	Board Risk Committee
BTL	Buy To Let
CCA	Consumer Credit Act
CCO	Chief Credit Officer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CMA	Competition and Markets Authority
CML	Council of Mortgage Lenders
COO	Chief Operating Officer
CP	Consultation Paper
CPI	Consumer Price Inflation
CRD	Capital Requirement Directive (EU)
CRO	Chief Risk Officer
CRPC	Credit Risk and Portfolio Committee
CRR	Capital Requirements Regulation
CSA	Credit Support Annex
DCF	Discounted Cash Flow
DGSD	Deposit Guarantee Scheme Directive
DipFS	Diploma in Financial Studies
EBA	European Banking Authority
ECL	Expected Credit Loss
e.g.	Exempli gratia (for example)
EU	European Union
ExRiskCo	Executive Risk Committee
FCA	Financial Conduct Authority
FCIOBS	Fellow of the Chartered Institute of Bankers
FCMA	Fellow Chartered Management Accountant
FPC	Financial Policy Committee
FRES	First Rate Exchange Services Limited
FRESH	First Rate Exchange Services Holdings Limited
FSB	Financial Stability Board
FSCS	Financial Services Compensation Scheme
FTSE	Financial Times Stock Exchange
FVTPL	Fair Value through Profit or Loss
FX	Foreign Exchange
GBP	ISO 4217 currency code for Pound Sterling
GCR	Group Credit Review
GIA	Group Internal Audit
GRPC	Group Risk Policy Committee
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBNR	Incurred but not Reported
ICAAP	Internal Capital Adequacy Assessment Process
i.e.	Id est (that is)
IFRS	International Financial Reporting Standards
IFRS IC	IFRS Interpretations Committee
ILAAP	Individual Liquidity Adequacy Assessment Process
ILTR	Indexed Long Term Repo
ISDA	International Swaps and Derivatives Association
IT	Information Technology
KMP	Key Management Personnel
KPI	Key Performance Indicator
L&D	Land & Development
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LLP	Limited Liability Partnership
LTD	Limited
LTV	Loan to Value
MREL	Minimum Requirement of Eligible Liabilities
NSFR	Net Stable Funding Ratio
OCI	Other Comprehensive Income
ONS	Office for National Statistics
PAD	Payment Accounts Directive
Pari passu	On equal footing
PCA	Personal Current Account
PD	Probability of Default
POFS	Post Office Financial Services
PRA	Prudential Regulation Authority
PSAGC	Product & Services Approvals & Governance Committee
PwC	PricewaterhouseCoopers LLP
QRR	Quarterly Risk Report
RAG	Red, Amber, Green

Abbreviations (continued)

RAS	Risk Appetite Statement
RMF	Risk Management Framework
R&ORC	Regulatory and Operational Risk Committee
RPI	Retail Price Inflation
RWA	Risk Weighted Assets
SCV	Single Customer View
SFT	Securities Financing Transaction
SME	Small / Medium Enterprises
SSM	Single Supervisory Mechanism
STG	Pound Sterling
TLAC	Total Loss Absorbing Capital
£m	Million
£bn	Billion
£'000	Thousands

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