Bank of Ireland (UK) plc Annual Report

For the year ended 31 December 2014

Bank of Ireland UK

Bank of Ireland (UK) plc
Annual Report

For the year ended 31 December 2014

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'). It provides financial services and products to both personal and business customers through its branch network, business centres, direct and online banking facilities and other strategic distribution channels.

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Key highlights

'2014 was a year of continued progress for Bank of Ireland (UK) plc. Our financial performance has been strong, and despite a very competitive market our results clearly demonstrate the positive momentum in our business. We made excellent progress towards meeting our objectives of achieving growth in our business and delivering sustainable returns for our shareholder. We are profitable and generating capital.

Against a backdrop of an improving economic outlook, we are well positioned to build on the strengths of our business and pursue new business opportunities. Supported by a clear set of strategic priorities, we look to the future with increasing confidence.'

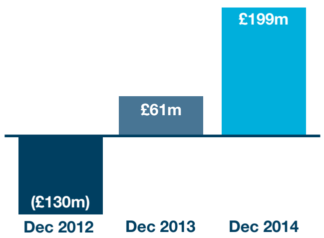
Des Crowley, Group Chief Executive Officer

Business highlights

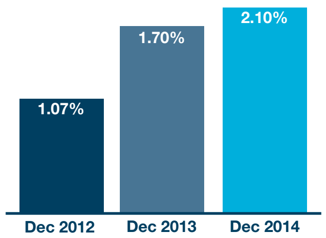
- UK challenger bank with exclusive financial services relationship with the UK Post Office.
- Significantly increased mortgage new business in the year.
- New mortgage distribution channels successfully launched including Legal & General and LSL Group.
- Northern Ireland (NI) business returned to profitability.
- NIIB lending continues to grow across the UK.
- Improved Group net interest margin of 2.10%
- Asset quality across all segments continues to improve with impairment charges 51% lower year on year.
- Financial results substantially improved - £138 million increase in Group profit before tax.

Financial highlights

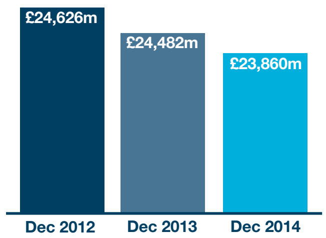
Profit / (loss) before tax[1] £m



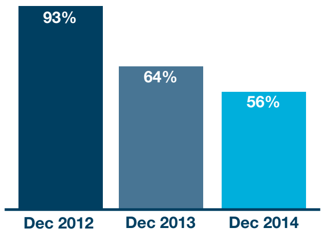
Net interest margin %



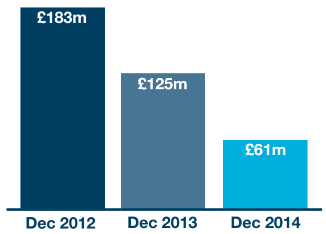
Average interest earning assets £m



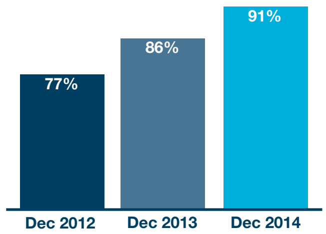
Cost income ratio[1] %



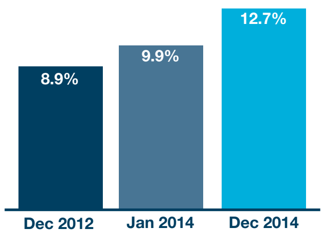
Impairment charges £m



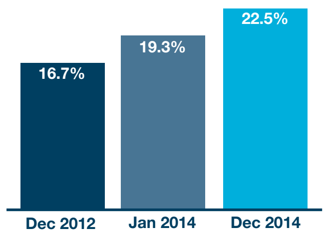
Loan to deposit ratio %



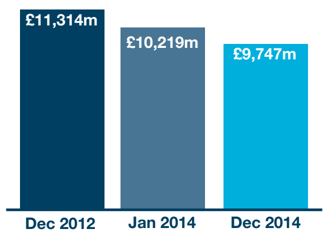
Core tier 1 ratio[2] %



Total capital ratio[2] %



Risk weighted assets[2] £m



[1] Comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'. See note 37 for additional information.
[2] 2012 on Basel II basis / 1 January 2014 onwards on a Basel III / CRD IV transitional basis.

Chairman's statement

In my statement last year I reflected on a year of positive transition, as we continued to build our capability and to position our business towards a viable and sustainable future.

This year, I am pleased to report that this positive momentum has been maintained, with the Group making significant progress against the strategic priorities we set for ourselves at the start of 2014.

Very significant progress over the last twelve months

Our objectives for 2014 included enhancing our financial performance, strengthening our return on capital, improving our net interest margin, and generating strong and sustainable returns for our shareholder.

Our financial results improved significantly relative to 2013: profit before tax has increased from £61 million to £199 million and our return on capital has grown markedly.

This strong financial performance has been driven by the proactive management of our net interest margin, the successful delivery of competitive lending propositions, and a reduction in impairment charges.

Deepening our exclusive relationship with the Post Office

Our relationship with the Post Office remains strong and together we are one of the largest challenger consumer banking franchises in the UK with some three million customers.

Through our partnership, Bank of Ireland UK provides an expanding range of attractive products including mortgages, savings, credit cards, insurance, and ATM services. During the year, a current account trial was extended to 239 Post Office branches, and we continue to invest in developing new products and services.

Our foreign exchange joint venture with the Post Office, which is the largest provider of consumer foreign exchange in the UK, has had another good year, and has successfully launched a new foreign exchange payment application, which has enhanced the offering of our innovative and increasingly popular travel money card.

A key part of our growth strategy will be to develop existing and new strategic partnerships.

Growing our mortgage business

A priority for 2014 was to increase our mortgage origination in a meaningful and careful fashion, and we made good progress in this regard. New mortgage lending increased by £0.9 billion in the year, reflecting the positive impact of mortgage advisers based in principal Post Office branches, and new distribution agreements with Legal & General and LSL Group.

We also have a significant portfolio of existing mortgages originated under the Bank of Ireland and Bristol and West brands. Current market conditions have led to a higher level of redemptions across the mortgage industry year on year, and as a result we are putting a fresh focus on retention activity. In addition we are exploring options to originate mortgages once again under the Bank of Ireland brand.

Building successful, sustainable businesses in Northern Ireland

Our full service banking operation in Northern Ireland, which serves both retail and business customers, returned to profit during 2014. This was achieved through increased sales effectiveness in our upgraded branch network, reduced arrears and impairment charges, careful cost management and product pricing improvements. Demand for Small / Medium Enterprise (SME) lending, however, remains subdued, and net lending in the year reduced slightly.

Our separate car and asset finance subsidiary operating under the NIIB and Northridge brands has performed well with profits increasing by 10 percent. New lending increased in England, supplementing the established markets of Northern Ireland and Scotland.

Business Banking

The business banking operation in Great Britain is closed for new business, and experienced further reductions in its portfolio during 2014. We anticipate the pace of deleveraging will now slow. Impairment charges on the legacy commercial portfolio in Great Britain improved and this trend looks set to continue.

Strong customer focus, delivered through our people

We would like to thank all our customers for their business, and to assure them that we remain committed to delivering the highest standards of customer service and conduct in all aspects of our engagement with them.

Our people, the relationships they build with our customers and partners and the services they provide are critical to the success of our business. The Board recognises the importance of culture in our organisation, embedding best behaviour and customer focus in all that we do. On behalf of the Board, I would like to thank our staff, who have continued to demonstrate their skills, expertise and focus when delivering for our customers, partners and business.

Board membership

We were sorry to lose Stephen Matchett as our Finance Director during the year, but we were able to make a strong appointment in Lorraine Smyth as his successor. David Bennett will shortly be stepping down as an independent Non-executive Director, and we thank him for his valued contribution, which we have appreciated.

Outlook

We attained the levels of financial performance in 2014 that we had planned, with profits and other measures of performance recovering quite significantly in the year. We also recognise that to meet our medium term ambitions we will need to continue to invest in our people and other capabilities to ensure we are properly equipped to meet new challenges and opportunities. Notwithstanding the competitive environment within which we operate, we look forward to making further progress in the Bank's overall performance in the coming years.

Christopher Fisher

Christopher Fisher
Chairman
5 March 2015

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Strategic report

Index

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 2014 and 31 December 2013.

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

1.2 Key performance summary

	Year ended 31 December 2014 £m	Restated[1] Year ended 31 December 2013 £m
Group operating profit before impairment charges on financial assets	**225**	**152**
Impairment charges on financial assets	(61)	(125)
Share of profit after tax of joint venture	35	34
Profit before taxation	**199**	**61**
Group performance measures		
Net interest margin %	2.10%	1.70%
Average interest earning assets	23,860	24,482
Cost income ratio %	56%	64%
Return on Tier 1 capital %	12%	5%
Segmental operating profit / (loss) before impairment charges on financial assets[2]		
Great Britain (GB) Consumer Banking	215	169
Northern Ireland (NI)	50	25
Great Britain (GB) Business Banking	18	11
Group Centre	(58)	(53)
Group operating profit before impairment charges on financial assets	**225**	**152**
Impairment (charges) / releases on loans and advances to customers		
Consumer	(12)	(14)
Residential mortgages	2	(8)
Non-property SME and corporate	(17)	(34)
Property and construction	(34)	(69)
Total impairment charges on financial assets	**(61)**	**(125)**

Consolidated balance sheet and key metrics	**31 December 2014 £m**	Restated[1] 31 December 2013 £m
Equity attributable to owners of the Parent	1,767	1,548
Total assets	29,209	35,895
Loans and advances to customers (after impairment provisions)	18,301	17,928
Customer accounts	20,180	20,857
Loan to deposit ratio %	91%	86%
Return on assets %	0.59%	0.18%

[1] As outlined in the Group accounting policies and in note 37, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.
[2] Operating segments are defined on page 105.

1.2 Key performance summary (continued)

Capital	Basel III / CRD IV Transitional 31 December 2014	Basel III / CRD IV Transitional 1 January 2014
Common equity tier 1 capital ratio	12.7%	9.9%
Total tier 1 capital ratio	15.1%	12.3%
Total capital ratio	22.5%	19.3%
Risk weighted assets (RWAs) (£m)	9,747	10,219

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.

Average interest earning assets – is defined as the twelve months average of total customer loan balances, 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 compared to total operating income.

Loan to deposit ratio – is defined as loans and advances to customers as at 31 December compared to customer deposits as at 31 December, after excluding balances with the Parent and other BoI Group entities.

Return on Tier 1 capital – is defined as profit after tax for the year ended 31 December divided by twelve months average tier 1 capital.

Capital ratios – capital ratios express the Group's capital as a percentage of its risk weighted assets.

Return on assets – is calculated as being net profit after tax divided by total assets, in line with requirement in the European Union (Capital Requirements) Regulations 2014.

1.3 Group structure

At 31 December 2014 the Group consisted of Bank of Ireland (UK) plc ('the Bank') and its share of the following entities:

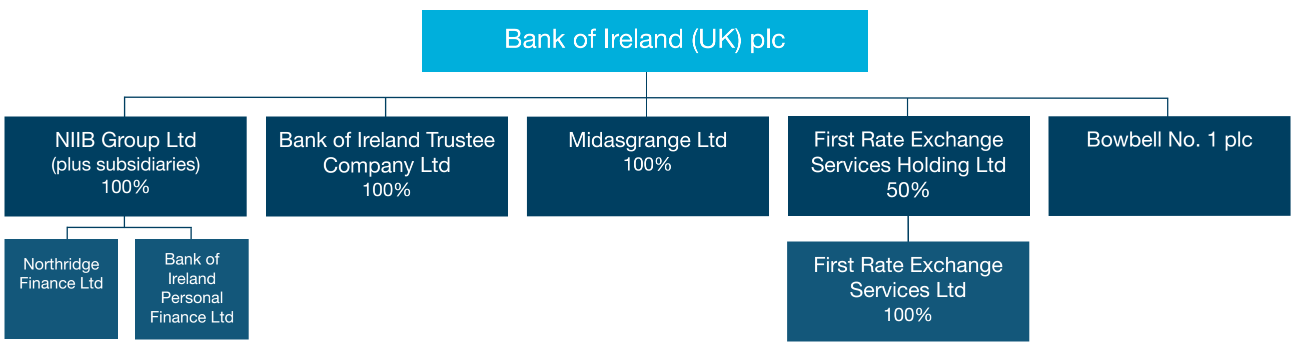
- 100% of NIIB Group Limited (NIIB) – a car and asset finance and consumer lending group;
- 50% of First Rate Exchange Services Holdings Limited (FRESH), a joint venture, which, via its wholly owned subsidiary, First Rate Exchange Services Limited (FRES), is a wholesale and retail provider of foreign exchange with retail distribution primarily via the Post Office;

  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 36).
- 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 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 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 and domiciled in England and Wales.

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



1.4 UK economic and market environment

The operating environment for the Group remained broadly positive during 2014 and is expected to remain so during 2015. This is providing a supportive context for the further expansion of consumer financial services through the Post Office partnership and assisted by a broadening of distribution channels to include branch, direct and strategic partners.

The UK economic recovery continued during the year and in the last quarter of 2014 a number of institutions were forecasting annual GDP at, or above, the long-term trend. The Bank of England Monetary Policy Committee (MPC) and Organisation of Economic Co-operation and Development (OECD) were forecasting 3.5% and 3% respectively.

The relatively strong expansion in UK domestic demand was in contrast to a more uncertain global backdrop which, as the year progressed, was reflected in increased levels of financial market volatility driven by the decline to five year lows of the price of crude oil and other commodities. These developments reflected signs of slowdown in some emerging markets, ongoing geopolitical tensions and perceptions of the euro area struggling to combat the growing risks of prolonged stagnation and deflation.

The UK labour market continued to improve during 2014 with the jobless rate declining to 5.7% in the three months to December, and the number out of work falling to 1.91 million, the lowest level in more than six years. Growth in earnings remained muted with regular pay rising on average by around 1% per annum, reflecting a trend of relatively weak growth in private sector productivity and an expansion in the supply of labour, including rising numbers of self-employed. However, with average earnings rising by 2.1% in the final quarter of 2014 there appeared some tentative evidence that the long spell of falling or stagnant growth in real incomes in the UK was coming to an end.

A decline in UK retail inflation to 0.5% in December, the joint lowest on record, allied to the weakness in unit labour costs and the softer outlook for global commodity prices helped trigger a re-pricing of UK interest rate expectations with sterling markets pushing back the potential timing of an increase in the official bank rate until 2016. While divisions emerged between MPC members during 2014 over the timing of a rate increase, there remained a general view that the level of interest rates would be structurally lower relative to pre-crisis and that any policy tightening would be slow and gradual.

The recovery in the UK housing market continued during 2014 with the Office for National Statistics (ONS) reporting a 9.8% rise in average prices in the year to December but with significant variation in regional performance and local markets moving at different speeds. London was again leading the way with an annual rise of 13.3%, compared to Northern Ireland 4.9%, Scotland 5.5% and Wales 4%. This provided a positive backdrop for growth in consumer lending in general and mortgages in particular.

However, as the year progressed, other market indicators were signalling a significant moderation in activity levels and house price inflation, with momentum impacted by the transition to, and implementation of the new Mortgage Market Review (MMR) and specific policy interventions by the Financial Policy Committee regarding stress-testing, affordability and loan-to-income multiples, all designed to mitigate the risks of overheating.

While 2014 saw a 9% rise in mortgage approvals for house purchases, the British Bankers Association (BBA) confirmed a cooling in market conditions with approvals in December 24% lower than in the same month in 2013. Despite the slower pace of activity, gross mortgage advances were estimated by the Council of Mortgage Lenders (CML) to have risen above the £200 billion level in 2014 (2013: £176 billion), the highest since 2008, although remaining significantly shy of the peak levels of 2007 (£363 billion).

The recovery in the UK commercial property market was sustained in 2014 and while the strongest indicators were skewed towards London and South-East, there were again reports of rising investor interest in regional cities. The incidence of high-profile retail failures diminished in 2014 compared to previous years and with improvements in both the availability and cost of finance, yields across all main property segments continued to drift downwards. Total returns for all property in the twelve months to December were 19.3%[1].

The recovery in UK property markets has been clearly reflected in significant improvements in both the credit quality and credit management of loan books.

In the regional market of Northern Ireland, there were encouraging signs of increased momentum in the private sector during the year, helped by stabilisation in property markets and a record year of inward investment announcements. After a number of very challenging years, the demand for business finance is showing signs of recovery and this was evidenced by an increase in loan approvals as the year progressed.

At the start of 2015, average forecasts[2] suggested the pace of UK GDP would moderate slightly to around 2.6%, reflecting increased political uncertainties, a harsher fiscal climate post-election and external downside risks, notably from the euro-area. While a pick-up in business investment is supporting a more balanced recovery, the expectation is that the consumer will remain the key driver of growth in the short-term.

[1] *Investment Property Databank (IPD)*
[2] *HM Treasury Forecasts for the UK economy, January 2015*

1.5 Our business strategy and goals

- The Group is organised into operating business units to effectively service its customers as follows: 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 the Parent in support of its strategies.
- The Group's strategy is to be a leading UK challenger bank, providing simple, flexible, accessible financial services and products to its customers both directly and through partnerships with trusted and respected UK brands.

In order to deliver the aforementioned 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 Post Office financial services relationship 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 and is compared against plans and prior periods. Customer deposit and lending growth – is an important indicator of customer activity levels.	• Business / Strategic risk • Liquidity & Funding risk • Capital Adequacy risk • Credit risk • Regulatory risk (including conduct risk) • Operational risk (including legal risk and outsourcing) • Reputation risk • Market risk
Growth in Northern Ireland (NI)	Improving the profitability of the NI business, by supporting our customers and the NI economic recovery.		
Product & Service Development	Continuing 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.	Review of Compliance Key Risk Indicators (KRIs).	• Business / Strategic risk • Regulatory risk (including conduct risk) • Reputation risk • Operational risk (including legal risk and outsourcing) • Credit risk
Business Banking Great Britain (GB) Deleveraging	Ongoing deleverage of the GB business banking portfolio.	Lending volume trends. Risk Weighted Assets (RWAs).	• Business / Strategic risk • Credit risk • Operational risk (including legal risk and outsourcing) • Reputation 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.	Return on equity measures. Capital, liquidity and funding ratios.	• Business / Strategic risk • Liquidity & Funding risk • Capital Adequacy risk • Credit risk • Regulatory risk (including conduct risk) • Market risk

Great Britain (GB) Consumer Banking
The partnership with the Post Office is the core component of the Group's consumer banking strategy in GB.

The Group is the primary provider of financial services to the Post Office providing a comprehensive range of savings, lending, payment and insurance products under a contract that covers the period until 2023. The Group works with the Post Office to offer products that are simple, fair, accessible, transparent and value for money, supported by the largest retail network in the UK.

During 2014 the Post Office continued to undertake the biggest transformation programme in recent UK retail history, transforming a significant number of its branches into new modern retail outlets. A large number of outlets now offer improved opening hours, dedicated travel service counters and private consultation rooms where customers can discuss financial services needs. Post Office customers can now avail of the opportunity to have a face to face meeting with a dedicated financial adviser to obtain a mortgage at selected Post Office branches, in addition to existing telephone and online access options.

The award winning Post Office product suite has been further developed in the year with an expanded current account offering, the launch of Post Office Buy to let mortgages, first-time buyer mortgages and Post Office mortgages also being

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

1.5 Our business strategy and goals (continued)

offered through the new Legal & General distribution channel. Since April 2014 all new mortgage applications are subject to the Mortgage Market Review (MMR) rules in relation to affordability. The Group has invested significantly in systems, people and processes to make the implementation of these changes as efficient for customers as possible.

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 and has expanded its product range to meet changes in customer demand. This includes adding further currencies to the Travel Money Card and the successful launch of a mobile application that allows customers to manage their Travel Money Card easily while abroad.

The Group also supplies ATM services to the Post Office with 195 additional new machines introduced in 2014, bringing the size of the ATM fleet to over 2,500 machines in operation at 31 December 2014.

The shared strategy of the Group and the Post Office is to achieve further growth through a combination of continuing to increase awareness of the Post Office as a destination for financial services, providing easy access to a full range of products, and building on the existing financial services relationships already in place.

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 Bristol & West brands, as well as consumer lending (primarily car finance) provided under the NIIB and Northridge brands.

During 2014 the Group acquired a further £1.51 billion of high quality UK Residential mortgages from the Parent at a fair value of £1.43 billion, building on previous acquisitions in 2012 and 2013 thereby improving balance sheet and liquidity efficiency. The Group is focused on originating new mortgages through a range of strategic partners. In December 2014 the Group launched a pilot programme originating new mortgages under its own brand in partnership with the LSL Group, a leading estate agency intermediary.

NIIB delivered a profit before tax of £26 million for the year ended 31 December 2014, reflecting loan book growth of 13% and continued low bad debt levels. NIIB's strategy is to continue to develop its relationships with large car dealer groups and other introducers across the UK, building on its strong positions in the Scottish and Northern Ireland markets and increasing its market share in England.

Northern Ireland (NI)

The NI business offers a comprehensive range of banking products for retail and 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.

NI returned to profitability during 2014, reporting a net profit (after impairment charges) for 2014 of £14 million, compared to a net loss for 2013 of £50 million. This primarily reflects an improvement in impairment charges on its commercial lending portfolio, combined with improved underlying trading, after investments were made during 2013 and 2014 in upgrading and modernising the branch network, including self-service propositions.

During the year the Group reaffirmed its business strategy in NI to support the region's economic growth and to help businesses of all sizes to grow across all sectors of industry and commerce. There were a number of signs of steady progress in the NI economy during the year, including the recovery in the volume of house sales and improving business and consumer confidence. Approved loans for the NI business were up 60% on the same period last year, with an increased demand for credit, particularly in the small business and agricultural segments. However this was in the overall context of a very competitive banking environment for new lending volumes.

The Group also continued its Enterprise Programme to help support SMEs in their own communities which included a series of business events throughout the year with an Enterprise Week in May and November.

Business Banking Great Britain (GB)

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. Under the amended EU Restructuring Plan, the Parent committed to exit its GB based business banking and corporate banking businesses.

During 2014 GB business banking volumes reduced in the Group by £0.3 billion. However, it is expected that the pace of this deleveraging will slow in 2015. This strategy does not impact on the Group's consumer banking businesses in GB including its partnership with the Post Office, or its activities in NI.

Capital and liquidity

The Group complied with its regulatory capital and liquidity requirements throughout 2014. Profits increased during the year, generating capital and delivering a significantly improved return for the shareholder. The Group's strategy is to seek new lending and other business opportunities primarily in its consumer

1.5 Our business strategy and goals (continued)

business that are aligned with its risk appetite and will achieve the required cost of capital (with cost in this respect being the medium term return that the Parent and its external shareholders require on existing or new capital).

The introduction of the Capital Requirements Directive IV (CRD IV) (Basel III, as published in the Official Journal of the EU on 27 June 2013) on 1 January 2014 increased the regulatory capital requirements of the Group. The PRA also published its final guidance on the UK implementation of CRD IV in December 2013 in Policy Statement 7/13. This primarily resulted in certain balance sheet items, including deferred tax assets, being deducted directly from regulatory capital for the Group. Also, certain capital instruments such as the Group's preference shares are no longer optimal from a capital efficiency perspective and the Group is planning to restructure the aforementioned instruments during 2015. However, given improved profitability and the deleveraging in the Group's commercial lending portfolio, capital ratios strengthened, with the transitional Basel III Common equity tier 1 (CET 1) increasing during the year by 2.8% to 12.7% and the total capital ratio increasing by 3.2% to 22.5%.

Throughout 2014 the customer deposit balances held by the Group were well in excess of the level required to support compliance with the Group's risk appetite requirements and its regulatory liquidity obligations.

Customer deposit balances have reduced by £677 million during 2014 in order to effectively manage the Group's liquidity position. At 31 December 2014 the Group continues to maintain a strong liquidity position, fully compliant with risk appetite and regulatory obligations and with customer deposits in excess of customer lending with a loan to deposit ratio of 91%. The Group's current liquidity strategy is to remain primarily customer deposit funded with no material reliance on wholesale or Central Bank funding.

The implementation of Basel III with respect to regulatory liquidity requirements including the introduction of the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) is ongoing. In October 2014 the European Commission issued a Delegated Act on LCR, followed by a PRA consultation paper on liquidity in November 2014. Further guidance on NSFR is expected to be issued during 2015. The Group actively monitors its liquidity position using various measures, including these new ratios, and requirements, and takes them into account in the creation, execution and review of its funding plans.

Customer and compliance

The increased focus on 'conduct', or customer risk, continued during 2014. 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 responded to the challenge laid down by the Financial Conduct Authority (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 to ensure a continuing proactive and customer centric approach in all aspects of its product and distribution activities.

During 2014 a conduct risk project delivered an enhanced approach to ensuring that the customer is at the heart of all business activities, whether in creating new products, managing existing customer relationships or considering historic books of business. The Group's exposure to historic conduct issues is very limited, with low Payment Protection Insurance (PPI) exposure relative to the industry and a low level of involvement in the Interest Rate Hedging Review undertaken by the FCA.

The Group participated in the FCA thematic review of complaint management 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 very low level of referrals to the Ombudsman by customers dissatisfied with the outcome of any complaint and an Ombudsman complaint 'overturn' rate that is nearly half the industry average. 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.

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 2014 £m	Restated[1] Year ended 31 December 2013 £m	Change %
Net interest income	501	415	21%
Net fee and commission income	6	6	-
Other operating income	5	1	n/m
Total operating income	**512**	**422**	**21%**
Operating expenses	(287)	(270)	6%
Operating profit before impairment charges on financial assets	**225**	**152**	**48%**
Impairment charges on financial assets	(61)	(125)	51%
Share of profit after tax of joint venture	35	34	3%
Profit before taxation	**199**	**61**	**n/m**
Taxation (charge) / credit	(27)	4	n/m
Profit for the year	**172**	**65**	**n/m**

[1] As outlined in the Group accounting policies and in note 37, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.
n/m: not measured

1.6.2 Net interest income

Net interest income / Net interest margin	**Year ended 31 December 2014 £m**	Year ended 31 December 2013 £m
Net interest income	501	415
Average interest earning assets	23,860	24,482
Net interest margin %	2.10%	1.70%

Net interest income for the year ended 31 December 2014 was £501 million compared to £415 million for the year ended 31 December 2013. Gross interest income was £901 million (2013: £1,101 million) and consisted principally of interest earned on customer lending and on amounts placed with the Parent. Interest expense was £400 million (2013: £686 million) and represented interest paid or payable on customer deposits and on amounts borrowed from the Parent.

The net interest margin for the year ended 31 December 2014 was 2.10% compared to 1.70% for the year ended 31 December 2013, representing an increase of 40 basis points. The Group's success in improving its net interest margin, notwithstanding the low interest rate environment, reflects repricing on deposit and loan portfolios and more efficient balance sheet management, through a reduction of the liquid asset portfolio, partly offset by lower funding income allocated from the Parent.

During 2014 net transfer pricing funding income received from the Parent was £30 million (2013: £98 million) and this is expected to reduce to nil by 2015 in line with the phase off from the Parents' transfer pricing methodology, as set out in note 34.

The reduction in average interest earning assets is mainly due to the reduction in the size of the liquid asset portfolio, combined with lower commercial lending volumes.

1.6.3 Net fee and commission income

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Fee and commission income		
- ATM service fees	64	59
- Insurance commissions	8	7
- Banking fees and other commissions	25	28
- Foreign exchange and credit card	15	19
- Other	2	5
Fee and commission expense	(108)	(112)
Net fee and commission income	**6**	**6**

1.6.4 Operating expenses

	Year ended 31 December 2014 £m	Restated[1] Year ended 31 December 2013 £m
Staff costs	31	27
Other costs	256	243
Operating expenses	**287**	**270**

[1] *As outlined in the Group accounting policies and in note 37, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.*

The majority of the Group's cost base is in relation to outsourced services, being the costs of distribution, product manufacture and support provided by the Parent. The year on year increase in total operating expenses reflects the Group's investment in its people, processes and IT infrastructure given the growth in activity levels. Staff and outsourced costs increased primarily reflecting significant recruitment in the GB Consumer Banking sector to support the mortgage growth strategy, offset by ongoing cost initiatives across the NI and GB businesses and the cessation of Bank of Ireland Trustee Company Limited during the year. Included in other costs is £15 million relating to the Financial Services Compensation Scheme (FSCS) levy (year ended 31 December 2013: £13 million (restated)).

1.6.5 Impairment charges on loans and advances to customers

Impairment charges / (releases) on loans and advances to customers	**Year ended 31 December 2014 £m**	Year ended 31 December 2013 £m	Change %
Consumer	12	14	(14%)
Residential mortgages	(2)	8	n/m
Non-property SME and corporate	17	34	(50%)
Property and construction	34	69	(51%)
Total impairment charges on loans and advances to customers	**61**	**125**	**(51%)**

n/m: not measured

The impairment charge for the year ended 31 December 2014 on loans and advances to customers was £61 million, compared to £125 million for the year ended 31 December 2013. The charge comprises £51 million in respect of commercial lending and £12 million in respect of consumer credit card lending and NIIB. There was a £2 million provision release on the residential mortgage portfolio, arising from improving arrears performance and the impact of increasing residential property values in the UK.

Non-property, SME and corporate impairment charges decreased by £17 million year on year with signs of improved business confidence and performance. Property and construction impairment charges also reduced by £35 million.

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, overall predictions are increasingly favourable. 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 Taxation charge / (credit)

The taxation charge for the Group was £27 million for the year ended 31 December 2014 compared to a taxation credit of £4 million for the year ended 31 December 2013.

Excluding the £35 million (year ended 31 December 2013: £34 million) income from our joint venture, FRESH, the effective tax rate for the year ended 31 December 2014 was 16% (year ended 31 December 2013: 15%).

The effective tax rate is influenced by a number of factors, including the fair value unwind on acquired mortgages which is tax exempt in the Group.

On 3 December 2014 the UK Government announced draft legislation to restrict the use of carried forward tax losses by banks approved under the Financial Services and Markets Act 2000. This legislation, once enacted, will lengthen the period over which the deferred tax asset associated with those tax losses will be recovered by restricting the utilisation of carried forward losses to 50% of annual profits. The balance would continue to be available for indefinite carry forward and there is no limit, under existing UK legislation, on the utilisation of these losses. The legislation is expected to be substantively enacted in March 2015. Further details on the deferred tax asset are included in note 27.

1.6.7 Summary consolidated balance sheet

	31 December 2014 £m	Restated[1] 31 December 2013 £m	Change %
Cash and balances with central banks	2,964	4,125	(28%)
Loans and advances to banks[2]	6,312	12,824	(51%)
Loans and advances to customers	18,301	17,928	2%
Available for sale financial assets	991	482	106%
Total other assets	641	536	20%
Total assets	**29,209**	**35,895**	**(19%)**
Deposits from banks[3]	5,234	11,660	(55%)
Customer accounts	20,180	20,857	(3%)
Subordinated liabilities	658	658	-
Total other liabilities	1,370	1,172	17%
Total liabilities	**27,442**	**34,347**	**(20%)**
Equity attributable to owners of the Parent	1,767	1,548	14%
Total equity and liabilities	**29,209**	**35,895**	**(19%)**
Loan to deposit ratio	**91%**	**86%**	**5%**

1 As outlined in the Group accounting policies and in note 37, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.
2 Included in loans and advances to banks is a balance due from the Parent of £5,102 million (31 December 2013: £11,646 million) and £1,210 million (31 December 2013: £1,178 million) due from external bank counterparties. Refer to note 14.
3 Included in deposits from banks is a balance due to the Parent of £5,193 million (31 December 2013: £11,651 million) and £41 million (31 December 2013: £9 million) due to external bank counterparties. Refer to note 22.

1.6.8 Loans and advances to banks and deposits from banks

In previous periods, the Group used a gross flow cash hedging model to manage interest rate risk with the Parent, 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 the assets and liabilities on the balance sheet, which were disclosed in loans and advances to banks and deposits from banks.

At the end of 2013, the Group commenced the process of replacing this gross flow cash hedging approach with a derivative hedging method with the Parent. This process continued during 2014 with the settling of a further £6.8 billion of borrowings from and £6.7 billion of placings with the Parent and replacing these with a derivative hedging model for managing 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 £6.7 billion and £6.8 billion respectively in 2014 and £12.3 billion in 2013, 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.

1.6.9 Loans and advances to customers

Composition by portfolio - loans and advances to customers	31 December 2014 £m	31 December 2014 % of Book	31 December 2013 £m	31 December 2013 % of Book
Residential mortgages	14,182	75%	13,078	70%
Non-property SME and corporate	1,670	9%	2,016	11%
Property and construction	1,917	10%	2,455	13%
Consumer	1,145	6%	1,098	6%
Loans and advances to customers (before impairment provisions)	**18,914**	**100%**	**18,647**	**100%**
Impairment provisions	(613)		(719)	
Loans and advances to customers (after impairment provisions)	**18,301**		**17,928**	

Gross loans and advances to customers of £18.9 billion increased by £0.3 billion in the year. The key drivers of the movement are as follows:

- the Group acquired a number of mortgage portfolios from the Parent with a total loan value of £1.51 billion for consideration of £1.43 billion, representing a weighted average price of 94.7%. Included in the discount were both expected credit losses and the differential between the customer interest rates on the assets and current market interest rates for similar assets;
- excluding the aforementioned mortgage acquisitions other mortgage lending reduced by a net £0.4 billion. This reflected £1.8 billion of new loans originated which were offset by repayments on the existing mortgage portfolio;
- a net reduction in the commercial lending portfolio of £0.9 billion (20%). Of this reduction £0.3 billion relates to GB business banking, which is deleveraging in the medium term. Demand for commercial lending in Northern Ireland also remains subdued; and
- in the consumer lending portfolio, Bank of Ireland and Post Office branded credit card lending and NIIB Group lending to UK customers increased by 4% year on year with NIIB business growth of £117 million offset by other reductions primarily in consumer lending products.

The composition of the Group's loans and advances to customers by portfolio at 31 December 2014 is now 81% Residential mortgages and consumer lending based, up from 76% in 2013.

Specific provisions decreased by 15% to £537 million at 31 December 2014, from £635 million at 31 December 2013 primarily due to movement in the commercial land and development portfolio. Incurred but not reported provisions decreased by 10% to £76 million at 31 December 2014, from £84 million at 31 December 2013.

1.6.10 Liquid assets

Liquid assets	31 December 2014 £m	31 December 2013 £m
Balances with central banks	2,918	4,088
Available for sale financial assets	991	482
Interbank placements	220	150
Total	**4,129**	**4,720**

The liquid assets portfolio comprises Bank of England deposits, available for sale financial assets and bank placements, which can be used to raise liquidity, either by sale, or through secured funding transactions. This portfolio of £4.1 billion decreased by £0.6 billion during 2014, reflecting the Group's strategy to manage its balance sheet efficiently, including the acquisition of loans of £1.51 billion from the Parent during 2014 (see section 1.6.9 above).

At 31 December 2014 the liquid asset portfolio primarily comprised of £2.9 billion of Bank of England deposits, £411 million of Multilateral Development Bank bonds, £535 million of UK Government treasury bills, £45 million of Finnish Government paper, and £220 million placed with the Parent. Placements with the Parent are included in loans and advances to banks and while they are considered liquid assets by the Group they are not PRA BIPRU eligible liquid assets.

The Group remained in full compliance with the regulatory liquidity regime in the UK throughout 2014 and as at 31 December 2014 maintained a buffer significantly 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.

1.6.11 Customer accounts

Customer accounts	31 December 2014 £m	31 December 2013 £m
Bank of Ireland UK branded deposits	1,956	2,112
Bank of Ireland UK branded current accounts	2,243	2,521
Post Office branded deposits	15,981	16,224
Total	**20,180**	**20,857**

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

- maintain and grow its stable retail customer deposit base;
- manage deposit pricing and margins; and
- maximise stable funding levels in line with Basel III / CRD IV specifications.

As at 31 December 2014 the constituent components of customer accounts were retail deposits and current accounts of £17.6 billion, compared to £18 billion at 31 December 2013, and non-retail of £2.6 billion compared to £2.8 billion at 31 December 2013.

Retail deposit balances originated through the Post Office network decreased by £0.2 billion to £16 billion in line with the Group's balance sheet requirements.

Bank of Ireland (BoI) branded deposits decreased by £0.4 billion due to business changes during the year, including the EU mandated exit from Business Banking GB activities. Balances originated through the Group's Northern Ireland branch network remained relatively unchanged.

1.6.12 Funding

The Group's funding position remains strong at 31 December 2014, with a loan to deposit ratio of 91% (31 December 2013: 86%). The increase in the loan to deposit ratio primarily reflects the net effect of increased consumer lending combined with a planned reduction in retail deposits, offset by the impact of lower commercial lending volumes.

The Group does not currently 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.

In December 2013 the PRA issued guidance on the UK implementation of CRD IV. At present the Group calculates a Liquidity Coverage Ratio (LCR) and a Net Stable Funding Ratio (NSFR) based on the current draft European Banking Authority (EBA) guidelines and continues to anticipate buffers above the required levels of 100%.

1.6.13 Regulatory capital

Regulatory capital and key capital ratios

Basel III / CRD IV Transitional 1 January 2014 £m		Basel III / CRD IV Transitional 31 December 2014 £m	Basel III / CRD IV Proforma Fully Loaded 31 December 2014 £m
	Capital base		
1,190	**Total equity**	**1,405**	**1,405**
(176)	**Regulatory adjustments**	**(169)**	**(166)**
(125)	Deferred tax relying on future profitability	(98)	(98)
(46)	Intangible assets	(39)	(39)
(3)	Qualifying holdings outside of the financial sector	(3)	(3)
-	Cashflow hedge reserve	(26)	(26)
(2)	Available for sale reserve gains	(3)	-
1,014	**Common equity tier 1 capital**	**1,236**	**1,239**
	Additional tier 1		
240	Non-cumulative callable preference shares	240	-
1,254	**Total tier 1 capital**	**1,476**	**1,239**
	Tier 2		
658	Dated loan capital	658	658
60	Grandfathered non-cumulative callable preference shares	60	300
718	**Total tier 2 capital**	**718**	**958**
1,972	**Total capital**	**2,194**	**2,197**
10,219	**Total risk weighted assets**	**9,747**	**9,747**
	Capital ratios		
9.9%	Common equity tier 1 capital ratio	12.7%	12.7%
12.3%	Tier 1 capital ratio	15.1%	12.7%
19.3%	Total capital ratio	22.5%	22.5%
3.2%	Leverage ratio	4.4%	3.6%

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.
Capital ratios have been presented including the benefit of the retained profit in the year. Under Article 26(2) of the CRR, financial institutions may include independently verified interim profits in their regulatory capital only with the prior permission of the competent authority, namely the Prudential Regulation Authority (PRA) and such permission is being sought.
As outlined in the Group accounting policies and in note 37, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.

The Group is strongly capitalised with a total capital ratio of 22.5% at 31 December 2014 on a transitional and proforma fully loaded basis. The Group's proforma fully loaded tier 1 capital ratio of 12.7% is 2.4% lower than the transitional tier 1 capital ratio of 15.1%. This reflects non compliance of the Group's £300 million non-cumulative callable preference share with the CRD IV definition of additional tier 1 capital, resulting in amortisation into tier 2 capital.

The proforma fully loaded ratios represent estimates reflecting the Group's interpretation of the CRD IV rules as published on 27 June 2013 and related technical standards issued up to 31 December 2014. The actual capital ratios may differ upon issuance of finalised related technical standards and other guidance by relevant regulatory bodies.

Total capital increased by £222 million during 2014 to £2.2 billion, primarily due to a 2014 profit of £168 million, a capital contribution of £15 million in respect of historic taxation losses transferred from

1.6.13 Regulatory capital (continued)

the Parent and a combined decrease of £34 million in respect of the deferred tax and intangible assets regulatory capital deduction.

Risk Weighted Assets decreased by £472 million from £10.2 billion at 1 January 2014 to £9.7 billion at 31 December 2014 reflecting the impacts of decreasing volumes in the GB commercial lending portfolio, offset by increasing volumes in the residential mortgage portfolio.

The Group expects to remain above the Basel Committee indicated minimum leverage ratio of 3% on a fully loaded proforma basis and on a transitional basis. The Basel Committee will monitor the proposed 3% minimum requirement for the leverage ratio and has proposed that final calibrations and any further adjustments to the definition of the leverage ratio will be completed by 2017, with a view to migrating to Pillar I treatment on 1 January 2018.

Basel III / CRD IV

The Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR) were published in the Official Journal of the EU on 27 June 2013. In December 2013 CRD IV was formally transposed into UK legislation.

The European Union (Capital Requirements) Regulations 2014 give effect to the CRD, and the European Union (Capital Requirements)(No.2) Regulations 2014 give effect to a number of technical requirements in order that the CRR can operate effectively in UK law. CRD IV also includes requirements for regulatory and technical standards to be published by the EBA. Many of these have not yet been published or their impact is uncertain.

The CRD IV legislation is being implemented on a phased basis from 1 January 2014, with full implementation from 1 January 2019.

The CRD IV transitional rules result in a number of new deductions from CET 1 capital. In December 2013, the PRA issued guidance on the transitional implementation of CRD IV which directed UK banks to apply CET 1 capital deductions at typically 100% from January 2014.

Capital requirements	**Capital required[1] £m**	**RWA £m**	**Exposure £m**
Central government or central banks	-	-	4,550
Multilateral development banks	-	-	412
Institutions	5	59	225
Corporates	161	2,015	2,212
Retail	77	965	1,372
Secured by mortgages on residential property	402	5,019	14,070
Defaults	73	918	767
Other items	10	129	385
Credit and counterparty risk	**728**	**9,105**	**23,993**
Operational risk	**52**	**642**	
Total	**780**	**9,747**	**23,993**

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

1.6.13 Regulatory capital (continued)

Movement in total regulatory capital	Basel III / CRD IV Transitional 31 December 2014 £m
Opening common equity tier 1 capital at 1 January 2014	1,014
Capital contribution	15
Contribution to common equity tier 1 capital from profit	168
Other, including regulatory adjustments	39
Closing common equity tier 1 capital	**1,236**
Opening and closing additional tier 1 capital at 1 January 2014 and 31 December 2014	**240**
Total tier 1 capital	**1,476**
Opening and closing additional tier 2 capital at 1 January 2014 and 31 December 2014	**718**
Closing total regulatory capital	**2,194**

Regulatory capital to statutory total equity reconciliation

Basel III / CRD IV Transitional 1 January 2014 £m		Basel III / CRD IV Transitional 31 December 2014 £m
1,254	Regulatory total tier 1 capital	1,476
60	Grandfathered non-cumulative callable preference shares	60
55	Consolidation of joint venture (note 18)	60
3	Consolidation of other subsidiary undertakings	2
	Reverse regulatory adjustments to capital:	
125	Deferred tax relying on future profitability	98
46	Intangible assets	39
3	Qualifying holdings outside of the financial sector	3
-	Cashflow hedge reserve	26
2	Available for sale reserve gains	3
1,548	**Statutory total equity**	**1,767**

1.6.14 Segmental performance

Consolidated income statement - profit / (loss) before taxation	Year ended 31 December 2014 £m	Restated[1] Year ended 31 December 2013 £m	Change %
Great Britain (GB) Consumer Banking	243	185	31%
Northern Ireland (NI)	14	(50)	n/m
Great Britain (GB) Business Banking	-	(21)	100%
Group Centre	(58)	(53)	(9%)
Profit before taxation	**199**	**61**	**n/m**

[1] As outlined in the Group accounting policies and in note 37, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.
n/m: not measured

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, Bristol & West and NIIB brands.

Consumer banking profits year on year increased from £185 million to £243 million reflecting continued improved performance in deposit margins and consumer lending products including Bank of Ireland and Post Office mortgages, NIIB car finance and credit cards.

The improvement in consumer lending performance in 2014 resulted from growth in Post Office branded mortgages combined with further acquisitions of residential mortgage assets from the Parent during the year.

Total assets acquired from the Parent from 2012 to 2014 totalled £6.31 billion (fair value) and include a cumulative credit risk adjustment of £65 million at 31 December 2014. This credit risk adjustment comprises anticipated losses over the remaining life of the loans. Incurred losses on this portfolio at 31 December 2014 totalled £3 million.

Refer to page 89 for further details of the Group's accounting policy on financial assets.

Lending margins reduced slightly reflecting competitive pricing on new mortgages offset by redemptions on legacy mortgage portfolios.

Consumer deposit margin performance reflected the impact of strong deposit retention on both Post Office and Bank of Ireland branded deposits, and lower customer pay rates across the industry.

Northern Ireland (NI) – the NI business includes the results of the Bank of Ireland branded branch network and business centres, together with the credit card, mortgage portfolio and banknote business. It returned to profitability during 2014 with a £64 million improvement in performance year on year reflecting a £25 million increase in total income combined with a 52% reduction in impairment losses. The demand for new lending remained low in 2014, but the Group remains committed to supporting its operations in this market.

Great Britain (GB) Business Banking – the business includes £1.3 billion of commercial lending and £0.6 billion of retail deposits; with profit for the year of £0.4 million, compared to a loss of £21 million in 2013. This movement reflects an £8 million improvement in income and a £13 million reduction in impairment losses.

Group Centre – the Group's funding, liquidity and capital position are managed centrally and the related costs are held in this segment, together with the staff and operating costs of central risk and control functions and regulatory related costs including the FSCS levy of £15 million (2013: £13 million).

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 relevant 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 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.

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**	Should the Group's capital base be depleted as a result of a materially worse than expected financial performance (including, for example, reductions in earnings as a result of impairment charges or increases in risk weighted assets), the Group may not be able to continue operating.	• Capital adequacy risk appetite is central to the strategic planning process; • Regular senior management reporting in relation to forward-looking capital limits and early warning indicators and onward reporting to the Asset and Liability Committee (ALCo), the Board Risk Committee (BRC) and the Board; • Capital optimisation initiatives linked to an annual capital plan reviewed and monitored on a monthly basis; and • Comprehensive Individual Capital Adequacy Assessment Process (ICAAP) undertaken annually, showing the Group's capital adequacy and capital quality under stress.
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 is primarily funded by way of retail deposits, therefore 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, which could 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 or the Group or Parent specifically could lead to a reduction in the Group's ability to access customer deposit funding on appropriate terms in the future and / or to mitigate deposit outflows, both of which would impact on the Group's ability to fund its operations.	• Liquidity and funding risk appetite is central to the strategic planning process; • A liquidity and funding risk management framework is in place which is 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, ratios and an escalation process; • Senior management reporting regularly in relation to liquidity limits and early warning indicators and onward reporting to ALCo, the BRC and the Board; • Maintenance of 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; and • Active management of the funding position to determine the amount of ongoing new retail deposit acquisition required to fund the Group's asset base.

1.7 Principal risks and uncertainties (continued)

Principal risks	Outlook	Potential risk impact	Key controls and mitigating factors
Market risk The risk that changes in the level of interest rates or the movement in exchange rates between currencies or financial instruments will have an adverse financial impact on the Group's earnings.	**Stable**	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 re-price at different frequencies, or where lending re-prices with changes in central bank rates but is funded at short dated market rates. Changes in the differential or basis between different floating rates (such as assets re-pricing at the base rate and liabilities re-pricing at 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, which is reviewed annually, is in place which governs market risk management and monitoring; • New product approval process incorporates a market risk review of the product's terms and conditions to ensure compliance with existing risk appetite; • Monthly market risk reporting to ALCo in relation to exposures compared to risk limits; • Monthly reporting of customer behaviour in relation to prepayment of mortgages and pipeline drawdown which is reviewed by Risk and Finance and 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.) produced and monitored against red, amber, green (RAG) limits set by ALCo.
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 improvement in economic conditions.	Should commercial or consumer customers be unable to meet their obligations in relation to borrowing from the Group, the Group may suffer a loss and this would have an adverse impact on the Group's financial position.	• Credit risk appetite is central to the strategic planning process; • Clear Board approved credit risk appetite limits (to include early warning indicators) are in place to monitor and control lending mix and portfolios within acceptable parameters • Appropriate segregation of duties in place across the lending end-to-end process; • Lending authority mandates in place are based on a system of tiered authorities which reflects credit experience and competency; • Lending and sectoral credit policies which set out, for each type of portfolio, the basis on which credit transactions can be entered into. These policies are reviewed on at least an annual basis; • Impairment policies set out the process for the management of deteriorating risk and the recognition of loan losses and are reviewed and regularly updated; • Each lending and credit unit is subject to regular reviews by a 'third line of defence' via the Parent's Group Credit Review function; • Regular monitoring of lending portfolios by senior management and the Credit Risk and Portfolio Committee; • At least annual reviews of all commercial portfolio cases to monitor case specific risk; and • Specialist commercial 'Challenged Risk' teams actively managing risk considered to be 'watch-list' grade or below.

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 the franchise. It includes volatilities caused by changes in the competitive environment, new market entrants, new products or failure to develop and execute a strategy or anticipate or mitigate a related risk. 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.	• Clearly defined strategic plan 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; • Clearly defined, closely and regularly monitored key performance indicators (KPIs); • External macro and micro economic conditions monitored, closely supported by a dedicated Group economist; • Competitive environment reviewed and monitored on an ongoing basis to identify market developments; • Specific business focus on mortgage origination and active management of the retention of existing customers; and • Close, regular engagement with key third party relationship providers e.g. UK Post Office.
Operational risk (including Legal Risk and Outsourcing) The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk but excludes strategic and reputational risk. Legal risk relates to the risk of being the subject of a claim or proceedings due to an infringement of laws, contracts or regulations.	**Increasing** Along with other financial service providers, the Group is increasingly reliant on IT systems to deliver products and services. Increasing external threats such as cyber-crime, 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 outsources certain services to the Parent and, as a result, the Group's operations are sensitive to operational risk losses arising from outsourcing and technology risk. Furthermore, 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 a persistent and ever evolving threat to which the Group is exposed, with the risk of loss of sensitive information and customer data. Litigation proceedings with adverse judgements could result in restrictions or limitations on the Group's operations or result in a material adverse impact on the Group's reputation or financial condition.	• The Operational Risk Management Framework 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 our operational risk exposures against risk appetite; • An enhanced risk and control self-assessment programme is in place which provides areas of business with a view of their operational risk profile and drives any further risk mitigation required to maintain a risk profile within acceptable levels; • Implementation of specific policies and risk mitigation measures for key operational risks, including financial crime (incorporating cybercrime), outsourcing, and business continuity risks; • A roll-out of a central operational risk database which will be used to record risk assessments, loss data, key indicators and other operational risk related information in a consistent manner across the Group; • Arrangements entered into with the Parent are governed through service level agreements which are monitored by the Group through formalised governance arrangements, key performance indicators and obligations; and • Regular reporting of operational risks to the Regulatory and Operational Risk Committee (R&ORC), the BRC and the Board.

1.7 Principal risks and uncertainties (continued)

Principal risks	Outlook	Potential risk impact	Key controls and mitigating factors
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, 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, and in particular, depositors. 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 ensuring that the interests of consumers are at the heart of the Group's operations and management decision-making delivers a positive external view of the Group to customers, regulators and the wider public and community; • Active management of all internal and external communications, focusing on management of political and media relations; • Maintenance of a suite of early warning indicators, the breach of which will trigger escalation and potentially management action such as the invocation of the Group's contingency plans; and • Regular and open dialogue with regulators.
Regulatory risk (including conduct risk) The risk of failure to meet new or existing regulatory and / or legislative requirements and deadlines or to embed requirements into processes. Conduct risk includes the risk that we fail to deliver a product or service in a manner reasonably expected by our customers.	**Increasing** The pace and scale of regulatory developments in the UK financial services market remains significant. Further details of evolving regulatory and legislative requirements are set out in section 1.8.	The Group's operations are subject to both prudential and conduct regulatory oversight exercised by the primary statutory regulatory bodies for financial services in the UK; the PRA and the FCA. The increasing regulatory agenda necessitates an increase in resources and amendments to current processes which may impact the Group's cost base. The Group could be subject to fines or customer compensation should the Group fail to comply with all aspects of the regulatory regime.	• The development of a Customer Charter and conduct risk training for staff to support the business focus on customers and conduct including enhanced product approval and review processes; • Conduct risk culture and focus embedded into business lines; • Active development of additional conduct measures throughout the UK business; • Regular and open communication with the FCA and PRA on all aspects of the Group's activities; • Business unit regulatory compliance reports are reviewed by and reported to senior management as well as the R&ORC, the BRC and the Board; • Regular monitoring of regulatory change (current and proposed) and communication to relevant business owners; and • Risk-based regulatory and compliance monitoring performed by an independent compliance monitoring function.

Additional details on credit risk, liquidity and funding risk, capital management, market risk and related exposures can be found in the Risk Management report on pages 30 to 68.

1.8 Regulatory and other evolving issues

The Group continuously monitors the evolution of the regulatory environment, assessing the strategic, operational and financial impact of emerging and evolving regulatory requirements.

Detailed below are the principal current regulatory and other evolving issues that are being assessed by the Group, the impacts of a number of these which are expected to be finalised during 2015.

- **Senior Managers Regime**
  In July 2014 the PRA, in partnership with the FCA, issued two consultation papers with proposals to improve responsibility and accountability in the banking sector. 'Strengthening accountability in banking: a new regulatory framework for individuals – CP14/14' includes a new Senior Managers Regime for those who are subject to regulatory approval and a Certification Regime which will apply to certain employees dependent on their role. 'Strengthening the alignment of risk and reward: new remuneration rules – CP15/14' sets out new remuneration rules to strengthen the alignment between risk and reward. It is expected that these new rules will become effective during 2015.

- **Ring-Fencing of Core UK Financial Services and Activities**
  In October 2014 the PRA issued a consultation paper in relation to ring-fencing of UK banks which suggests that firms which have more than £25 billion of deposits forecast by 2019, will require shared services to be provided by an operating subsidiary, rather than directly from the Parent. The consultation period closed on 6 January 2015.

- **Basel Committee**
  In December 2014 the Basel Committee on Banking Supervision issued two consultation papers that may affect the way that banks calculate how much capital to hold against credit risk exposures. The proposals consider strengthening the existing regulatory capital requirements for both the Standardised and Internal Ratings Based (IRB) approaches to credit risk. The consultation period on both papers ends on 27 March 2015.

- **Basel III / CRD IV**
  The Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR) were published in the Official Journal of the EU on 27 June 2013. The CRR had direct effect in EU member states and CRD IV was required to be implemented through national legislation in EU member states by 31 December 2013. CRD IV also includes requirements for regulatory and technical standards to be published by the European Banking Authority (EBA). Many of these have not yet been published or their impact is uncertain. Phased implementation of the CRD IV legislation commenced on 1 January 2014, with full implementation by 1 January 2019.

- **Liquidity Coverage Ratio and Net Stable Funding Ratio**
  In December 2010, the Basel Committee introduced two new measures of liquidity risk: the liquidity coverage ratio (LCR), which is intended to measure the amount of high quality liquid assets held by the Group in relation to estimated net cash outflows within a 30-day period during an acute stress event; and the net stable funding ratio (NSFR), which is intended to measure the available amount of stable funding over a one-year horizon. The standards require that the LCR and the NSFR be in excess of 100%.

  In October 2014 the European Commission issued a Delegated Act on LCR, followed by a PRA consultation paper on liquidity in November 2014. The consultation paper includes details of the proposed schedule for phased implementation of LCR as being 80% from 1 October 2015; 90% from 1 January 2017; and 100% from 1 October 2018, as well as the additional requirement to carry forward existing UK liquidity add-ons, not covered in the LCR Delegated Act, as new Pillar II add-ons.

- **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 proposes new rules to ensure that depositors protected by the Financial Services Compensation Scheme (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. This supports orderly resolution and timely pay out of FSCS-covered deposits to depositors. The consultation period closed on 6 January 2015.

- **Mortgage Credit Directive**
  The Mortgage Credit Directive was published on 28 February 2014. The FCA issued a consultation paper, 'CP 14/20 Implementing the Mortgage Credit Directive and the new regime for second charge mortgages' in September 2014, which detailed the changes to the mortgage sales process and the changes to customer documentation. The FCA expects to publish rules in March 2015 for implementation of the Directive in March 2016.

- **Payment Accounts Directive**
  The Payment Accounts Directive 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, payment account switching and offering access to payment accounts with basic features to all EU consumers.

1.8 Regulatory and other evolving issues (continued)

- **EU regulation on credit card interchange fees**
  The European Commission has published proposals to regulate card payments across Europe by introducing a new flexible interchange rate during 2015.

- **FCA Consumer Credit Rules**
  The transfer of consumer credit regulation from the Office of Fair Trading (OFT) to the FCA took place on 1 April 2014. From that date the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) (FSMA) replaced the existing consumer credit regulatory framework under the Consumer Credit Act (CCA). In particular, it replaced the existing consumer credit licensing regime. Whilst most of the rules took effect during 2014 (with the majority from 1 April and further tranches on 1 July and 1 October), the following timelines should be noted:
  - 1 April 2015: End of transitional period for financial promotions first communicated in certain catalogues before 1 October 2014.
  - 1 April 2017: End of transitional period for certain prudential requirements on debt management.

- **Competition and Markets Authority (CMA) market investigation into UK Personal Current Account 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 Personal Current Account (PCA) market and SMEs. This investigation applies to the Group in respect of its NI (PCA and SME) and GB Consumer Banking (Post Office PCA) franchises.

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. As a result the Group does not provide any assurances of future performance, profitability or returns on capital.

The Strategic report on pages 7 to 29 is approved is approved by the Board of Directors and signed on its behalf by:

Lorraine Smyth

Lorraine Smyth
Director
5 March 2015
Company number: 07022885

Business Review
Risk Management
Governance
Consolidated Financial Statements
Bank Financial Statements
Other Information

Risk Management

Index

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 83.

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 Risk Management Framework (RMF) articulates this integrated approach and is approved by 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.

As well as reflecting the Group's experience gained from economic and financial stress, the RMF is underpinned by a prudent 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 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.

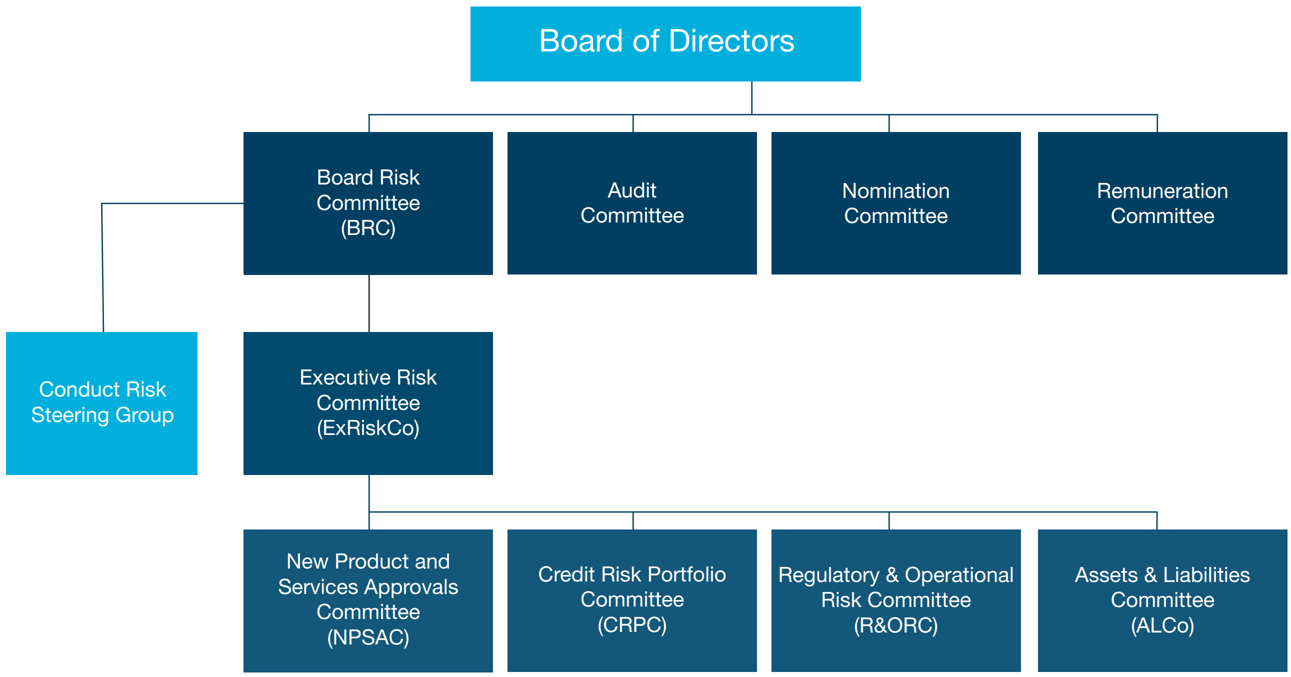
1.1 Risk governance framework

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 and escalation of risk concerns from business units, functions and Group Internal Audit (GIA) to the Executive Risk Committee (ExRiskCo), the Board Risk Committee (BRC) and the Board of Directors (the Board); and to cascade approved risk management policies back out 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, as detailed in figure 2, has detailed terms of reference, approved by the Board or their parent committee, setting out their respective roles 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 corporate 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 BRC, Audit Committee, Remuneration Committee and 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 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 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 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 Board and 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 Approved Persons' 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 company 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 a senior 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 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:

- **Assets & Liabilities 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 aswell 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.
- **New Product and Services Approvals Committee (NPSAC) -** 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 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 Risk Management Framework (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.

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 a risk management framework, designing risk policies, controls and processes and communicating these to all business units through monitoring and appropriate assurance. Furthermore, the Risk Office 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 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 changes are made 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 – Group Internal Audit (GIA) provides independent, 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. Group Credit Review (GCR), 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 report and accounts.

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 liquidity programmes. The UK Treasurer reports directly to the Chief Financial Officer (CFO).

In the event that the Senior Persons Regime (currently under consultation) is affected, roles and responsibilities, under the three lines of defence model, will be modified in accordance with the requirements of the new regime.

1.2 Risk culture, strategy and principles

Risk culture

A strong, prudent risk culture is fundamental to the Group's management of risk. 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.

Risk strategy

The Group's risk strategy is to support the business in building profitability 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;
- allocate clear roles and responsibilities / accountability for the control of risk in the Group;
- avoid undue risk concentrations;
- engender a prudent risk management culture;

1.2 Risk culture, strategy and principles (continued)

- 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 firm level if:
- they are aligned with the Risk Identity and risk appetite;
- the risks represent an attractive 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 exist, where appropriate, and 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's risk identity sets out that the Group, as a UK based retail focused bank, is committed to long-term relationships with its customers and strategic partners. The customer is at the centre of the Group's business; understanding the customers' needs enables development of appropriate, successful products, services and channel strategies and allows the Group to ensure that it treats customers fairly. 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);
- generating a mix of consumer and business deposits; and
- generating a mix of fee revenue through its insurance, money transmission and currency activities.

Risk appetite
Risk appetite defines the level and nature of risk that the Group is prepared to accept to achieve its short and medium term strategic and financial objectives. Risk appetite is defined in the Group's risk appetite statement which is approved (at least annually) by the Board on the recommendation of the BRC.

It is defined in qualitative terms, as well as quantitatively, through a series of limits, covering credit risk, market risk, liquidity and funding risk, capital risk and operational risk, including conduct risk. These limits are cascaded into more granular limits and targets across portfolios and business units. Risk appetite guides the Group in its risk taking and related business activities, having regard to the maintenance of financial stability, solvency and the protection of the Group's core franchises and growth platforms. The Group aims to achieve an appropriate balance between risk and returns and to minimise potential adverse effects to its financial performance. The Group has defined measures to track its risk profile against the most significant risks that it assumes.

The Group tracks actual and forecast results against these limits and these 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 24 to 27 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 deemed 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 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 24 to 27 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 BRC and the Board as an integral part of the ICAAP and the Individual Liquidity Adequacy Assessment (ILAA), 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.

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. On a quarterly basis, material risks identified under the Group's RMF are assessed and their status is reported in the Quarterly Risk Report (QRR) in the first instance. This report is submitted to 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 and liquidity risk and capital management.

The reports also provide data on the external economic environment and management's view of the implications of this environment on the Group's risk profile. The BRC also receives risk information through the review of minutes from the ExRiskCo and its sub-committees.

Credit risk index

2.1 Credit risk

Key points:

- Gross loans and advances to customers remain predominantly in line with the previous period at £18.9 billion. (2013, £18.6 billion)
- The credit environment in which the Group operates improved during 2014.
- The commercial property sector continues to improve, but in some segments, such as Northern Ireland Land and Development, continues to be characterised by low levels of activity and illiquid markets.
- Total customer impairment charges have reduced from £125 million at 31 December 2013 to £61 million at 31 December 2014 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. 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 2014 of £6,312 million include £5,102 million due from the Parent, whilst deposits from banks at 31 December 2014 of £5,234 million include £5,193 million due to the Parent. At 31 December 2014 the Group therefore has a net exposure due to the Parent of £91 million (31 December 2013: £5 million).

At 31 December 2014 both derivative assets and derivative liabilities include £56 million with the Parent and therefore a net exposure due from the Parent of £nil (31 December 2013: £4 million and £7 million respectively and therefore a net exposure due to the Parent of £3 million).

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 Chief Credit Officer (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 Executive Committee, the BRC and the Board. These functions report to the Chief Risk Officer (CRO), who reports directly to the Chief Executive Officer (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 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 57.

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 in relation to the Group's market risk management. The gross risk 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. Furthermore, derivatives executed with the Parent are subject to an ISDA and CSA and therefore collateral 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.

2.1 Credit risk (continued)

2.1.2 Credit risk management (continued)

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, 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 (eg. business banking 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 Credit risk methodologies section on pages 57 to 59. 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 2014 is set out on pages 46 to 48 and note 17.

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 security 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 collateral (motor vehicles, plant and machinery, stock etc.);
- financial collateral (lien over deposits, shares etc.); and
- other collateral (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 49.

Details of the valuation methodologies are set out in the Credit Provisioning Methodologies section on page 57.

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 / the BRC as required. Group Credit Review (GCR), an independent function within the Parent (part of the Parent's Internal Audit function) and 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 challenged portfolios are also conducted. These are attended from the business by the heads of business banking and the heads of the challenged units, by the CRO, the CCO - Commercial and the head of challenged credit.

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, 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 in recent years 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 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

2.1 Credit risk (continued)

2.1.5 Management of challenged assets (continued)

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;

- facilities in breach of terms 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 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 page 45.

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.

It is the Group's policy to monitor the effectiveness of forbearance arrangements over the lifetime of those arrangements. A forbearance arrangement is considered to be effective where the risk profile of the affected borrower stabilises or improves over the monitored time period, resulting in an improved outcome for the Group and the borrower. The monitoring of effectiveness takes account of the nature and intended outcome of the forbearance arrangement and the period over which it applies.

2.1 Credit risk (continued)

2.1.6 Book profile - loans and advances to customers

The Group's residential mortgage portfolio amounted to 75% of total loans as at 31 December 2014 (31 December 2013: 70%). By product type, the residential mortgage portfolio is made up of standard owner occupier (55%), self-certified owner occupier (9%) and Buy to let (BTL) (36%) (31 December 2013: 55%, 9%, and 36% respectively). In terms of geographical concentrations, the largest concentration is the London and South East area at 48% (31 December 2013: 49%). The Group's concentration of Residential mortgages in Northern Ireland is 4% of the portfolio (31 December 2013: 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 10%, or £1.9 billion, of total loans at 31 December 2014 (31 December 2013: 13% or £2.4 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 2014 £m**	31 December 2013 £m
Residential mortgages	14,182	13,078
Finance leases and hire purchase	932	803
Credit cards	375	372
Property and construction	1,917	2,455
Business and other services	975	1,290
Manufacturing and distribution	295	360
Other	238	289
Total	**18,914**	**18,647**

2.1 Credit risk (continued)

2.1.7 Asset quality – loans and advances to customers

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

31 December 2014 **Risk profile of loans and advances to customers (before impairment provisions) (audited)**	**Residential mortgages £m**	**Non-property SME and corporate £m**	**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%**

31 December 2013 Risk profile of loans and advances to customers (before impairment provisions) (audited)	Residential mortgages £m	Non-property SME and corporate £m	Property and construction £m	Consumer £m	Total loans and advances to customers £m	Total loans and advances to customers %
High quality	12,427	622	78	1,040	14,167	76%
Satisfactory quality	21	835	605	-	1,461	8%
Acceptable quality	49	129	282	-	460	2%
Lower quality but not past due nor impaired	-	118	320	-	438	2%
Neither past due nor impaired	12,497	1,704	1,285	1,040	16,526	88%
Past due but not impaired	504	18	109	24	655	4%
Impaired	77	294	1,061	34	1,466	8%
Total	13,078	2,016	2,455	1,098	18,647	100%

2.1 Credit risk (continued)

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

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 Probability of Default 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 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 in the case of default by the borrower to the Group.

'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 57 for details on the loan loss provisioning methodology.

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 2014 (audited)	**Residential mortgages £m**	**Non-property SME and corporate £m**	**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**

31 December 2013 (audited)	Residential mortgages £m	Non-property SME and corporate £m	Property and construction £m	Consumer £m	Total £m
Past due up to 30 days	101	10	29	11	151
Past due 31-60 days	240	6	44	9	299
Past due 61-90 days	64	2	36	4	106
Past due more than 90 days but not impaired	99	-	-	-	99
Total	504	18	109	24	655

There was a decrease in the total past due, but not impaired balances from £655 million to £590 million primarily due to movements in Residential mortgages. Arrears on residential mortgage balances decreased by £63 million, predominantly in the Buy to let and self cert segments. This decrease was partially offset by increased arrears in the Non-property SME and corporate 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 2014 (audited)	**Advances £m**	**Defaulted loans £m**	**Defaulted loans as % of advances %**	**Impairment provisions £m**	**Impairment provisions as % of defaulted loans %**
Residential mortgages	14,182	74	1%	33	45%
Non-property SME and corporate	1,670	252	15%	130	52%
Property and construction	1,917	846	44%	418	49%
Consumer	1,145	27	2%	32	119%
Total	**18,914**	**1,199**	**6%**	**613**	**51%**

2.1 Credit risk (continued)

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

31 December 2013 (audited)	Advances £m	Defaulted loans £m	Defaulted loans as % of advances %	Impairment provisions £m	Impairment provisions as % of defaulted loans %
Residential mortgages	13,078	77	1%	41	53%
Non-property SME and corporate	2,016	294	15%	131	45%
Property and construction	2,455	1,061	43%	513	48%
Consumer	1,098	34	3%	34	100%
Total	18,647	1,466	8%	719	49%

Loans and advances to customers classified as 'defaulted' amounted to £1.2 billion, representing 6%, of the Group's total loan book at 31 December 2014 (31 December 2013: £1.5 billion, and 8%).

Property and construction loans classified as 'defaulted' reduced by £0.2 billion during the year, partially as a result of the impacts of provision utilisation through completion of workout strategies. However, defaulted loans in the Property and construction portfolio remain elevated at £0.8 billion at 31 December 2014 (31 December 2013: £1.1 billion), reflecting the difficulties facing residential developments, particularly in Northern Ireland, as well as continued weak conditions in some segments of the investment property loan portfolio.

The volume of Non-property SME and corporate loans that are classified as 'defaulted' reduced, from £294 million at 31 December 2013, to £252 million at 31 December 2014. This decrease reflects the successful implementation of workout strategies, and associated provision utilisation.

Consumer impairment provisions have reduced from £34 million to £32 million at 31 December 2014. The increase in the impairment ratio to 119% reflects a higher proportion of longer term arrears in the impaired loans.

Impairment provision by nature of impairment provision (audited)	**31 December 2014 £m**	31 December 2013 £m
Specific provisions	537	635
Incurred but not reported (IBNR)	76	84
Total impairment provision	**613**	**719**

Specific provisions decreased by 15% to £537 million at 31 December 2014, (31 December 2013: £635 million) mainly as a result of provision utilisation in the commercial portfolio. Incurred but not reported provisions decreased from £84 million at 31 December 2013 to £76 million at 31 December 2014.This year on year decrease of 10% primarily relates to the retail portfolio.

2.1 Credit risk (continued)

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

Impairment charge (audited)	Year ended 31 December 2014 Specific £m	IBNR £m	Total £m	Year ended 31 December 2013 Specific £m	IBNR £m	Total £m
Residential mortgages	3	(5)	(2)	5	3	8
Non-property SME and corporate	20	(3)	17	34	-	34
Property and construction	36	(2)	34	69	-	69
Consumer	8	4	12	14	-	14
Total loan impairment charge / (release)	**67**	**(6)**	**61**	**122**	**3**	**125**

UK economic conditions continued to improve during 2014. 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 £64 million from £125 million for the year ended 31 December 2013 to £61 million for the year ended 31 December 2014.

The impairment charge on Residential mortgages decreased by £10 million, from £8 million for the year ended 31 December 2013, to a credit of £2 million for the year ended 31 December 2014. This was primarily due to the upward trend in property values during 2014.

The impairment charge on the Non-property SME and corporate loan portfolio was £17 million for the year ended 31 December 2014 (31 December 2013: £34 million). The year on year decrease reflects on the impacts of improved conditions in the general economy.

The impairment charge of £34 million on the Property and construction portfolio, for the year ended 31 December 2014, has decreased from £69 million for the year ended 31 December 2013 as a result of a continued improvement in the commercial and residential property sectors.

The impairment charge of £12 million on consumer loans, for the year ended 31 December 2014 has decreased by £2 million, from £14 million for the year ended 31 December 2013. Default arrears on this portfolio were below expectations, as were early arrears, which has resulted in a reduction of £2 million in the total provision. Consumer demand was also subdued which impacted on the growth of the portfolio.

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 loan to value profile of the Group's residential mortgage book as at 31 December 2014 and 31 December 2013.

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%

31 December 2013 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%	13%	15%	17%
51% to 70%	24%	38%	30%	30%
71% to 80%	24%	26%	21%	24%
81% to 90%	20%	15%	19%	18%
91% to 100%	8%	6%	12%	8%
Subtotal	96%	98%	97%	97%
101% to 120%	4%	2%	3%	3%
Greater than 120%	-	-	-	-
Total	100%	100%	100%	100%
Weighted average LTV[1]:				
Stock of mortgages at year end[1]	68%	68%	70%	68%
New mortgages during year[1]	70%	65%	71%	70%

[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 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**

31 December 2013 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	13	191	1	9	14	200
Interest only	61	537	7	48	68	585
Capitalisation of arrears	14	78	2	9	16	87
Other	2	15	-	2	2	17
Total	90	821	10	68	100	889

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 2014	**90**	**821**	**10**	**68**	**100**	**889**
New forbearance extended	7	68	-	7	7	75
Loans acquired during the period	1	5	-	-	1	5
Exited forbearance during the period						
- Improved to or remained in non-default	(5)	(48)	-	(2)	(5)	(50)
- Improved / stabilised and remained in default	-	-	-	(2)	-	(2)
- Redemptions, principal repayments and other	(11)	(95)	(2)	(9)	(13)	(104)
Transfers within forbearance between non-defaulted and defaulted loans	1	-	(1)	-	-	-
Closing balance at 31 December 2014	**83**	**751**	**7**	**62**	**90**	**813**

[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 2014 is £1 million (31 December 2013: £2 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 41 to 42.

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 2014 Forbearance arrangements (before impairment provisions)	**Property and construction**			**Non-property SME and corporate £m**	**Total forborne loans and advances customers £m**
	Land and development £m	**Investment £m**	**Total £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**

31 December 2013 Forbearance arrangements (before impairment provisions)	Property and construction			Non-property SME and corporate £m	Total forborne loans and advances customers £m
	Land and development £m	Investment £m	Total £m		
Term extension	47	464	511	66	577
Adjustment or non-enforcement of covenants	-	49	49	23	72
Interest only	2	11	13	30	43
Facilities in breach of terms placed on demand	6	34	40	5	45
Reduced payment (greater than interest only)	1	27	28	5	33
Capitalisation of arrears	-	1	1	-	1
Other	1	17	18	32	50
Total forborne loans and advances to customers	57	603	660	161	821

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)	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 2014	**57**	**603**	**660**	**161**	**821**
New forbearance extended	7	130	137	20	157
Exited forbearance					
- Improved to or remained in non-default	-	(9)	(9)	-	(9)
- Remained in / disimproved to default without specific provision	(1)	(42)	(43)	(8)	(51)
- Disimproved to default with specific provison	(6)	(30)	(36)	(10)	(46)
- Redemptions, principal repayments and other	(13)	(111)	(124)	(45)	(169)
Transfers within forbearance between non-defaulted and defaulted loans	-	-	-	-	-
Transfers between sub product class	(3)	(4)	(7)	7	-
Closing balance at 31 December 2014	**41**	**537**	**578**	**125**	**703**
Non-defaulted loans					
Opening balance at 1 January 2014	**47**	**535**	**582**	**136**	**718**
New forbearance extended	2	89	91	16	107
Exited forbearance					
- Improved to or remained in non-default	-	(6)	(6)	-	(6)
- Remained in / disimproved to default without specific provision	-	(24)	(24)	(4)	(28)
- Disimproved to default with specific provison	(1)	(20)	(21)	(6)	(27)
- Redemptions, principal repayments and other	(10)	(103)	(113)	(37)	(150)
Transfers within forbearance between non-defaulted and defaulted loans	(4)	1	(3)	(3)	(6)
Transfers between sub product class	(3)	(5)	(8)	8	-
Closing balance at 31 December 2014	**31**	**467**	**498**	**110**	**608**
Defaulted loans					
Opening balance at 1 January 2014	**10**	**68**	**78**	**25**	**103**
New forbearance extended	5	41	46	4	50
Exited forbearance					
- Improved to or remained in non-default	-	(3)	(3)	-	(3)
- Remained in / disimproved to default without specific provision	(1)	(18)	(19)	(4)	(23)
- Disimproved to default with specific provison	(5)	(10)	(15)	(4)	(19)
- Redemptions, principal repayments and other	(3)	(8)	(11)	(8)	(19)
Transfers within forbearance between non-defaulted and defaulted loans	4	(1)	3	3	6
Transfers between sub product class	-	1	1	(1)	-
Closing balance at 31 December 2014	**10**	**70**	**80**	**15**	**95**

Property and construction

(a) Investment

This category represents 76% of the total forborne commercial loans at 31 December 2014, 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 80% 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. A further 7% were 'placed on demand'. 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 account for 8% of forbearance measures in this category.

2.1 Credit risk (continued)

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

(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 6% of total forborne loans. 'Term extension' was the most common type of forbearance granted (93% of the total).

Non-property, SME and Corporate
This category accounts for 18% of total forborne loans. Forbearance measures have been granted to 11% of non-property exposures (excluding balances under provision), compared to 46% for investment property and 78% for L&D. This is consistent with the generally stronger credit quality of SME / corporate sector exposures compared to those in the Property and construction sector. It also partly reflects the greater number of options typically available to the SME / 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' (50%) and relatively higher proportions by covenant adjustments or waivers (10%) and 'other' measures (28%) – such as weakening of the security structure.

Repossessed collateral on mortgages
During the year ended 31 December 2014 the Group took possession of collateral held as security on mortgages, as follows:

	31 December 2014		31 December 2013	
Repossessed collateral (audited)	**Number of repossessions as at balance sheet date Number**	**Balance outstanding £m**	Number of repossessions as at balance sheet date Number	Balance outstanding £m
Residential repossessions				
Owner occupier	21	3	21	3
Buy to let	23	2	21	3
Self certified	11	2	10	2
Total	**55**	**7**	**52**	**8**

2014 Repossessed collateral (unaudited)	**Number of disposals during the year Number**	**Balance outstanding at repossession £m**	**Net sales proceeds received £m**
Residential repossessions			
Owner occupier	73	6	8
Buy to let	72	6	7
Self certified	26	4	4
Total residential repossessions	**171**	**16**	**19**

2.1 Credit risk (continued)

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

Repossessed collateral on loans

During the year ended 31 December 2014 the Group took possession of collateral held as follows:

Repossessed collateral (audited)	**31 December 2014** Number of repossessions as at balance sheet date Number	**31 December 2014** Balance outstanding £m	31 December 2013 Number of repossessions as at balance sheet date Number	31 December 2013 Balance outstanding £m
Property and construction	23	3	59	5
Total	**23**	**3**	**59**	**5**

2014 Repossessed collateral (unaudited)	Number of disposals during the year Number	Balance outstanding at repossession £m	Net sales proceeds received £m
Property and construction	37	12	2
Total repossessions	**37**	**12**	**2**

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

During the year ended 31 December 2014 the Group disposed of 37 repossessed properties[1]. The total contracted disposal proceeds were adequate to cover the balance outstanding after provisions.

At 31 December 2014 the Group had collateral held as security, as follows:

Repossessed collateral (audited)	**31 December 2014 £m**	31 December 2013 £m
Residential properties	8	11
Total	**8**	**11**

[1] *The number of properties disposed of during the year ended 31 December 2014 includes those which were subject to an unconditional contract for sale at year end date.*

2.1 Credit risk (continued)

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

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 2014** **£m**	31 December 2013 £m
AAA to AA-	2,025	1,464
A+ to A-	178	203
BB+ to BB-	5,159	11,650
Total	**7,362**	**13,317**

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 2014. In addition, for these line items, further information is included on the Group's exposures to selected countries and their associated credit ratings from Standard & Poor's. Further information is included where the Group has an exposure of over £250 million (being with Ireland and the United Kingdom).

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	A	-	5,102	-	56	5,158
United Kingdom	AAA	2,964	1,046	535	3	4,548
Finland	AA+	-	-	45	-	45
Other		-	164	411	-	575
Total		**2,964**	**6,312**	**991**	**59**	**10,326**

31 December 2013 (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	BBB+	-	11,646	-	4	11,650
United Kingdom	AAA	4,125	994	99	7	5,225
Finland	AAA	-	-	45	-	45
Other		-	184	338	-	522
Total		4,125	12,824	482	11	17,442

[1] Based on credit ratings from Standard & Poor'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 56% during the year from £11.6 billion at 31 December 2013 to £5.1 billion at 31 December 2014. 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)

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

Ireland (unaudited) **31 December 2014**	**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**

31 December 2013 (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	615	6,250	2,417	1,677	675	12	11,646
Total	615	6,250	2,417	1,677	675	12	11,646

United Kingdom (unaudited) **31 December 2014**	**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**

31 December 2013 (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	4,125	-	-	-	-	-	4,125
Loans and advances to banks	994	-	-	-	-	-	994
Available for sale financial assets	1	-	-	98	-	-	99
Total	5,120	-	-	98	-	-	5,218

As set out in the Group's accounting policies on pages 82 to 103, the Group accounts for each of these assets as follows:

- available for sale financial assets 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.

2.2 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.

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 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.

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 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.

2.2 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 incurred but not reported 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 Probability of Default);
- the emergence period (historic experience adjusted to reflect the current conditions and the credit management model); and
- loss given default 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 2014 is set out on pages 41 to 42 and pages 50 to 52. 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 2014 is set out on pages 46 to 48 and note 17.

Credit management process
Account performance is reviewed periodically, to confirm that the credit grade or Probability of Default assigned remains appropriate, and to determine if impairment has arisen. For consumer and smaller ticket 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.

2.2 Credit risk methodologies (audited) (continued)

For larger commercial loans, the relationship manager reassesses the risk at least annually (more frequently if circumstances or grade require) and re-affirms 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 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 nine months.

The loss given default (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 64% at 31 December 2014. 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.

(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. Irrespective of the valuation methodology applied, it is Group's policy to review individually significant impaired loans half-yearly, 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 impacts expected cash flows (e.g. evidence of comparable transactions emerging, changes in local market conditions, etc.), an interim review and assessment of the required impairment provision is undertaken.

Financial risk index

3. Financial risk

Financial risk is split into three sub-categories; liquidity and funding risk, capital management and market risk. The following pages outline the management and measurement of each of these three sub-categories.

3.1 Liquidity and funding risk

Key points

- At all times during the financial year, the Group maintained appropriate levels of liquid resources and an appropriate liquidity position, in line with regulatory requirements and guidelines.
- The Group held liquid assets of £4.1 billion at 31 December 2014 which was significantly 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 2015.
- The Group's loan to deposit ratio increased from 86% at 31 December 2013 to 91% at 31 December 2014 reflecting the positive impacts of the Group's balance sheet efficiency strategy.
- The Group adhered to its policy to materially fund lending through deposits.

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 Group has established a liquidity and funding risk management framework, 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 liquidity and funding section of the risk appetite statement is set by the Board and is reviewed on an annual basis. It 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 defines its liquidity and funding risk appetite.

The Group's liquidity and funding risk management framework 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 Group's exposure to liquidity and funding risk is governed by policy approved by the BRC and the Board. The operational oversight of this policy is delegated to ALCo, an Executive subcommittee of the ExRiskCo.

The Group's ILAA 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:

1. *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
2. *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 aligned to PRA prescribed stress scenarios; a market-wide stress event; a Group specific stress event and

3.1 Liquidity and funding risk (continued)

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 stock of liquid resources in each maturity band, as defined in the risk appetite statement. Under normal market circumstances the Group must have 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.

The Group maintained appropriate liquidity resources in excess of regulatory and internal requirements, throughout 2014. In addition, it also has a contingency funding plan in place, which documents processes and potential actions that can be put in place, in the event of an unexpected shortfall in liquidity.

Customer deposits

The Group's funding strategy is focused, in particular, on retail deposit funding, with deposits demonstrating a high degree of stability thus providing an appropriate basis to fund customer lending.

During 2014 the Group reduced its customer deposits by £0.7 billion in line with the Group's balance sheet requirements.

£16 billion of retail deposits at 31 December 2014 relates to Post Office branded deposits which have reduced £0.2 billion (1.5%) over 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, increased from 86% at 31 December 2013 to 91% at 31 December 2014, primarily reflecting the positive impacts of the Group's balance sheet efficiency strategy.

Customer accounts (unaudited)	**31 December 2014 £m**	31 December 2013 £m
Bank of Ireland UK branded deposits	1,956	2,112
Bank of Ireland UK current accounts	2,243	2,521
Post Office branded deposits	15,981	16,224
Total	**20,180**	**20,857**

Liquid assets

The Group maintains a liquid asset portfolio, comprising cash placements and securities that can be used to raise liquidity, either by sale or through secured funding transactions. The portfolio at 31 December 2014 comprises cash balances with 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 on the following page. Interbank placements comprised both placements with external banks and the Parent. While placements with the Parent are considered liquid assets by the Group they are not deemed to be PRA BIPRU eligible liquid assets.

The Group utilises its liquidity stress testing to determine the minimum required level of the liquid asset portfolio and the components thereof.

3.1 Liquidity and funding risk (continued)

Composition of the liquid asset portfolio (unaudited)	Average in year 31 December 2014 £m	Average in year 31 December 2013 £m	Year End 31 December 2014 £m	Year End 31 December 2013 £m
Balances with central banks	3,365	4,551	2,918	4,088
Government bonds	457	100	535	143
Other listed securities	431	348	456	339
Interbank placements	168	308	220	150
Total	**4,421**	**5,307**	**4,129**	**4,720**

The reduction in the liquid asset portfolio over the year has been driven by management actions, reflecting the Group's strategy of efficiently managing its balance sheet.

At 31 December 2014 £3.9 billion of the liquid asset portfolio is PRA BIPRU eligible (31 December 2013: £4.6 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.

For the purposes of liquidity risk management the Group monitors and manages balance sheet encumbrance via risk appetite. At 31 December 2014 £1.2 billion of the Group's balance sheet was encumbered.

The Group had £8.7 billion of gross eligible mortgages prepositioned with the Bank of England for potential use in its liquidity resources at 31 December 2014.

31 December 2014 Encumbered 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 2014 is £4 million of collateral placed with the Parent in respect of derivative liabilities.*

3.1 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 are reviewed by Treasury, Finance and Risk functions and by the Group's senior management. Liquidity risk reports are also reviewed at monthly ALCo meetings, with actions agreed as appropriate. Liquidity stress test results are also reported to senior management on a daily basis and, for ease of interpretation, make use of both graphs and a series of pre-defined operational triggers which are reported to ALCo, the BRC and the Board.

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

Funding risk management is incorporated into the Group's funding plan which is monitored regularly and updated annually. Placements and borrowings with the Parent are transacted to hedge the Group's market risk exposure and are not relied upon by the Group for liquidity purposes. Furthermore, the Group has in place 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 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 £11.7 billion and £11.7 billion, respectively at 31 December 2013, to £5.1 billion and £5.2 billion, respectively, at 31 December 2014.

Contingent liquidity
The Group holds significant contingent liquidity collateral, comprised of mortgage-backed securities issued by Bowbell No 1 plc (refer to note 36), and raw loans prepositioned 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 table below for ratings summary:

Bank of Ireland UK ratings (unaudited)	31 December 2014	31 December 2013
Moody's	Ba2 stable outlook	Ba1 negative outlook
Fitch	BBB negative outlook	BBB stable outlook

Maturity analysis of financial assets and liabilities
The tables below summarise the contractual maturity profile of the Group's financial assets and liabilities, at 31 December 2014 and 31 December 2013, 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 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 portion subject to the potential early access has been classified accordingly in the table below.

3.1 Liquidity and funding risk (continued)

Maturity analysis of financial assets and liabilities (discounted basis)

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	11,051	2,671	3,862	2,590	6	20,180
Derivative financial instruments	-	7	4	35	18	64
Subordinated liabilities	-	-	-	-	658	658
Total liabilities	**11,906**	**2,895**	**6,134**	**4,418**	**783**	**26,136**
Net total assets and liabilities	**(6,827)**	**(475)**	**(2,909)**	**2,960**	**10,355**	**3,104**
Cumulative net assets and liabilities	**(6,827)**	**(7,302)**	**(10,211)**	**(7,251)**	**3,104**	**3,104**

31 December 2013 (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	4,125	-	-	-	-	4,125
Derivative financial instruments	-	7	3	1	-	11
Loans and advances to banks	196	982	-	-	-	1,178
Loans and advances to banks - related party transactions	598	17	6,250	4,094	687	11,646
Available for sale financial assets	-	71	-	411	-	482
Loans and advances to customers						
(before impairment provisions)	1,256	1,191	1,505	4,510	10,185	18,647
Total assets	6,175	2,268	7,758	9,016	10,872	36,089
Financial liabilities						
Deposits from banks	9	-	-	-	-	9
Deposits from banks - related party transactions	636	6	6,255	4,619	135	11,651
Customer accounts	12,445	3,448	3,535	1,429	-	20,857
Derivative financial instruments	-	8	3	-	-	11
Subordinated liabilities	-	-	-	-	658	658
Total liabilities	13,090	3,462	9,793	6,048	793	33,186
Net total assets and liabilities	(6,915)	(1,194)	(2,035)	2,968	10,079	2,903
Cumulative net assets and liabilities	(6,915)	(8,109)	(10,144)	(7,176)	2,903	2,903

3.2 Capital management

Key points

- At all times during the financial year the Group maintained appropriate capital resources in line with regulatory requirements and guidelines.
- Common equity tier 1 (CET 1) ratio is 12.7% at 31 December 2014 under both the Basel III / CRD IV transitional and pro forma full implementation rules.
- Leverage ratio is 4.4% at 31 December 2014 under the Basel III / CRD IV transitional basis and 3.6% on a pro forma full implementation basis.

Capital management objectives and policies (audited)

The objectives of the Group's capital management policy are to, at all times, comply with regulatory capital requirements, and to ensure that the Group has sufficient capital to cover the risks of its business and to support its strategy. Capital adequacy and its effective management is critical to the Group's ability to operate its businesses, to grow organically and to 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 risk weighted assets 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 2014.

The Group manages its capital resources to ensure that the overall amount and quality of resources exceeds the Group's capital requirements. The Group's capital requirements are primarily driven by credit risk (including credit concentration risk) and operational risk. The Group's capital requirements also incorporate a regulatory capital planning buffer, the size of which is determined by stress testing as part of the ICAAP process.

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 risk management framework and senior management decision making; and
- 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 analyses in the ICAAP, which is reviewed by the PRA on a periodic basis. The ICAAP, which acts as a link between the Group's strategy and 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. As such it complements the existing ICAAP process, helping to improve risk identification and risk management more generally.

Reverse stress testing results are approved by the Board, as part of the Group's ICAAP.

The Group's capital planning process includes forecast planning assumptions (including the targeted level of capital based upon risk appetite) which are 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.

Basel III / CRD IV requirements

The Capital Requirements Directive IV (CRD IV) and the Capital Requirements Regulation (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 also includes requirements for regulatory and technical standards to be published by the EBA. Many of these have not yet been published or their impact is uncertain. The CRD IV legislation is being implemented on a phased basis from 1 January 2014, with full implementation by 2019.

Further information on the Group's capital adequacy can be found in section 1.6.13 of the Strategic report.

3.2 Capital management (continued)

Group capital resources (audited)	31 December 2014 £m	Restated[1] 31 December 2013 £m
Equity (including other equity reserves)	1,467	1,248
Preference shares	300	300
Subordinated loan capital	658	658
Total capital resources	**2,425**	**2,206**

[1] As outlined in the Group accounting policies and in note 37, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'. Capital resources disclosed are audited accounting capital resources.

In the year ended 31 December 2014 the Group's total capital resources increased by £219 million, primarily due to:

- increase in Retained earnings through incorporation of 2014 profits of £172 million;
- increase in the Cash flow hedge reserve to £26 million; and
- a capital contribution of £15 million in respect of historic taxation losses.

3.3 Market risk

Key points

- The Group does not engage in speculative trading for the purposes of profit-making as a result of anticipation of movements in financial markets. Therefore, no discretionary risk is taken by the Group.
- During 2014 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 a 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 re-price at different frequencies (monthly, quarterly, semi-annually), or where lending re-prices 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 re-pricing at the base rate and liabilities re-pricing 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 is set by the Board and is reviewed on an annual basis. The Board delegates responsibility of the 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 (FX) 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 through arrangements 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 the 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 an ISDA and CSA. 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 de-minimis limit for interest rate risk to reflect operational requirements only. This limit is reviewed and approved by ALCo.

3.3 Market risk (continued)

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 re-pricing 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 to enable coverage of the impact of a stress event occurring.

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 2014, is detailed in the table below:

(Audited)	**Year ended 31 December 2014 £m**	Year ended 31 December 2013 £m
+ 50 basis points	0.57	0.33
- 50 basis points	(0.57)	(0.33)

The above sensitivity is indicative of the magnitude and direction of exposures but requires qualification, in that the results are based on an immediate and sustained shift of the same magnitude across the yield curve.

Directors and other information

Chairman	Mr. Christopher Fisher (N) (RE)
Non-executive Directors	Ms. Laurel Powers-Freeling (A) (N) (RI) (RE) Mr. Patrick Haren (N) (RE) Mr. Senan Murphy Mr. Peter Shaw (A) (RI) Mr. David Bennett (A) (RI)
Executive Directors	Mr. Desmond Crowley Mr. David McGowan Ms. Lorraine Smyth

(A) Members of the Audit Committee
(N) Members of the Nomination Committee
(RI) Members of the Risk Committee
(RE) Members 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 (61)
Appointed Chairman 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, and as Chairman of the governing body of the University of Reading.

Chief Executive Officer

Desmond Crowley, BA (Mod) Econ, FCMA (55)
Joined Bank of Ireland Group in 1988. In March 2000, became a member of the 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 Chief Executive Officer - Retail UK Division and Bank of Ireland (UK) plc in March 2012. Chairman of Post Office Financial Services. 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.

Executive Directors

David McGowan, LLB (59)
Appointed Director of Bank of Ireland (UK) plc in September 2009. Having initially served as Chief Executive Officer (CEO), David was appointed Chief Risk Officer in October 2012. David joined Bank of Ireland Group in 1979 and has held various executive positions including as member of the Group Credit Committee. David has been a Director of a number of companies in the Group and held other senior management positions, including CEO Northern Ireland (1998 - 2002) and CEO Business Banking UK (2002 - 2009). Appointed Director of Bristol & West plc and Bank of Ireland UK Holdings plc in February 2005 and appointed to the Board of Directors of NIIB Group Limited in January 2012.

Lorraine Smyth, BA, FCA (43)
Appointed Director and Chief Financial Officer (CFO) in September 2014. Lorraine joined Bank of Ireland in 2008 having previously worked for PricewaterhouseCoopers, Aviva Ireland and Irish Life & Permanent. Prior to taking up her role as CFO of Bank of Ireland (UK) plc, Lorraine was the Head of Tax for the Bank of Ireland Group. Lorraine 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. Lorraine is also a Director of a number of companies in the Bank of Ireland (UK) plc Group including Bank of Ireland Trustee Company Limited, First Rate Exchange Services Limited and First Rate Exchange Services (Holdings) Limited.

Directors and other information (continued)

Independent Non-executive Directors

Laurel Powers-Freeling, BA, MSc (57)
Appointed Director of Bank of Ireland (UK) plc in April 2010. Chair of the Audit Committee and member of the Risk, Remuneration and Nomination Committees. Non-executive Director of C Hoare & Co Private Bank, Call Credit Information Group, ACE European Group, Premium Credit Limited and Governor of the Royal Academy of Music. Former roles include Director of the Bank of England, Executive Director of American Express Services Europe Limited, Group Executive Director of Marks & Spencer Group plc, Chief Executive of Marks & Spencer Financial Services plc and Managing Director – Wealth Management Division of Lloyds TSB Group plc.

Peter Shaw, BA, ACIB, DipFS, FCIOBS (55)
Appointed Director of Bank of Ireland (UK) plc in January 2013. Chair of the Risk Committee and member of the Audit Committee and Non-executive Director of Aldermore Bank plc. He has formerly held a variety of senior executive positions, most recently as Interim Chief Risk Officer of the Co-operative Banking Group, and prior to that in Royal Bank of Scotland Group and NatWest where he was Chief Risk Officer 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.

David Bennett, MA (Econ) (53)
Appointed Director of Bank of Ireland (UK) plc in February 2013. Chairman of Homeserve Membership Limited and a Non-Executjve Director of Ashmore plc, PayPal Europe and Jerrold Holdings Limited, having previously held various non-executive and executive positions as Chairman of the Audit and Risk Committee of Easyjet plc, Chief Executive Officer, Finance Director and Executive Director at various financial services institutions including Abbey National plc, Alliance and Leicester plc, Lloyds TSB Group and Cheltenham and Gloucester plc.

Group Nominated Non-executive Directors

Senan Murphy, BComm, FCA (46)
Appointed Director of Bank of Ireland (UK) plc in June 2012. Joined Bank of Ireland Group in January 2012 as a member of the Group Executive Committee and is Head of Group Manufacturing, responsible for Group-wide operations and technology. Formerly Chief Operating Officer and Finance Director at Ulster Bank, which he joined in 2008. Previously he was Chief Financial Officer of Airtricity, whose sale to Scottish and Southern Energy he led in 2007. Before that Senan worked in a number of senior roles in General Electric in both the US and Europe.

Patrick Haren (64)
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. Patrick 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.

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 2014. 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 69 to 71. 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 Financial Conduct Authority (FCA) and the Prudential Regulation Authority (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 attributable to the owners of the Parent, for the year ended 31 December 2014, was £172 million (restated[1] for the year ended 31 December 2013: £65 million profit). There was no profit or loss attributable to non-controlling interests for the year ended 31 December 2014 (year ended 31 December 2013: £nil). An analysis of performance is set out in the Strategic report on pages 14 to 23.

Dividends
On 31 March 2014 the third non-cumulative preference dividend fell due; this was not paid as the relevant terms and conditions were not met. The Directors do not recommend the payment of a dividend on the ordinary shares in respect of this financial year.

Board membership
The following Director was appointed during the year and up to the date of signing:
- Lorraine Smyth, executive, 4 September 2014.

The following Director resigned during the year:
- Stephen Matchett, executive, 4 April 2014.

Corporate governance
It is the Group's policy not to include the disclosures in respect of 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 24 to 27.

Employees
At 31 December 2014, the Group had 121 direct employees (for the year ended December 2013: 135 direct employees) and 279 employees (for the year ended 31 December 2013: 245 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 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, which include, but are not limited to, workplace adjustments to provide physical equipment or alteration to the way a job is done. Should a disabled person find that they are unable to continue to function in their existing role, the Group will provide an alternative role, facilitating appropriate retraining.

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 2014 or in the year ended 31 December 2013.

Going concern

The Directors have considered the appropriateness of the going concern basis in preparing the financial statements, for the year ended 31 December 2014, on pages 85 and 86 which form 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 38 to the consolidated financial statements.

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

Lorraine Smyth
Director
5 March 2015
Company Number: 07022885

[1] *As outlined in the Group accounting policies and in note 37, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.*

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. Under that law, the Directors have prepared the Group's and the Bank's financial statements, in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union.

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 International Financial Reporting Standards (IFRSs), as adopted by the European Union, 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 for and on behalf of Bank of Ireland (UK) plc:

Lorraine Smyth

Lorraine Smyth
Director
5 March 2015
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 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Bank of Ireland (UK) plc's financial statements comprise:

- the Consolidated Income Statement and the Consolidated Statement of Other Comprehensive Income for the year ended 31 December 2014;
- the Consolidated Balance Sheet as at 31 December 2014;
- the Consolidated Statement of Changes in Equity for the year ended 31 December 2014;
- the Consolidated Cash Flow Statement for the year ended 31 December 2014;
- the Group 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 European Union.

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 matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Report of the Directors for the financial year for which the Group financial statements are prepared is consistent with the Group 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 74, 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 2014, this can be found on pages 150 to 151 of the Bank financial statements.

Hamish Anderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 March 2015

The maintenance and integrity of the Bank of Ireland 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 2014

	Notes	Year ended 31 December 2014 £m	Restated[1] Year ended 31 December 2013 £m
Interest income	2	901	1,101
Interest expense	3	(400)	(686)
Net interest income		**501**	**415**
Fee and commission income	4	114	118
Fee and commission expense	4	(108)	(112)
Net trading income	5	-	-
Other operating income	6	5	1
Total operating income		**512**	**422**
Operating expenses	7	(287)	(270)
Operating profit before impairment charges on financial assets		**225**	**152**
Impairment charges on financial assets	9	(61)	(125)
Operating profit		**164**	**27**
Share of profit after tax of joint venture	10	35	34
Profit before taxation		**199**	**61**
Taxation (charge) / credit	11	(27)	4
Profit for the year		**172**	**65**
Attributable to owners of the Parent		172	65
Profit for the year		**172**	**65**

[1] As outlined in the Group accounting policies and in note 37, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.

Consolidated statement of other comprehensive income
for the year ended 31 December 2014

	Notes	Year ended 31 December 2014 £m	Restated[1] Year ended 31 December 2013 £m
Profit for the year		**172**	**65**
Other comprehensive income, net of tax:			
Net change in cash flow hedge reserve (net of tax)[2]		26	-
Net change in available for sale reserve (net of tax)[3]		6	(4)
Total items that may be reclassified to profit or loss in subsequent periods		**32**	**(4)**
Net actuarial gain on defined benefit schemes[4]	26	-	1
Total items that will not be reclassified to profit or loss in subsequent periods		**-**	**1**
Other comprehensive income for the year, net of tax		**32**	**(3)**
Total comprehensive income for the year, net of tax		**204**	**62**
Total comprehensive income attributable to owners of the Parent[5]		204	62
Total comprehensive income for the year, net of tax		**204**	**62**

[1] As outlined in the Group accounting policies and in note 37, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.
[2] Net of tax of £6 million (2013: £nil)
[3] Net of tax of £2 million (2013: £1 million)
[4] Net of tax of £0.2 million (2013: £nil)
[5] Net of tax of £27 million (2013: £4 million credit)

Consolidated balance sheet as at 31 December 2014

	Notes	**31 December 2014 £m**	Restated[1] as at 31 December 2013 £m	Restated[1] as at 1 January 2013 £m
Assets				
Cash and cash equivalents	12	2,964	4,125	6,380
Items in the course of collection from other banks		276	182	193
Derivative financial instruments	13	59	11	10
Loans and advances to banks	14	6,312	12,824	27,090
Available for sale financial assets	15	991	482	341
Loans and advances to customers	16	18,301	17,928	18,018
Interest in joint venture	18	60	55	54
Intangible assets	19	39	46	52
Property, plant and equipment	20	5	-	-
Current tax assets		4	4	1
Other assets	21	92	110	133
Deferred tax assets	27	105	128	74
Retirement benefit asset	26	1	-	-
Total assets		**29,209**	**35,895**	**52,346**
Equity and liabilities				
Deposits from banks	22	5,234	11,660	25,742
Customer accounts	23	20,180	20,857	23,275
Items in the course of transmission to other banks		221	94	173
Derivative financial instruments	13	64	11	9
Other liabilities	24	1,074	1,058	1,100
Provisions	25	9	9	11
Retirement benefit obligation	26	-	-	2
Current tax liability		2	-	11
Subordinated liabilities	28	658	658	658
Total liabilities		**27,442**	**34,347**	**50,981**
Equity				
Share capital	30	1,151	1,151	1,116
Retained earnings		186	14	(52)
Other reserves		430	383	301
Total equity attributable to owners of the Parent		**1,767**	**1,548**	**1,365**
Total equity and liabilities		**29,209**	**35,895**	**52,346**

[1] *As outlined in the Group accounting policies and in note 37, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.*

The financial statements on pages 77 to 148 were approved by the Board on 5 March 2015 and were signed on its behalf by:

Lorraine Smyth
Director
5 March 2015
Company Number: 07022885

Consolidated statement of changes in equity for the year ended 31 December 2014

	Year ended 31 December 2014 £m	Restated[1] Year ended 31 December 2013 £m
Share capital		
Balance at 1 January	1,151	1,116
Issue of share capital – ordinary	-	35
Balance at 31 December	**1,151**	**1,151**
Retained earnings		
Balance at 1 January	14	(52)
Profit for the year attributable to equity holders of the Parent	172	65
Net actuarial gain on defined benefit schemes	-	1
Balance at 31 December	**186**	**14**
Other reserves:		
Available for sale reserve		
Balance at 1 January	(3)	1
Changes in fair value, net of hedge accounting adjustments	8	(5)
Deferred tax on reserve movements	(2)	1
Balance at 31 December	**3**	**(3)**
Cash flow hedge reserve		
Balance at 1 January	-	-
Changes in fair value	32	-
Deferred tax on reserve movements	(6)	-
Balance at 31 December	**26**	**-**
Capital contribution		
Balance at 1 January	386	300
Contribution during the period	15	86
Balance at 31 December	**401**	**386**
Total other reserves	**430**	**383**
Total equity	**1,767**	**1,548**
Included in the above:		
Total comprehensive income attributable to owners of the Parent	204	62
Total comprehensive income for the year	**204**	**62**

[1] *As outlined in the Group accounting policies and in note 37, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.*

Consolidated cash flow statement
for the year ended 31 December 2014

	Notes	Year ended 31 December 2014 £m	Restated[1] Year ended 31 December 2013 £m
Cash flows from operating activities			
Profit before taxation		199	61
Interest expense on subordinated liabilities and other capital instruments	3	52	52
Depreciation and amortisation	7,15	11	9
Impairment charges on loans and advances to customers	9	61	125
Share of results of associates and joint venture	10	(35)	(34)
Net change in prepayments and interest receivable	21	8	18
Net change in accruals and interest payable	24	(20)	(101)
Retirement benefit obligation	26	2	1
Charge for provisions	25	15	13
Cash flows from operating activities before changes in operating assets and liabilities		**293**	**144**
Net change in items in the course of collection from / to banks		33	(68)
Net change in loans and advances to banks	12	6,872	1,284
Net change in derivative financial instruments	13	(9)	1
Net change in loans and advances to customers	16,17	(434)	(35)
Net change in deposits from banks	22	(6,426)	(14,082)
Net change in customer accounts	23	(679)	(2,418)
Net change in provisions	25	(15)	(15)
Net change in retirement benefit obligation	26	(2)	(2)
Net change in other assets and other liabilities	21,24	44	63
Net cash flow from operating assets and liabilities		**(616)**	**(15,272)**
Net cash flow from operating activities before taxation		**(323)**	**(15,128)**
Taxation refunded		5	24
Net cash flow from operating activities		**(318)**	**(15,104)**
Investing activities (section a - see below)		(457)	(116)
Financing activities (section b - see below)		(52)	(17)
Net change in cash and cash equivalents		**(827)**	**(15,237)**
Opening cash and cash equivalents		5,918	21,155
Closing cash and cash equivalents	12	**5,091**	**5,918**

[1] *As outlined in the Group accounting policies and in note 37, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.*

Consolidated cash flow statement
for the year ended 31 December 2014 (continued)

	Notes	**Year ended 31 December 2014 £m**	Year ended 31 December 2013 £m
(a) Investing activities			
Additions to available for sale financial assets	15	(553)	(167)
Redemptions of available for sale financial assets	15	71	19
Dividends received from joint venture	18	30	33
Additions to intangible assets	19	(1)	(3)
Disposal of intangible assets	19	-	2
Additions to property, plant and equipment	20	(4)	-
Cash flows from investing activities		**(457)**	**(116)**
(b) Financing activities			
Issue of share capital	30	-	35
Interest paid on subordinated liabilities	3	(52)	(52)
Cash flows from financing activities		**(52)**	**(17)**

Group Accounting Policies

Index

Accounting policies

The following are the principal accounting policies for the Bank of Ireland (UK) plc Group and Bank.

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, 3.1, 3.2 and 3.3 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 36.

The financial statements have been prepared on the going concern basis, in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations, as adopted for use in the European Union 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 102 and 103.

Adoption of new accounting standards

The following new standards and amendments to accounting standards have been adopted and consistently applied by the Group during the year ended 31 December 2014.

IFRIC 21 'Levies': deals with accounting for levies imposed by governments. It principally addresses the question of when an entity should recognise a liability to pay a levy. The interpretation provides that a levy is provided for on the date identified by the legislation that triggers the obligation to pay the levy. This pronouncement has caused the trigger date for the UK FSCS levy to change from 31 December each year to the following 1 April, the start of the levy year. As a result, on adoption of IFRIC 21, a restatement of the prior periods, being 31 December 2013 and 1 January 2013, was required, as set out in note 37.

The Group's accounting policy on Provisions has been amended to reflect the requirements of the revised standard.

IFRS 10 'Consolidated Financial Statements and IAS 27 Separate Financial Statements': IFRS 10 supersedes IAS 27, 'Consolidated and Separate Financial Statements' and SIC-12, 'Consolidation – Special Purpose Entities'. It establishes a single control model that applies to all entities, including those that were previously considered special purpose entities under SIC-12. An investor controls an investee when it is exposed, or has rights to variable returns from the investee, and has the ability to affect those returns through its power over the investee. The assessment of control is based on all facts and circumstances and the conclusion is reassessed if there is an indication that there are changes in facts and circumstances. The adoption of this new standard has had no impact on the financial position of the Group.

IFRS 11 'Joint arrangements': IFRS 11 supersedes IAS 31. 'Interests in Joint Ventures' and SIC- 13, 'Jointly-controlled Entities – Non monetary Contributions by Venturers'. IFRS 11 classifies joint arrangements as either joint operations or joint ventures and focuses on the nature of the rights and obligations of the arrangement. IFRS 11 requires the use of the equity method of accounting for joint arrangements by eliminating the option to use the proportionate consolidation method, which is not applied by the Group. The application of this new standard had no impact on the financial position of the Group.

Adoption of new accounting standards (continued)

IFRS 12 'Disclosures of Interests in Other Entities': IFRS 12 sets out the requirements for disclosure relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The adoption of this standard has had no impact on the financial position of the Group but has resulted in additional disclosures which are included in notes 18 and 36.

IAS 27 (revised) 'Separate Financial Statements': This revised standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The adoption of this amended standard has had no impact on the financial position of the Group.

IAS 28 (revised).'Investments in Associates and Joint Ventures': IAS 28 (revised) includes the requirements for joint ventures, as well as associates to be equity accounted following the issue of IFRS 11. The adoption of this amended standard has had no impact on the financial position of the Group.

Amendments to IAS 32, 'Financial Instruments' on asset and liability offsetting: These amendments give additional application guidance to address inconsistencies identified in applying the offsetting criteria used in the standard. Some gross settlement systems may qualify for offsetting where they exhibit certain characteristics akin to net settlement. The amendments provide guidance on when the net settlement criterion required for offsetting an asset and liability can be met. The application of these amendments had no impact on the financial position of the Group.

Amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets' on impaired assets disclosures: These amendments specifically require disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal, e.g. recoverable amount, level of fair value hierarchy, valuation technique, key assumptions etc. The application of these amendments had no impact on the financial position of the Group.

Amendment to IAS 39 'Novation of derivatives and continuation of hedge accounting': This narrow scope amendment to IAS 39 allows hedge accounting to continue where a derivative, which has been designated as a hedging instrument, is novated to a clearing counterparty, if specific conditions are met. The amendment allows limited changes to the hedging instrument to facilitate the novation. The adoption of this amendment has had no impact on the financial position of the Group.

Annual improvements 2010–2012 and 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

Additional information has been presented for comparative periods as required in respect of the adoption of new accounting standards during the year. In addition, comparative information has been amended where necessary to ensure consistency with the current period.

Comparative periods have been restated to reflect the adoption of IFRIC 21. See note 37 for additional information.

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 2014 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 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.

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. Reported profits before taxation of £199 million for 2014, represent a year on year improvement of £138 million on 2013, with total operating income increasing by £90 million and impairment charges on financial assets reducing by £64 million.

Capital

The Group, on a transitional and fully loaded Basel III / CRD IV basis, has total capital at 31 December 2014 after regulatory deductions of £2.2 billion, a Core tier 1 capital ratio of 12.7% and a total capital ratio of 22.5%.

The Group has reviewed the impacts of the Capital Requirements Directive (CRD IV) as part of its capital planning process, and based on both base and stress case scenarios expects to maintain a buffer over regulatory minima throughout the period of assessment. The Directors do not currently anticipate the need to further increase the Group's overall total capital during the period of assessment, but may further optimise the mix of its capital base.

Liquidity and funding

The Bank is self-sufficient from a liquidity perspective with customer lending fully funded by customer deposits. The Group reported an actual loan to deposit ratio of 91% at 31 December 2014 which is within its liquidity risk appetite. The Bank also maintains a stock of liquid assets in excess of minimum regulatory requirements including deposits with the Bank of England and UK government sterling denominated securities.

In addition the Bank has detailed Contingency Funding arrangements in place including various options that could be deployed to manage potential liquidity and funding stresses as required. These options include access to contingent liquidity via its holding of notes issued by Bowbell No 1 plc, a Residential Mortgage Backed Securitisation (RMBS) vehicle, and 'raw loan pools', that have been confirmed as eligible for pledging to various BoE facilities.

The Directors believe that these arrangements satisfactorily address liquidity risks.

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 Directors note that during 2014 there were a number of developments regarding profitability, capital, liquidity and funding that further enhanced the position of the Bank's Parent.

On the basis of the above the Board 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.

Going concern (continued)

Taking into account the above the Directors of the Bank are satisfied that any risk attaching to the continued ability of the Parent to provide services to the Bank is satisfactorily addressed.

Conclusion
On the basis of the above, the Directors of the Bank 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 Bank'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. In addition, 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.

Group financial statements (continued)

(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.

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.

Group financial statements (continued)

(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 / loss

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

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.

Financial assets (continued)

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.

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 32 to the consolidated financial statements and note w 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, discounted cash flow 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 33, 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 33.

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
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.

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) 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 have 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 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 UK plc.

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 is recognised in operating expenses unless it meets 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.

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.

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 2014 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 July 2014.	Not significant
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.	Financial periods beginning on or after 1 January 2016.	Not significant
Amendment to IFRS 11 '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.	Financial periods beginning on or after 1 January 2016.	Not significant
Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets'	IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. 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.	Financial periods beginning on or after 1 January 2016.	Not significant

Business Review
Risk Management
Governance
Consolidated Financial Statements
Bank Financial Statements
Other Information

Impact of new accounting standards not yet adopted (continued)

Pronouncement	Nature of change	Effective date	Impact
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.	Financial periods beginning on or after 1 January 2016.	Not significant
IFRS 15 'Revenue from Contracts with Customers'	IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such 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.	Financial periods beginning on or after 1 January 2017.	Not significant
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 Other Comprehensive Income (OCI) and fair value through profit or loss. 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 includes a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were 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 use for risk management purposes.	Financial periods beginning on or after 1 January 2018.	The Group is assessing the impact of adopting IFRS 9.

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 57 to 59.

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. See note 17 for more information.

(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 2014 the Group had a net deferred tax asset of £105 million (31 December 2013: £128 million), of which £105 million (31 December 2013: £117 million) related to trading losses. See note 27.

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 set out in note 27, during 2013 and 2014 the Group reassessed the value of losses acquired from its Parent on the transfer of business assets in 2010. Consequently it has recognised a deferred tax asset totalling £101 million (2013: £86 million) in respect of the taxation benefit of losses transferred from the Parent.

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 will 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 are 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 portion of 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 2014 the impact of the fair value adjustment was to reduce the carrying amount of loans and advances to customers by £383 million. In 2014 there was a benefit of £53 million (2013: £45 million) to the income statement from the unwind of the fair value adjustment being credited to the income statement.

The timing of the unwind of the fair value adjustment requires significant management judgement particularly around 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 levels on the Buy to let portfolio is retained at forecast 2015 levels for future years.

Notes to the Consolidated Financial Statements

Index

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, Post Office, Bristol & West and NIIB brands. The Post Office product proposition includes deposits, ATMs, mortgages, personal loans, credit and travel cards current accounts, insurance and foreign exchange through the Group's joint venture operation under FRESH. The Group's investment in FRESH at 31 December 2014 was £60 million.

Northern Ireland (NI)
The business includes the results of the Northern Ireland Bank of Ireland branded 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 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 82 to 103. The Group measures the performance of its operating segments through a measure of segmental profit or loss in its internal management reporting systems.

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 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	**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**

Restated[1] Year ended 31 December 2013	GB Consumer Banking £m	NI £m	GB Business Banking £m	Group Centre £m	Total £m
Net interest income	313	83	33	(14)	415
Other income	(23)	27	4	(1)	7
Total operating income	290	110	37	(15)	422
Amortisation of intangible assets	(4)	-	-	(3)	(7)
Other operating expenses	(117)	(85)	(26)	(35)	(263)
Operating profit / (loss) before impairment charges on financial assets	169	25	11	(53)	152
Impairment charges on financial assets	(18)	(75)	(32)	-	(125)
Share of profit after tax of joint venture	34	-	-	-	34
Profit / (loss) before taxation	185	(50)	(21)	(53)	61

[1] *As outlined in the Group accounting policies and in note 37, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.*

2 Interest income

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Loans and advances to customers	701	715
Cash and balances with central banks	21	25
Available for sale financial assets	13	4
Loans and advances to banks	119	315
Finance leases and hire purchase receivables	47	42
Interest income	**901**	**1,101**

2 Interest income (continued)

Included in interest income for the year ended 31 December 2014 is £119 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 2013: £315 million).

Also included in interest income for year ended 31 December 2014 is £20 million in respect of interest arising on financial assets, on which an impairment provision has been recognised (year ended 31 December 2013: £24 million).

For the year ended 31 December 2014 interest recognised on total forborne loans and advances to customers was £47 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 2014 £m	Year ended 31 December 2013 £m
Customer accounts	273	424
Deposits from banks	75	210
Subordinated liabilities	52	52
Interest expense	**400**	**686**

Included in interest expense for the year ended 31 December 2014 is £127 million in respect of interest paid to the Parent on deposits and subordinated liabilities (year ended 31 December 2013: £262 million).

4 Fee and commission income and expense

Fee and commission income	**Year ended 31 December 2014 £m**	Year ended 31 December 2013 £m
ATM service fees	64	59
Insurance commissions	8	7
Banking fees and other commissions	25	28
Foreign exchange and credit card	15	19
Other	2	5
Fee and commission income	**114**	**118**
Amounts include:		
Fee and commission income from the Parent	-	3
Group share of joint operation fee and commission income (note 18)	5	3

Fee and commission expense	**Year ended 31 December 2014 £m**	Year ended 31 December 2013 £m
Fee and commission expense - external	102	101
Fees paid to the Parent	6	11
Fee and commission expense	**108**	**112**

5 Net trading income

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Financial assets designated at fair value through profit or loss	5	22
Financial liabilities designated at fair value through profit or loss	(5)	(22)
Net trading income	**-**	**-**
Amounts include:		
Net trading (expense) / income from the Parent	(8)	21

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.

6 Other operating income

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Other operating income	5	1
Other operating income	**5**	**1**

7 Operating expenses

	Year ended 31 December 2014 £m	Restated[1] Year ended 31 December 2013 £m
Administrative expenses		
Staff costs (a)		
- Wages and salaries	22	20
- Social security costs	3	2
- Other staff costs	-	1
- Other pension costs[2]	6	4
Total staff costs	**31**	**27**
- Other administrative expenses (b)	46	47
- Other administrative expenses – related parties (c)	202	189
Amortisation on intangible assets (note 19)	8	7
Total operating expenses	**287**	**270**
Amounts include		
Group share of joint operation costs (note 18)	3	4

[1] As outlined in the Group accounting policies and in note 37, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.
[2] Other pension costs include £2 million (31 December 2013: £1 million) in relation to the NIIB scheme which is accounted for as a defined benefit scheme (see note 26) and £4 million (31 December 2013: £3 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 £31 million (year ended 31 December 2013: £27 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 by the Parent under a secondment agreement. The average number of staff (direct and seconded full time equivalents) was 399 (year ended 31 December 2013: 380). Refer to note 34 for details of compensation paid to key management personnel.

(b) Other administrative expenses includes a charge of £15 million (year ended 31 December 2013: £13 million (restated)) 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 2014 £000	Year ended 31 December 2013 £000
Fees payable for the audit of the Bank and Group financial statements	401	441
Audit of the Bank's subsidiaries pursuant to legislation	97	107
Audit related assurance services	44	65
Other assurance services	19	18
Auditors' remuneration	**561**	**631**

During the year the auditors also earned fees payable by entities outside the Group in respect of the following:

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £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 2014 £m	Year ended 31 December 2013 £m
Loans and advances to customers (note 17)	61	125
Impairment charges on financial assets	**61**	**125**

10 Share of profit after tax of joint venture

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
First Rate Exchange Services Holdings Limited (FRESH)	35	34
Share of profit after tax of joint venture	**35**	**34**

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 18 for further information.

11 Taxation

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Current tax		
Current year charge / (credit)	6	(4)
Reallocation from deferred tax	(7)	(31)
Prior year adjustment	(1)	(3)
Total current taxation (credit)	**(2)**	**(38)**
Deferred tax		
Current year charge	22	-
Impact of corporation tax rate change	-	5
Reallocation to current tax	7	31
Prior year adjustment	-	(2)
Total deferred taxation charge	**29**	**34**
Taxation charge / (credit)	**27**	**(4)**

The reconciliation of tax on the profit before taxation, at the standard UK corporation tax rate, to the Group's actual tax charge / (credit) for the years ended 31 December 2014 and 31 December 2013 is as follows:

	Year ended 31 December 2014 £m	Restated[1] Year ended 31 December 2013 £m
Profit before taxation	**199**	**61**
Multiplied by the standard rate of Corporation tax in UK of 21.5% (2013: 23.25%)	43	13
Effects of:		
Non allowable expenses / (income)	3	(2)
Share of results of joint venture after tax in the income statement	(8)	(8)
Impact of corporation tax rate change	-	5
Prior year adjustment	(1)	(5)
Other	(10)	(7)
Taxation charge / (credit)	**27**	**(4)**

[1] *As outlined in the Group accounting policies and in note 37, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.*

The effective taxation rate for the year ended 31 December 2014 is a charge of 14% (year ended 31 December 2013: credit of 7%). Excluding the impact of the results of the joint venture, FRESH, the effective taxation rate was a charge of 16% for the year ended 31 December 2014 (year ended 31 December 2013: credit of 15%).

12 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances:

	31 December 2014 £m	31 December 2013 £m
Cash	46	37
Balances with central banks	2,918	4,088
Total cash balances included in cash and cash equivalents	**2,964**	**4,125**
Loans and advances to banks	6,312	12,824
Less: amounts with a maturity of three months or more	(4,185)	(11,031)
Total loans and advances to banks included in cash and cash equivalents	**2,127**	**1,793**
Total cash and cash equivalents	**5,091**	**5,918**
Due from the Parent	917	615

13 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 30 to 68. 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.

In December 2013 the Group commenced the process of moving from a gross flow cash hedging model to a derivatives hedging model, principally for interest rate risk management, and this process continued during 2014. As a result, £6.8 billion of balances owed to the Parent and £6.7 billion of balances owed from the Parent were repaid during 2014. 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 (FX) forward contracts with customers, with a corresponding FX contract to hedge FX risk with the Parent.

13 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 2014	**Contract / notional amount £m**	**Fair Value Assets £m**	**Fair Value Liabilities £m**
Derivatives held for trading			
Foreign exchange derivatives			
Currency forwards	358	3	8
Currency forwards – with the Parent	483	8	3
Total foreign exchange derivatives held for trading	**841**	**11**	**11**
Interest rate derivatives			
Interest rate swaps - with Parent	334	1	1
Total interest rate derivatives held for trading	**334**	**1**	**1**
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**

31 December 2013	Contract / notional amount £m	Fair Value Assets £m	Fair Value Liabilities £m
Derivatives held for trading			
Foreign exchange derivatives			
Currency forwards	460	7	4
Currency forwards – with the Parent	461	4	7
Total foreign exchange derivatives held for trading	921	11	11
Interest rate derivatives			
Interest rate swaps - with Parent	-	-	-
Total interest rate derivatives held for trading	-	-	-
Derivatives held as fair value hedges			
Interest rate swaps - with the Parent	381	-	-
Derivatives held as cash flow hedges			
Interest rate swaps - with the Parent	864	-	-
Total derivative assets / liabilities held for hedging	1,245	-	-
Total derivative assets / liabilities	2,166	11	11

As set out in the risk management policy on page 39, the Group uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of £59 million at 31 December 2014 (31 December 2013: £11 million):

- £56 million (31 December 2013: £4 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. At 31 December 2014 cash collateral of £4 million (31 December 2013: £nil) was held against these assets and is reported in Deposits from banks. Refer to note 22. At 31 December 2013 placements with other banks included cash collateral of £3 million placed with derivative counterparties (‘the Parent’) in respect of a net derivative liability position of £3 million; and

13 Derivative financial instruments (continued)

- £3 million (31 December 2013: £7 million) are not covered under CSA and ISDA arrangements or relate to counterparties covered by master netting arrangements with whom a net asset position was held at the balance sheet date.

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 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	-	-	-	-	-

31 December 2013	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	2	1	8	6	17
Forecast payable cash flows	-	-	-	-	-

The hedged cash flows are expected to impact on the income statement in the following years:

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	-	-	-	-	-

31 December 2013	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	2	2	8	5	17
Forecast payable cash flows	-	-	-	-	-

During the years ended 31 December 2014 and 31 December 2013, there were no forecast transactions to which the Group had applied hedge accounting which were no longer expected to occur.

14 Loans and advances to banks

	31 December 2014 £m	31 December 2013 £m
Placements with other banks	5,277	11,842
Mandatory deposits with central banks	1,035	982
Loans and advances to banks	**6,312**	**12,824**
Amounts include:		
Due from the Parent	5,102	11,646

Represented in placements with other banks is:

- an amount of £5,102 million (31 December 2013: £11,646 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 £5,193 million (31 December 2013: £11,651 million) are also disclosed in note 22. From a counterparty credit risk perspective, whilst 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;
- also included in amounts due from the Parent are £281 million of loans, whose return is dependent on movements in various external indices (31 December 2013: £337 million). These loans are designated at fair value through the profit or loss. Refer to note 33 for details on fair value.

During the year ended 31 December 2014 £6.7 billion of balances were repaid by the Parent. For further details see note 34.

Represented in mandatory deposits with central banks is:

- an amount of £999 million relating to collateral with the Bank of England in respect of notes in circulation (31 December 2013: £946 million). £553 million of this refers to non-interest bearing collateral (31 December 2013: £518 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 2013: £36 million).

15 Available for sale financial assets

	31 December 2014 £m	31 December 2013 £m
Government bonds	580	143
Debt securities listed	410	338
Equity securities listed	1	1
Available for sale financial assets	**991**	**482**

At 31 December 2014 and at 31 December 2013, 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 2014 £m	Year ended 31 December 2013 £m
At 1 January	482	341
Revaluation adjustments	30	(5)
Additions	553	167
Redemptions	(71)	(19)
Amortisation	(3)	(2)
At 31 December	**991**	**482**

16 Loans and advances to customers

	31 December 2014 £m	31 December 2013 £m
Loans and advances to customers	17,982	17,844
Finance leases and hire purchase receivables (see below)	932	803
Gross loans and advances to customers	**18,914**	**18,647**
Less: allowance for impairment charges on loans and advances to customers (note 17)	(613)	(719)
Loans and advances to customers	**18,301**	**17,928**
Amounts include:		
Due from entities controlled by the Parent	7	7

The movement in loans and advances to customers primarily reflects:

- a net increase in Residential mortgages arising from the acquisition of a number of mortgage portfolios from the Parent with a total loan value of £1.51 billion for consideration of £1.43 billion (representing a weighted average price of 94.7%). Included in the discount were both expected credit losses and the differential between the customer interest rates on the assets and current market interest rates for similar assets;
- excluding mortgage acquisitions, other mortgage lending fell by £0.4 billion, representing £1.8 million of new loans through the Post Office and NI brands which were offset by repayments on the overall mortgage portfolio; and
- decreases in the commercial lending portfolio of £0.9 billion, primarily reflecting GB Business Banking deleveraging.

Loans and advances to customers at 31 December 2013 included a portion of mortgages which were pledged under the BoE Funding for Lending Scheme (FLS). The Group repaid its borrowings under the FLS in January 2014.

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 2014 £m	31 December 2013 £m
Gross investment in finance leases:		
Not later than 1 year	363	318
Later than 1 year and not later than 5 years	656	564
Later than 5 years	2	1
	1,021	883
Unearned future finance income on finance leases	(89)	(80)
Net investment in finance leases	**932**	**803**
The net investment in finance leases is analysed as follows:		
Not later than 1 year	332	289
Later than 1 year and not later than 5 years	599	513
Later than 5 years	1	1
	932	**803**

The Group's material leasing arrangements include the provision of instalment credit and leasing finance for both consumer and business customers.

At 31 December 2014 the accumulated allowance for uncollectable minimum lease payments receivable was £nil (31 December 2013: £nil).

16 Loans and advances to customers (continued)

Securitisations

At 31 December 2014 loans and advances to customers include £4,671 million (31 December 2013: £5,481 million) of residential mortgage balances that have been securitised but not derecognised. Refer to note 36. 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 2014, £40 million (31 December 2013: £nil) was pledged to secure funding against Indexed Long term Repos (ILTR). Refer to note 36 for further details.

17 Impairment provisions

The following tables show the movement in the impairment provisions during the year ended 31 December 2014 and 31 December 2013:

2014	**Residential mortgages £m**	**Non property SME and corporate £m**	**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**

2013	Residential mortgages £m	Non property SME and corporate £m	Property and construction £m	Consumer £m	Total impairment provisions £m
Provision at 1 January 2013	44	104	511	36	695
Transfer between provisions	-	17	(17)	-	-
Exchange adjustments	-	-	2	-	2
Provisions utilised	(7)	(28)	(69)	(23)	(127)
Recoveries	-	-	1	5	6
Other movements	(4)	4	16	2	18
Charge to the income statement	8	34	69	14	125
Provision at 31 December 2013	41	131	513	34	719

18 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
UK Post Office	N/A	Joint operation	UK	Sale of insurance products through the UK Post Office relationship

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. On the basis that the Group's relationship with the UK Post Office for the sale of insurance products is a joint arrangement, but is not a separate legal entity, it is accounted for as a joint operation.

Joint venture

The Group owns 50% of the shares in First Rate Exchange Services Holdings Limited (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 2014 and 31 December 2013.

	31 December 2014 £m	31 December 2013 £m
At 1 January	55	54
Share of profit after taxation (note 10)	35	34
Dividends received	(30)	(33)
At 31 December	**60**	**55**

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 2014 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.

18 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 2014 and the year ended 31 December 2013.

	31 December 2014 £m	31 December 2013 £m
Revenue[1]	68	65
Expenses	(24)	(22)
Profit before taxation	**44**	**43**
Taxation charge	(9)	(9)
Profit after taxation	**35**	**34**
Non-current assets	6	4
Current assets[2]	152	176
Total assets	**158**	**180**
Current liabilities	(98)	(125)
Total liabilities	**(98)**	**(125)**
Net assets	**60**	**55**

[1] *Includes interest expense of £1 million (31 December 2013: £1 million)*
[2] *Includes cash and cash equivalents of £16 million (31 December 2013: £7 million)*

Joint operation

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. This is a joint operation but not a separate legal entity. The Group combines its share of the joint operation in individual income and expenses, assets and liabilities and cash flows on a line-by-line basis. As part of the arrangement, Post Office Limited has an option to purchase the Group's share of the joint operation under certain circumstances. The option price is determined by a contractually defined process.

19 Intangible assets

2014	**Computer software internally generated[1] £m**	**Other externally purchased intangible assets[2] £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**

2013	Computer software externally purchased £m	Computer software internally generated £m	Other externally purchased intangible assets £m	Total £m
Cost				
At 1 January 2013	7	34	73	114
Additions	1	-	2	3
Disposals / write-offs	(8)	-	-	(8)
At 31 December 2013	-	34	75	109
Accumulated amortisation				
At 1 January 2013	(5)	(23)	(34)	(62)
Disposals / write-offs	6	-	-	6
Charge to the income statement (note 7)	(1)	(3)	(3)	(7)
At 31 December 2013	-	(26)	(37)	(63)
Net book value at 31 December 2013	-	8	38	46

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 2014 or 31 December 2013.

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 currently forecast income was reduced by 27%; and
- If the currently forecast costs increased by 20%.

[1] *Includes £34 million of Deposit System Software, with a remaining amortisation period of 1 year.*
[2] *Includes £76 million of Intangible assets, with a remaining amortisation period of 6 to 9 years.*

20 Property, plant and equipment

	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**

In 2014 the Group purchased a portfolio of 18 freehold and long leased properties from the Parent for £4 million. The historical cost of property, plant and equipment held at fair value at 31 December 2014 was £4 million (31 December 2013: £nil). No depreciation is charged on freehold land and buildings and long leaseholds, as these are revalued annually.

[1] *Reclassified from other assets*

21 Other assets

	31 December 2014 £m	31 December 2013 £m
Sundry and other receivables	14	24
Interest receivable	36	42
Accounts receivable and prepayments	42	44
Other assets	**92**	**110**
Amounts include:		
Group share of joint operation assets (note 18)	1	2
Due from the Parent	14	32
Maturity profile of other assets		
Amounts receivable within 1 year	64	67
Amounts receivable after 1 year	28	43

22 Deposits from banks

	31 December 2014 £m	31 December 2013 £m
Deposits from banks	5,234	11,660
Deposits from banks	**5,234**	**11,660**
Amounts include:		
Due to the Parent	5,193	11,651

Amounts due to the Parent of £5,193 million (31 December 2013: £11,651 million) relates to borrowings in place to fund and manage interest rate risk on the Group's assets. Refer to note 14 for details of amounts due from the Parent, and note 34 in respect of changes in these balances during 2014.

23 Customer accounts

	31 December 2014 £m	31 December 2013 £m
Term deposits	9,564	10,005
Demand deposits	8,373	8,331
Interest bearing current accounts	431	785
Non interest bearing current accounts	1,812	1,736
Customer accounts	**20,180**	**20,857**
Amounts include:		
Due to entities controlled by the Parent	10	18

Term deposits include deposits of £281 million (31 December 2013: £337 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 33 for details on fair value.

24 Other liabilities

	31 December 2014 £m	31 December 2013 £m
Accrued interest payable	105	133
Notes in circulation	873	826
Sundry payables	76	87
Accruals and deferred income	20	12
Other liabilities	**1,074**	**1,058**
Amounts include:		
Group share of joint operation liabilities (note 18)	9	7
Due to the Parent	14	24
Maturity profile of other liabilities		
Amounts payable within 1 year	1,073	1,057
Amounts payable after 1 year	1	1

The Parent was previously authorised to issue banknotes in Northern Ireland under the Banking Act 2009. From 15 May 2012, under the Bank of Ireland (UK) plc Act 2012, that authority to issue banknotes and the liability for existing banknotes issued by the Parent in Northern Ireland transferred to the Bank.

25 Provisions

	31 December 2014			Restated[1] 31 December 2013		
	Financial services compensation scheme £m	**Payment protection insurance £m**	**Total £m**	Financial services compensation scheme £m	Payment protection insurance £m	Total £m
At 1 January	8	1	9	8	3	11
Charge to the income statement	15	-	15	13	-	13
Utilised during the year	(15)	-	(15)	(13)	(2)	(15)
At 31 December	**8**	**1**	**9**	**8**	**1**	**9**
Expected utilisation period						
Used within 1 year	8	1	9	8	1	9

[1] *As outlined in the Group accounting policies and in note 37, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.*

Business Review
Risk Management
Governance
Consolidated Financial Statements
Bank Financial Statements
Other Information

25 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 2014 represents the Group's estimate of the interest element of the levy due for the FSCS levy year from 1 April 2014 to 31 March 2015. This is calculated based on the Group's share of industry protected deposits at 31 December 2013.

Payment protection insurance (PPI)
As at 31 December 2014 the Group is holding a provision of £0.8 million (year ended 31 December 2013: £1 million) to cover potential customer claims for refunds of premiums associated with the alleged mis-selling of PPI policies. The provision is based upon known pipeline cases and the expectation of future claims. The closing provision represents managements' best estimate of expected costs.

26 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 pay 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, 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 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 plan assets, administration of 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.

26 Retirement benefit obligations (continued)

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 during the year and a schedule of contributions and recovery plan, 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 on 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.

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, are set after consultation with 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 2014 % p.a.	31 December 2013 % p.a.
Consumer price inflation	2.25	2.70
Retail price inflation	3.25	3.60
Discount rate	3.70	4.45
Rate of general increase in salaries	3.75	4.10
Rate of increase in pensions in payment	3.00	3.25
Rate of increase in deferred pensions	2.25	2.70

26 Retirement benefit obligations (continued)

Mortality assumptions

The mortality assumptions adopted are outlined in the table below.

Post retirement mortality assumptions	31 December 2014 Years	31 December 2013 Years
Longevity at age 70 for current pensioners		
Men	18.9	18.2
Women	21.1	20.5
Longevity at age 60 for active members currently aged 60 years		
Men	28.2	28.3
Women	30.9	30.6
Longevity at age 60 for active members currently aged 40 years		
Men	30.3	32.2
Women	32.9	33.9

Amounts recognised in financial statements

The table below outlines where the Group's defined benefit plans are recognised in the financial statements.

	31 December 2014 £m	31 December 2013 £m
Total charge in operating expenses	**(2)**	**(1)**
Total gain in remeasurements[1]	**1**	**1**
Total asset in the balance sheet	**1**	**-**

[1] *Shown before deferred tax*

26 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 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	**(2)**	**3**	**1**
Employer contributions	-	**2**	**2**
Other movements	**-**	**2**	**2**
At 31 December 2014	**(30)**	**31**	**1**

	Present value of obligation £m	Fair value of plan assets £m	Surplus / (deficit) of plan £m
At 1 January 2013	(23)	21	(2)
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	-	2	2
Change in financial assumptions	(2)	-	(2)
Experience gains / (losses)	1	-	1
Total remeasurements in other comprehensive income	(1)	2	1
Employer contributions	-	2	2
Benefit payments	1	(1)	-
Other movements	1	1	2
At 31 December 2013	(25)	25	-

Asset breakdown	**31 December 2014 £m**	31 December 2013 £m
Equities (quoted)	19	15
Index linked government bonds (quoted)	12	10
Total fair value of assets	**31**	**25**

26 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 2014:

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%	0.3	(0.3)
Salary growth	0.1%	0.1	(0.1)
Life expectancy	1 year	0.7	(0.7)

[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.23 years.

Expected employer contributions for the year ended 31 December 2015 are £1.7 million. Expected employee contributions for the year ended 31 December 2015 are £43,000.

Years	Benefit payments from plan assets (£m)
2014 - 2023	8
2024 - 2033	16
2034 - 2043	23
2044 - 2053	28
2054 - 2063	23
2064 - 2073	16
2074 - 2083	7
2084 - 2093	2
After 2094	-
	123

26 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.

27 Deferred tax

	31 December 2014 £m	31 December 2013 £m
The movement on the deferred tax account is as follows:		
At 1 January	128	74
Income statement charge for the year (note 11)	(29)	(34)
Losses transferred from Parent	15	86
Available for sale securities - charge to other comprehensive income	(2)	1
Cash flow hedges - charge to other comprehensive income	(6)	-
Other movements	(1)	1
At 31 December	**105**	**128**

Deferred tax assets and liabilities are attributable to the following items:

	31 December 2014 £m	31 December 2013 £m
Deferred tax assets		
Unutilised tax losses	105	117
Available for sale securities	-	1
Leased assets	6	8
Other	1	3
Total deferred tax assets	**112**	**129**
Deferred tax liabilities		
Fixed assets	-	(1)
Cash flow hedges	(6)	-
Deferred tax on property held at fair value	(1)	-
Total deferred tax liabilities	**(7)**	**(1)**
Represented on the balance sheet as follows:		
Deferred tax assets	105	128
Total deferred tax	**105**	**128**

During the year ended 31 December 2013, the Group reassessed the value of losses acquired from its ultimate Parent undertaking on the transfer of business assets in 2010, and consequently recognised an asset of £86 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.

During the year ended 31 December 2014 following discussions with HM Revenue & Customs (HMRC), the Group made a further reassessment of the value of these losses and recognised a further asset of £15 million in respect of the taxation benefit of the losses. This amount has also been treated as a capital contribution received.

The UK Government had previously enacted legislation to reduce the main rate of corporation tax to 21% from 1 April 2014 and 20% for years beginning on or after 1 April 2015. In the Chancellor's Autumn Statement on 3 December 2014, a restriction on the utilisation of UK trading losses accrued before 1 April 2015 was proposed. This lengthens the period over which a deferred tax asset will reverse by restricting by 50% the amount of profits in any year against which those restricted carried forward trading losses can be utilised. The balance continues to be available for indefinite carry forward and there is no limit, under existing UK legislation, on the utilisation of these losses. The proposed legislation had not been substantively enacted by the balance sheet date.

27 Deferred tax (continued)

The deferred tax charge in the income statement comprises the following temporary differences:

	31 December 2014 £m	31 December 2013 £m
Current year charge	22	-
Impact of corporation tax rate change	-	5
Reallocation to current tax	7	31
Prior year adjustment	-	(2)
Total deferred tax charge	**29**	**34**

28 Subordinated liabilities

	31 December 2014 £m	31 December 2013 £m
£523 million subordinated floating rate loans 2020[1]	523	523
£90 million subordinated floating rate loans 2022[2]	90	90
£45 million subordinated floating rate loans 2022[3]	45	45
Subordinated liabilities	**658**	**658**

1 Initial call date 7 October 2015. If not repaid at this point, they are due in full on their final maturity date of 7 October 2020. They bear interest at a floating rate of 6.5% per annum above the sterling LIBOR six month rate.
2 Initial call date 21 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.

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.

29 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 2014 Contractual amount £m	31 December 2013 Contractual amount £m
Contingent liabilities		
Guarantees and irrevocable letters of credit	9	15
Other contingent liabilities	6	8
Total contingent liabilities	**15**	**23**
Commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend		
- revocable or irrevocable with original maturity of 1 year or less	2,980	3,008
- irrevocable with original maturity of over 1 year	624	669
Total commitments	**3,604**	**3,677**

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. Documentary credits 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 2014 the Group is assessing an emerging industry-wide issue with respect to technical compliance with the Consumer Credit Act (CCA). In accordance with IAS37.92, the Group has not provided further information on this issue.

30 Share capital

Movements in issued ordinary and preference shares	Ordinary shares[1]		Preference shares[1]	
	31 December 2014 £m	31 December 2013 £m	**31 December 2014 £m**	31 December 2013 £m
At 1 January	851	816	300	300
Issued during the year	-	35	-	-
At 31 December	**851**	**851**	**300**	**300**

[1] All shares issued are in denominations of £1, therefore the table above also represents unit values.

At 31 December 2014 and at 31 December 2013, all ordinary and preference shares issued by the Group were held by the Parent.

All ordinary and preference shares issued were fully paid at 31 December 2014 and 31 December 2013.

Ordinary shares

- In April 2013, 35 million units of ordinary shares at a par value of £1 each were acquired by the Parent.

Preference shares

On 31 March 2014 the third non-cumulative preference dividend fell due; this was not paid as the relevant terms and conditions were not met.

The terms and conditions attaching to the preference shares are outlined below:

- the preference shares are perpetual, with an option for the Group to redeem 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 are payable annually in arrears at a rate of 13% and are 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 shall not be 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 shall be 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 will be 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.

31 Liquidity risk

The tables below summarise the maturity profile of the Group's financial liabilities, at 31 December 2014 and at 31 December 2013, based on contractual undiscounted repayment obligations. See also Risk Management section 3.1 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 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	2,980	-	-	624	-	3,604
Total	**16,152**	**2,782**	**5,452**	**5,007**	**876**	**30,269**

31 December 2013	Demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Deposits from banks	645	35	6,329	4,722	151	11,882
Customer accounts	12,331	3,672	3,529	1,397	-	20,929
Subordinated liabilities	-	5	49	245	839	1,138
Contingent liabilities	23	-	-	-	-	23
Commitments	3,008	-	-	669	-	3,677
Total	16,007	3,712	9,907	7,033	990	37,649

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 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)**

31 Liquidity risk (continued)

31 December 2013	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	-	(318)	(142)	(10)	-	(470)
Gross settled derivative liabilities - inflows	-	311	139	10	-	460
Gross settled derivative liabilities - net flows	-	(7)	(3)	-	-	(10)
Net settled derivative liabilities	-	-	1	1	(3)	(1)
Total derivatives cash flows	-	(7)	(2)	1	(3)	(11)

32 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 (OCI)			
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**
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**

32 Measurement basis of financial assets and financial liabilities (continued)

31 December 2013	At fair value through profit or loss			At fair value through other comprehensive income (OCI)			
	Derivatives designated as fair value hedging instruments[1] £m	Held for trading £m	Designated upon initial recognition £m	Available for sale £m	Cash flow hedge derivatives[1] £m	Held at amortised cost £m	Total £m
Financial assets							
Cash and balances with central banks	-	-	-	-	-	4,125	4,125
Items in the course of collection from other banks	-	-	-	-	-	182	182
Derivative financial instruments	-	11	-	-	-	-	11
Loans and advances to banks	-	-	337	-	-	12,487	12,824
Available for sale financial assets	-	-	-	482	-	-	482
Loans and advances to customers	-	-	-	-	-	17,928	17,928
Total financial assets	-	11	337	482	-	34,722	35,552
Financial liabilities							
Deposits from banks	-	-	-	-	-	11,660	11,660
Customer accounts	-	-	337	-	-	20,520	20,857
Items in the course of transmission to other banks	-	-	-	-	-	94	94
Derivative financial instruments	-	11	-	-	-	-	11
Subordinated liabilities	-	-	-	-	-	658	658
Total financial liabilities	-	11	337	-	-	32,932	33,280

[1] *The amounts relating to derivatives designated as fair value hedging instruments and cash flow hedge derivatives are too small for presentation.*

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 2014		31 December 2013	
	Fair values £m	**Contractual amount due on maturity £m**	Fair Values £m	Contractual amount due on maturity £m
Customer accounts	281	275	337	333

33 Fair value of assets and liabilities

Fair value of assets and liabilities

The fair value of a financial instrument is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

Where possible, the Group calculates fair value using observable market prices. Where market prices are not available, fair values are determined using valuation techniques which may include discounted cash flow 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 (FVTPL)' or 'at fair value through other comprehensive income (OCI)' in note 32 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 discounted cash flow 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).

33 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 2014. 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 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%**

33 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	-	6,178	-	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**

The Group had non-financial assets held at fair value on the balance sheet within Level 3 at 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 2014 or 31 December 2013.

31 December 2013	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets held at fair value				
Derivative financial instruments	-	11	-	11
Loans and advances to banks	-	337	-	337
Available for sale financial assets	481	1	-	482
Total financial assets held at fair value	481	349	-	830
As a % of fair value assets	58%	42%	-	100%
Financial liabilities held at fair value				
Customer accounts	-	337	-	337
Derivative financial instruments	-	11	-	11
Total financial liabilities held at fair value	-	348	-	348
As a % of fair value liabilities	-	100%	-	100%

31 December 2013	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	-	12,609	-	12,609
Loans and advances to customers	-	-	17,318	17,318
Total	-	12,609	17,318	29,927
Fair value of financial liabilities held at amortised cost				
Deposits from banks	-	11,701	-	11,701
Customer accounts	-	20,566	-	20,566
Subordinated liabilities	-	694	-	694
Total	-	32,961	-	32,961

33 Fair values of assets and liabilities (continued)

Movements in level 3 assets

31 December 2014	Property held at fair value £m
Opening Balance	-
Total gains or losses in profit or loss	-
Additions	4
Closing balance	4

Level 3 assets

	Fair value £m	Valuation technique	Unobservable input	Range
Property held at fair value	4	Market comparable property transactions	Property valuation assumptions	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 2014		31 December 2013	
	Carrying amount £m	**Fair values £m**	Carrying amount £m	Fair values £m
Financial Assets				
Loans and advances to banks	6,312	6,459	12,824	12,946
Loans and advances to customers	18,301	18,108	17,928	17,318
Financial Liabilities				
Deposits from banks	5,234	5,300	11,660	11,701
Customer accounts	20,180	20,225	20,857	20,903
Subordinated liabilities	658	694	658	694

34 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 2014 and 2013

(1) 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. The relevant net amount payable by the Parent under transfer pricing in respect of the year ended 31 December 2014 was £30 million compared to £98 million for the year ended 31 December 2013, with the changes in methodology having contributed to this result.

(2) During the year ended 31 December 2014 the Group purchased a portfolio of mortgage assets from the Parent for £1.4 billion (year ended 31 December 2013: £1.3 billion). These 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 are external to the Group and are reported under loans and advances to customers.

(3) During the year ended 31 December 2014 the Group purchased a portfolio of 18 freehold and long leasehold properties from the Parent for £4 million.

(4) During December 2013, the Group commenced the process of moving from a gross flow cash hedging model to a derivatives hedging model and this process continued during 2014. As a result, £6.8 billion (2013: £12.3 billion) of balances owed to the Parent and £6.7 billion (2013: £12.3 billion) of balances owed from the Parent were repaid during 2014 and the Group then entered into derivative transactions with the Parent.

(5) In 2013, the Group reassessed the value of trading losses acquired from its ultimate parent undertaking on the transfer of business assets in 2010, and consequently recognised an asset of £86 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. A further £15 million of losses were transferred from the Parent in 2014, which has also been treated as a capital contribution.

34 Related party transactions (continued)

Summary	31 December 2014 Parent[1] £m	31 December 2013 Parent[1] £m
Income statement		
Interest income (note 2)	119	315
Interest expense (note 3)	(127)	(262)
Fee and commission income (note 4)	-	3
Fees and commissions expense (note 4)	(6)	(11)
Net trading (expense) / income (note 5)	(8)	21
Operating expenses paid for services provided[2] (note 7)	(202)	(189)
Total	**(224)**	**(123)**
Assets		
Loans and advances to banks (note 14)	5,102	11,646
Loans and advances to customers (note 16)	7	7
Other assets (note 21)	14	32
Derivatives (note 13)	56	4
Total assets	**5,179**	**11,689**
Liabilities		
Deposits from banks (note 22)	5,193	11,651
Customer accounts (note 23)	10	18
Other liabilities (note 24)	14	24
Derivatives (note 13)	56	7
Subordinated liabilities	658	658
Total liabilities	**5,931**	**12,358**
Net exposure	**(752)**	**(669)**

[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 £48,000 (year ended 31 December 2013: £50,000) 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.

34 Related party transactions (continued)

(c) Transactions with key management personnel

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 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

Companies Act Disclosures Loans to Directors 2013	Balance as at 1 January 2013[4] £'000	Balance as at 31 December 2013[1,3,4] £'000	Aggregate maximum amount outstanding during the year ended 31 December 2013[2,4] £'000
Loans to Directors	631	602	639

[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 2014, 31 December 2013 and the average exchange rate for the year, as appropriate.
[4] 2013 has been adjusted to include a loan which was not included in the prior year.

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 - 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 Chief Operating Officer, the Managing Director of Northern Ireland and Business Banking GB, the Managing Director of Post Office Businesses, the Director of Consumer Banking UK, the HR Director and any past KMP, who was a KMP during the relevant year.

Key management personnel, 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.

34 Related party transactions (continued)

The aggregate amounts outstanding, in respect of all loans, quasi-loans and credit transactions, between the Group, its key management personnel (as defined above) and key management personnel of the Parent, including members of their close families and entities influenced by them are shown in the table below.

2014 Key management personnel	**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

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, the guarantee was not disclosed in the prior year. There was no call on this guarantee during the year ended 31 December 2014.

2013 Key management personnel	Balance as at 1 January 2013[5,6] £'000	Balance as at 31 December 2013[1,4,6] £'000	Aggregate maximum amounts outstanding during the year ended 31 December 2013[2,3,6] £'000	Total number of KMP as at 1 January 2013	Total number of KMP as at 31 December 2013
Loans	653	611	660	9	9
Deposits	2,015	886	1,938	18	16

CRD IV Pillar III disclosures for the Group also include information on remuneration. This can be found on the website of the Bank of Ireland (UK) plc.

1 Balance includes principal and interest.
2 These figures include credit card exposures at the maximum statement balance. In all cases, key management personnel have not exceeded their approved limits. The maximum approved credit limit on any credit card held by key management personnel 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 2014 for any member of key management personnel and their close family did not exceed £699,026 (31 December 2013: £458,000). 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 2014, 31 December 2013 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.
6 2013 has been adjusted to include a loan which was not included in the prior year.

34 Related party transactions (continued)

(d) Compensation of key management personnel	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Remuneration		
Salaries and other short term benefits	2,669	2,459
Pension benefits	238	224
Total	**2,907**	**2,683**

- Total compensation paid to KMP was £2.9 million for the year ended 31 December 2014 and of this amount £1.3 million was paid to Directors. This compared to £2.7 million and £1.3 million respectively for the comparative year ended 31 December 2013;
- During the year ended 31 December 2014 or the year ended 31 December 2013, 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 2014 was £338,958, comprising salary and other benefits (year ended 31 December 2013: £356,621). The total accrued pension and accrued lump sum of this Director at the year ended 31 December 2014 is £nil;
- Two Executive Directors are accruing retirement benefits under Defined Benefit BoI Group Pension Scheme for year ended 31 December 2014 (two Executive Directors for year ended 31 December 2013);
- 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 2014 or the year ended 31 December 2013.

35 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 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)	-

31 December 2013 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.

36 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
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[1]	Foreign Exchange	England and Wales	31 March	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.*

Copies of the financial statements of these undertakings can be obtained from the relevant addresses listed on page 180.

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 £4.7 billion (31 December 2013: £5.5 billion) and liabilities amounted to £2.7 billion (31 December 2013: £3.5 billion). There are no contractual arrangements that require the Group to provide financial support. In the years ended 31 December 2014 or 31 December 2013 the Group did not provide financial or other support, nor does it expect or intend to do so.

36 Interests in other entities (continued)

		31 December 2014		31 December 2013	
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	4,671	2,693	5,481	3,485

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 2014, £40 million (31 December 2013: £nil) of these securities was pledged to secure funding against ILTR.

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.

37 Impact of adopting new accounting standards

Restatement of comparatives - IFRIC 21 'Levies'
As outlined in the Group accounting policies on page 83, during the year ended 31 December 2014 the Group adopted IFRIC 21 'Levies' and has accordingly restated prior periods to reflect this.

The following table reflects the impact of IFRIC 21 on the Group's financial statements for the year ended 31 December 2014.

Income statement – year ended 31 December 2014	**IFRIC 21 Levies £m**
Other operating expenses	(15)
Profit before tax	**(15)**

The following tables set out the impact of IFRIC 21 'Levies' on the comparative amounts for the year ended 31 December 2013.

Consolidated income statement (selected lines)

31 December 2013	**Published £m**	**IFRIC 21 Levies £m**	**Restated £m**
Other operating expenses	(274)	4	(270)
Profit before tax	57	4	61

37 Impact of adopting new accounting standards (continued)

Consolidated balance sheet (selected lines)

31 December 2013	Published £m	IFRIC 21 Levies £m	Restated £m
Liabilities			
Provisions	24	(15)	9
Equity			
Retained earnings	(1)	15	14

Consolidated statement of comprehensive income (selected lines)

31 December 2013	Published £m	IFRIC 21 Levies £m	Restated £m
Profit for the year	61	4	65
Total comprehensive income for the year, net of tax	58	4	62

Consolidated statement of changes in equity (selected lines)

31 December 2013	Published £m	IFRIC 21 Levies £m	Restated £m
Retained earnings			
Balance at the beginning of the year	(63)	11	(52)
Profit for the year attributable to stockholders	61	4	65
Balance at the end of the year	(1)	15	14

Consolidated cash flow statement (selected lines)

31 December 2013	Published £m	IFRIC 21 Levies £m	Restated £m
Cash flows from operating activities			
Profit before tax	57	4	61
Charge for provisions	17	(4)	13
Cash flows from operating activities before changes in operating assets and liabilities	144	-	144

38 Post balance sheet events

There are no post balance sheet events that require disclosure in the financial statements.

39 Approval of financial statements

The Board of Directors approved the financial statements on 5 March 2015.

Bank Financial Statements and Notes

Index

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 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Bank of Ireland (UK) plc's financial statements comprise:

- the Bank Income Statement and the Bank Statement of Other Comprehensive Income for the year ended 31 December 2014;
- the Bank Balance Sheet as at 31 December 2014;
- the Bank Statement of Changes in Equity for the year ended 31 December 2014;
- the Bank Cash Flow Statement for the year ended 31 December 2014;
- 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 European Union.

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 matters prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

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 74, 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 2014, which can be found on pages 75 to 76 of the consolidated financial statements.

Hamish Anderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 March 2015

The maintenance and integrity of the Bank of Ireland 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 2014

	Year ended 31 December 2014 £m	Restated[1] Year ended 31 December 2013 £m
Interest income	868	1,063
Interest expense	(405)	(686)
Net interest income	**463**	**377**
Fee and commission income	114	116
Fee and commission expense	(108)	(111)
Other operating income	32	35
Total operating income	**501**	**417**
Operating expenses	(276)	(261)
Operating profit before impairment charges on financial assets	**225**	**156**
Impairment charges on financial assets	(62)	(125)
Profit before taxation	**163**	**31**
Taxation (charge) / credit	(19)	11
Profit for the year	**144**	**42**

[1] As outlined in the Group accounting policies and in note aa, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.

Bank statement of other comprehensive income
for the year ended 31 December 2014

	Year ended 31 December 2014 £m	Restated[1] Year ended 31 December 2013 £m
Profit for the year	**144**	**42**
Items that may be reclassified to profit or loss in subsequent periods		
Net change in cash flow hedge reserve (net of tax)[2]	26	-
Net change in available for sale reserve (net of tax)[3]	6	(4)
Total comprehensive income for the year, net of tax	**176**	**38**

[1] As outlined in the Group accounting policies and in note aa, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.
[2] Net of tax of £6 million (2013: £nil)
[3] Net of tax of £2 million (2013: £1 million)

Bank balance sheet
as at 31 December 2014

	Notes	31 December 2014 £m	Restated[1] as at 31 December 2013 £m	Restated[1] as at 1 January 2013 £m
Assets				
Cash and cash equivalents	c	2,964	4,125	6,380
Items in the course of collection from other banks		276	182	193
Derivative financial instruments	d	59	11	10
Loans and advances to banks	e	6,143	12,635	26,871
Available for sale financial assets	f	991	482	341
Loans and advances to customers	g	18,407	18,078	18,197
Investment in subsidiaries	i	9	9	74
Interest in joint venture		1	2	2
Intangible assets	j	39	46	52
Property, plant and equipment	k	4	-	-
Current tax assets		6	12	-
Other assets	l	92	103	128
Deferred tax assets	r	98	117	65
Total assets		**29,089**	**35,802**	**52,313**
Equity and liabilities				
Deposits from banks	n	5,231	11,638	25,705
Customer accounts	o	20,187	20,879	23,361
Items in the course of transmission to other banks		221	94	172
Derivative financial instruments	d	64	11	9
Other liabilities	p	1,069	1,053	1,097
Provisions	q	8	9	10
Subordinated liabilities	s	658	658	658
Total liabilities		**27,438**	**34,342**	**51,012**
Equity				
Share capital	u	1,151	1,151	1,116
Retained earnings		70	(74)	(116)
Other reserves		430	383	301
Total equity attributable to owners of the Parent		**1,651**	**1,460**	**1,301**
Total equity and liabilities		**29,089**	**35,802**	**52,313**

[1] *As outlined in the Group accounting policies and in note aa, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.*

The financial statements on pages 152 to 179 were approved by the Board on 5 March 2015 and were signed on its behalf by:

Lorraine Smyth

Lorraine Smyth
Director
5 March 2015
Company Number: 07022885

Bank statement of changes in equity for the year ended 31 December 2014

	Year ended 31 December 2014 £m	Restated[1] Year ended 31 December 2013 £m
Share capital		
Balance at 1 January	1,151	1,116
Issue of share capital – ordinary	-	35
Balance at 31 December	**1,151**	**1,151**
Retained earnings		
Balance at 1 January	(74)	(116)
Profit for the year	144	42
Balance at 31 December	**70**	**(74)**
Other reserves		
Available for sale reserve		
Balance at 1 January	(3)	1
Changes in fair value, net of hedge accounting adjustments	8	(5)
Deferred tax on reserve movements	(2)	1
Balance at 31 December	**3**	**(3)**
Cash flow hedge reserve		
Balance at 1 January	-	-
Changes in fair value	32	-
Deferred tax on reserve movements	(6)	-
Balance at 31 December	**26**	**-**
Capital contribution		
Balance at 1 January	386	**300**
Contribution during the period	15	86
Balance at 31 December	**401**	**386**
Total other reserves	**430**	**383**
Total shareholders' equity	**1,651**	**1,460**
Included in the above:		
Total comprehensive income for the year, net of tax	176	38

[1] *As outlined in the Group accounting policies and in note aa, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.*

Bank cash flow statement
for the year ended 31 December 2014

	Notes	Year ended 31 December 2014 £m	Restated[1] Year ended 31 December 2013 £m
Cash flows from operating activities			
Profit before taxation		163	31
Interest expense on subordinated liabilities and other capital instruments		52	52
Depreciation and amortisation	f,j	11	9
Impairment charge on loans and advances to customers	h	62	125
Net change in prepayments and interest receivable	l	9	17
Net change in accruals and interest payable	p	(19)	(102)
Dividend income		(30)	(34)
Charge for provisions	q	15	13
Cash flows from operating activities before changes in operating assets and liabilities		**263**	**111**
Net change in items in the course of collection		33	(67)
Net change in loans and advances to banks	c	6,871	1,284
Net change in derivative financial instruments	d	(9)	1
Net change in loans and advances to customers	g,h	(390)	(6)
Net change in deposits from banks	n	(6,407)	(14,067)
Net change in customer accounts	o	(694)	(2,482)
Net change in provisions	q	(16)	(14)
Net change in other assets and other liabilities		39	66
Net cash flow from operating assets and liabilities		**(573)**	**(15,285)**
Net cash flow from operating activities before taxation		**(310)**	**(15,174)**
Taxation refunded		12	34
Net cash flow from operating activities		**(298)**	**(15,140)**
Investing activities (section a - see below)		(457)	(50)
Financing activities (section b - see below)		(52)	(17)
Net change in cash and cash equivalents		**(807)**	**(15,207)**
Opening cash and cash equivalents		5,729	20,936
Closing cash and cash equivalents	c	**4,922**	**5,729**
(a) Investing activities			
Additions to available for sale financial assets	f	(553)	(167)
Redemptions of available for sale financial assets	f	71	19
Dividends received from joint venture and subsidiaries		30	34
Additions to intangible assets	j	(1)	(3)
Disposal of intangible assets	j	-	2
Change in investment in subsidiaries	i	-	65
Additions to property, plant and equipment	k	(4)	-
Cash flows from investing activities		**(457)**	**(50)**
(b) Financing activities			
Issue of share capital	u	-	35
Interest paid on subordinated liabilities		(52)	(52)
Cash flows from financing activities		**(52)**	**(17)**

[1] *As outlined in the Group accounting policies and in note aa, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.*

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 International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations, as adopted for use in the European Union 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 82 to 103, 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 102 to 103 in the accounting policies section.

b Auditors' remuneration

	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Fees payable for the audit of the Bank and Group financial statements	401	441
Audit related assurance services	44	65
Other assurance services	19	18
Auditors' remuneration	**464**	**524**

The Bank'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 2014 £m	31 December 2013 £m
Cash	46	37
Balances with central banks	2,918	4,088
Total cash balances applicable	**2,964**	**4,125**
Loans and advances to banks	6,143	12,635
Less: amounts with a maturity of three months or more	(4,185)	(11,031)
Total loans and advances to banks applicable	**1,958**	**1,604**
Total cash and cash equivalents	**4,922**	**5,729**
Due from the Parent	908	607

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 13 of the consolidated financial statements.

		Fair Value	
31 December 2014	**Contract / notional amount £m**	**Assets £m**	**Liabilities £m**
Derivatives held for trading			
Foreign exchange derivatives			
Currency forwards	358	3	8
Currency forwards - with the Parent	483	8	3
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**
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**

d Derivative financial instruments (continued)

31 December 2013	Contract / notional amount £m	Fair Value Assets £m	Fair Value Liabilities £m
Derivatives held for trading			
Foreign exchange derivatives			
Currency forwards	460	7	4
Currency forwards - with the Parent	461	4	7
Total foreign exchange derivatives held for trading	921	11	11
Interest rate derivatives			
Interest rate swaps - with Parent	-	-	-
Total interest rate derivatives held for trading	-	-	-
Derivatives held as fair value hedges			
Interest rate swaps - with Parent	381	-	-
Derivatives held as cash flow hedges			
Interest rate swaps - with Parent	864	-	-
Total derivative assets / liabilities for hedging	1,245	-	-
Total derivative assets / liabilities	2,166	11	11

The years in which the hedged cash flows are expected to occur are shown in the tables below:

31 December 2014	**Up to 1 year £m**	**Up 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	-	-	-	-	-

31 December 2013	Up to 1 year £m	Up to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Forecast receivable cash flows	2	1	8	6	17
Forecast payable cash flows	-	-	-	-	-

The hedged cash flows are expected to impact on the income statement in the following years:

31 December 2014	**Up to 1 year £m**	**Up 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	-	-	-	-	-

31 December 2013	Up to 1 year £m	Up to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Forecast receivable cash flows	2	2	8	5	17
Forecast payable cash flows	-	-	-	-	-

During the years ended 31 December 2014 and 31 December 2013, there were no forecast transactions to which the Bank has applied hedge accounting which were no longer expected to occur.

e Loans and advances to banks

	31 December 2014 £m	31 December 2013 £m
Placements with other banks	5,108	11,653
Mandatory deposits with central banks	1,035	982
Loans and advances to banks	**6,143**	**12,635**
Amounts include:		
Due from the Parent	5,093	11,637

Represented in placements with other banks are:

- an amount of £5,093 million (31 December 2013: £11,637 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 £5,190 million (31 December 2013: £11,629 million) are also disclosed in note n. From a counterparty credit risk perspective, whilst 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
- included in amounts due from the Parent are £281 million of loans, whose return is dependent on movements in various external indices (31 December 2013: £337 million). These loans are designated at fair value through profit or loss.

During the year ended 31 December 2014 £6.7 billion of balances were repaid by the Bank. For further details, refer to note 34 in the consolidated financial statements.

Represented in mandatory deposits with central banks are:

- an amount of £999 million relating to collateral with the Bank of England in respect of notes in circulation (31 December 2013: £946 million). £553 million of this refers to non interest bearing collateral; 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 2013: £36 million).

f Available for sale financial assets

	31 December 2014 £m	31 December 2013 £m
Government bonds	580	143
Debt securities listed	410	338
Equity securities listed	1	1
Available for sale financial assets	**991**	**482**

At 31 December 2014 and at 31 December 2013, 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 2014 £m	Year ended 31 December 2013 £m
At 1 January	482	341
Revaluation adjustments	30	(5)
Additions	553	167
Redemptions	(71)	(19)
Amortisation	(3)	(2)
At 31 December	**991**	**482**

g Loans and advances to customers

	31 December 2014 £m	31 December 2013 £m
Residential mortgages	14,187	13,087
Non-property SME and corporate	2,531	2,871
Property and construction	1,917	2,455
Consumer	375	372
Gross loans and advances to customers	**19,010**	**18,785**
Less: allowance for impairment charges on loans and advances to customers (note h)	(603)	(707)
Loans and advances to customers	**18,407**	**18,078**
Amounts include:		
Due from subsidiaries	1,133	1,055
Due from entities controlled by the Parent	7	7

The movement in loans and advances to customers reflects:

- a net increase in Residential mortgages arising from the acquisition of a number of mortgage portfolios from the Parent with a total loan value of £1.51 billion for consideration of £1.43 billion (representing a weighted average price of 94.7%). Included in the discount were both expected credit losses and the differential between the customer interest rates on the assets and current market interest rates for similar assets;
- excluding mortgage acquisitions, other mortgage lending fell by £0.4 billion, representing £1.8 billion of new loans through the Post Office and NI brands which were more than offset by repayments on the overall mortgage portfolio; and
- decreases in the commercial lending portfolio of £0.9 billion, primarily reflecting GB Business Banking deleveraging.

Loans and advances to customers at 31 December 2013 include a portion of mortgages which were pledged under the BoE Funding for Lending Scheme (FLS). The Group repaid its borrowings under the FLS in January 2014.

h Impairment provisions

The following tables show the movement in the impairment provisions during the year ended 31 December 2014 and 31 December 2013:

2014	Residential mortgages £m	Non property SME and corporate £m	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**

h Impairment provisions (continued)

2013	Residential mortgages £m	Non property SME and corporate £m	Property and construction £m	Consumer £m	Total impairment provisions £m
Provision at 1 January 2013	44	102	511	24	681
Transfer between provisions	-	17	(17)	-	-
Exchange adjustments	-	-	2	-	2
Provisions utilised	(7)	(28)	(69)	(19)	(123)
Recoveries	-	-	1	4	5
Other movements	(4)	4	16	1	17
Charge to the income statement	8	34	69	14	125
Provision at 31 December 2013	41	129	513	24	707

i Investment in subsidiaries

Interest in principal undertakings	**31 December 2014 £m**	31 December 2013 £m
At 1 January	9	74
Repayment of investment	-	(65)
At 31 December	**9**	**9**

Impairment review

The Bank's investments 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 2014 or the year ended 31 December 2013.

Repayment of capital

In the year ended 31 December 2013, the Bank received a repayment of capital of £65 million from Midasgrange Limited.

The interests in all entities held by the Group is disclosed in note 36.

j Intangible assets

2014	**Other computer software internally generated £m**	**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**

2013	Computer software externally purchased £m	Other computer software internally generated £m	Externally purchased intangible assets £m	Total £m
Cost				
At 1 January 2013	7	34	73	114
Additions	1	-	2	3
Disposals / write-offs	(8)	-	-	(8)
At 31 December 2013	-	34	75	109
Accumulated amortisation				
At 1 January 2013	(5)	(23)	(34)	(62)
Disposals / write-offs	6	-	-	6
Charge to the income statement	(1)	(3)	(3)	(7)
At 31 December 2013	-	(26)	(37)	(63)
Net book value at 31 December 2013	-	8	38	46

Refer to note 19 in the consolidated financial statements for further details.

k Property, plant and equipment

	Freehold land and buildings and long leaseholds (held at fair value) £m
Cost or valuation	
At 1 January 2014	-
Additions	4
At 31 December 2014	**4**
Net book value at 31 December 2014	**4**

Refer to note 20 in the consolidated financial statements for further details.

l Other assets

	31 December 2014 £m	31 December 2013 £m
Sundry and other receivables	14	16
Interest receivable	36	43
Accounts receivable and prepayments	42	44
Other assets	**92**	**103**
Amounts include:		
Due from the Parent	14	33
Maturity profile of other assets		
Amounts receivable within 1 year	63	64
Amounts receivable after 1 year	29	39

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 2014	**Residential mortgages £m**	**Non-property SME and corporate £m**	**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%**

31 December 2013	Residential mortgages £m	Non-property SME and corporate £m	Property and construction £m	Consumer £m	Total loans and advances to customers £m	Total loans and advances to customers %
High quality	12,436	425	78	331	13,270	71%
Satisfactory quality	21	1,890	605	-	2,516	14%
Acceptable quality	49	128	282	-	459	2%
Lower quality but not past due nor impaired	-	118	320	-	438	2%
Neither past due nor impaired	12,506	2,561	1,285	331	16,683	89%
Past due but not impaired	504	17	109	19	649	3%
Impaired	77	293	1,061	22	1,453	8%
Total	13,087	2,871	2,455	372	18,785	100%

At 31 December 2014 included in the non-property SME and corporate book is £1,140 million (31 December 2013: £1,061 million) in relation to intra-group funding balances with the Bank's subsidiaries with no banking license, the largest balance being £977 million (31 December 2013: £876 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 analysis of loans and advances to customers 'past due but not impaired' by asset classification.

31 December 2014	Residential mortgages £m	Non-property SME and corporate £m	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	76	-	-	-	76
Total	**441**	**28**	**95**	**16**	**580**

31 December 2013	Residential mortgages £m	Non-property SME and corporate £m	Property and construction £m	Consumer £m	Total £m
Past due up to 30 days	101	9	29	10	149
Past due 31-60 days	240	6	44	5	295
Past due 61-90 days	64	2	36	4	106
Past due more than 90 days	99	-	-	-	99
Total	**504**	**17**	**109**	**19**	**649**

Financial Assets - 'Impaired': loans and advances to customers

The tables below provide an analysis of impaired loans and advances to customers by composition.

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%
Property and construction	1,917	846	44%	418	49%
Consumer	375	18	5%	24	133%
Total	**19,010**	**1,189**	**6%**	**603**	**51%**

31 December 2013	Advances £m	Impaired loans £m	Impaired loans as % of advances %	Impairment provisions £m	Impairment provisions as % of impaired loans %
Residential mortgages	13,087	77	1%	41	53%
Non-property SME and corporate	2,871	293	10%	129	44%
Property and construction	2,455	1,061	43%	513	48%
Consumer	372	22	6%	24	109%
Total	**18,785**	**1,453**	**8%**	**707**	**49%**

m Credit risk exposures (continued)

Impairment provision

The tables below split out the impairment provisions by its nature and composition.

	31 December 2014 £m	31 December 2013 £m
Specific provisions	530	627
Incurred but not reported (IBNR)	73	80
Total impairment provision	**603**	**707**

	31 December 2014			31 December 2013		
	Specific £m	IBNR £m	Total £m	Specific £m	IBNR £m	Total £m
Residential mortgages	4	(5)	(1)	5	3	8
Non-property SME and corporate	20	(3)	17	34	-	34
Property and construction	35	(1)	34	69	-	69
Consumer	8	4	12	14	-	14
Total loan impairment charge	**67**	**(5)**	**62**	**122**	**3**	**125**

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 2014 £m	31 December 2013 £m
AAA to AA-	2,026	1,464
A+ to A-	18	23
BBB+ to BB-	5,149	11,641
Total	**7,193**	**13,128**

Refer to the Risk Management section for further details on Asset quality: other financial instruments page 55.

n Deposits from banks

	31 December 2014 £m	31 December 2013 £m
Deposits from banks	5,231	11,638
Deposits from banks	**5,231**	**11,638**
Amounts include:		
Due to the Parent	5,190	11,629

Amounts due to the Parent of £5,190 million (31 December 2013: £11,629 million) 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 34 of the consolidated financial statements in respect of changes in these balances during 2014.

o Customer accounts

	31 December 2014 £m	31 December 2013 £m
Term deposits	9,564	10,005
Demand deposits	8,372	8,331
Interest bearing current accounts	431	785
Non interest bearing current accounts	1,820	1,758
Customer accounts	**20,187**	**20,879**
Amounts include:		
Due to subsidiaries	38	22
Due to entities controlled by the Parent	10	18

Term deposits include deposits of £281 million (31 December 2013: £337 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 2014 £m	31 December 2013 £m
Accrued interest payable	105	133
Notes in circulation	873	826
Sundry payables	71	83
Accruals and deferred income	20	11
Other liabilities	**1,069**	**1,053**
Amounts include:		
Due to the Parent	14	24
Maturity profile of other liabilities		
Amounts payable within 1 year	1,068	1,052
Amounts payable after 1 year	1	1

q Provisions

	31 December 2014			Restated[1] 31 December 2013		
	Financial services compensation scheme £m	Payment protection insurance £m	Total £m	Financial services compensation scheme £m	Payment protection insurance £m	Total £m
At 1 January	8	1	9	8	2	10
Charge to the income statement	15	-	15	13	-	13
Utilised during the year	(15)	(1)	(16)	(13)	(1)	(14)
At 31 December	**8**	**-**	**8**	**8**	**1**	**9**
Expected utilisation period						
Used within 1 year	8	-	8	8	1	9

[1] *As outlined in the Group accounting policies and in note aa, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'.*

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 2014 represents the Bank's estimate of the interest element of the levy due for the FSCS levy year from 1 April 2014 to 31 March 2015. This is calculated based on the Bank's share of industry protected deposits at 31 December 2013.

Payment protection insurance (PPI)
As at 31 December 2014 the Bank is holding a provision of £0.4 million (year ended 31 December 2013: £1 million) to cover potential customer claims for refunds of premiums associated with the alleged mis-selling of PPI policies. The provision is based upon known pipeline cases and the expectation of future claims. The closing provision represents managements' best estimate of expected costs.

r Deferred tax

	31 December 2014 £m	31 December 2013 £m
The movement on the deferred tax account is as follows:		
At 1 January	117	65
Income statement charge for year	(25)	(35)
Losses transferred from Parent	15	86
Cash flow hedges - charge to other comprehensive income	(6)	-
Available for sale securities - charge to other comprehensive income	(2)	1
Other	(1)	-
At 31 December	**98**	**117**
Deferred tax assets and liabilities are attributable to the following items:		
Deferred tax assets		
Unutilised tax losses	105	117
Available for sale securities	-	1
Total deferred tax assets	**105**	**118**
Deferred tax liabilities		
Fixed assets	-	(1)
Cash flow hedges - transferred to reserves	(6)	-
Deferred tax on property held at fair value	(1)	-
Total deferred tax liabilities	**(7)**	**(1)**
Represented on the balance sheet as follows:		
Deferred tax assets	**98**	**117**

Refer to note 27 of the consolidated financial statements for further details, in relation to the transfer of losses from the Parent.

s Subordinated liabilities

	31 December 2014 £m	31 December 2013 £m
£523 million subordinated floating rate loans 2020	523	523
£90 million subordinated floating rate loans 2022	90	90
£45 million subordinated floating rate loans 2022	45	45
Subordinated liabilities	**658**	**658**

Refer to note 28 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 2014 Contractual amount £m	31 December 2013 Contractual amount £m
Contingent liabilities		
Guarantees and irrevocable letters of credit	9	15
Other contingent liabilities	6	8
Total contingent liabilities	**15**	**23**
Commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend		
- revocable or irrevocable with original maturity of 1 year or less	2,960	2,989
- irrevocable with original maturity of over 1 year	624	669
Total commitments	**3,584**	**3,658**

Refer to note 29 of the consolidated financial statements for further details.

u Share capital

	Ordinary shares[1]		**Preference shares[1]**	
Movements in ordinary and preference shares	**31 December 2014 £m**	31 December 2013 £m	**31 December 2014 £m**	31 December 2013 £m
At the beginning of the year	851	816	300	300
Issued during the year	-	35	-	-
At end of year	**851**	**851**	**300**	**300**

[1] *All shares issued are in denominations of £1, therefore the table above also represents unit values.*

Refer to note 30 of the consolidated financial statements for further details.

v Liquidity risk

The tables below summarise the maturity profile of the Bank's financial liabilities at 31 December 2014 and at 31 December 2013, 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 at 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	2,960	-	-	624	-	3,584
Total	**16,136**	**2,782**	**5,452**	**5,007**	**876**	**30,253**

As at 31 December 2013	Demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Deposits from banks	623	35	6,328	4,722	151	11,859
Customer accounts	12,353	3,672	3,529	1,397	-	20,951
Subordinated liabilities	-	5	49	245	839	1,138
Contingent liabilities	23	-	-	-	-	23
Commitments	2,989	-	-	669	-	3,658
Total	15,988	3,712	9,906	7,033	990	37,629

The table below summarises the maturity profile of the Bank's derivative liabilities. The Bank manages liquidity risk based on expected cash flows, therefore the undiscounted cash flows payable on derivatives liabilities are classified according to their contractual maturity.

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)	-	(513)
Gross settled derivative liabilities - inflows	-	387	110	4	-	502
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)**

31 December 2013	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	-	(318)	(142)	(10)	-	(470)
Gross settled derivative liabilities - inflows	-	311	139	10	-	460
Gross settled derivative liabilities - net flows	-	(7)	(3)	-	-	(10)
Net settled derivative liabilities	-	-	1	1	(3)	(1)
Total derivatives cash flows	-	(7)	(2)	1	(3)	(11)

w 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 (OCI)			
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**
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**

Business Review
Risk Management
Governance
Consolidated Financial Statements
Bank Financial Statements
Other Information

w Measurement basis of financial assets and financial liabilities (continued)

31 December 2013	At fair value through profit or loss			At fair value through other comprehensive income (OCI)			
	Derivatives designated as fair value hedging instruments [1] £m	Held for trading £m	Designated upon initial recognition £m	Available for sale £m	Cash flow hedge derivatives [1] £m	Held at amortised cost £m	Total £m
Financial assets							
Cash and balances with central banks	-	-	-	-	-	4,125	4,125
Items in course of collection from other banks	-	-	-	-	-	182	182
Derivative financial instruments	-	11	-	-	-	-	11
Loans and advances to banks	-	-	337	-	-	12,298	12,635
Available for sale financial assets	-	-	-	482	-	-	482
Loans and advances to customers	-	-	-	-	-	18,078	18,078
Total financial assets	-	11	337	482	-	34,683	35,513
Financial liabilities							
Deposits by banks	-	-	-	-	-	11,638	11,638
Customer accounts	-	-	337	-	-	20,542	20,879
Items in course of transmission to other banks	-	-	-	-	-	94	94
Derivative financial instruments	-	11	-	-	-	-	11
Subordinated liabilities	-	-	-	-	-	658	658
Total financial liabilities	-	11	337	-	-	32,932	33,280

[1] The amounts relating to derivatives designated as fair value hedging instruments and cash flow hedge derivatives are too small for presentation.

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 2014		31 December 2013	
	Fair values £m	**Contractual amount due on maturity £m**	Fair Values £m	Contractual amount due on maturity £m
Customer accounts	281	275	337	333

x 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]	4,516	4,516	4,254	4,254

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.*

y Fair value of assets and liabilities

Fair value hierarchy
Further information on fair value is shown in note 33 of the consolidated financial statements.

Level 1 comprises financial assets and financial liabilities valued using quoted market prices in active markets. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2 comprises financial assets and financial liabilities valued using techniques based significantly on observable market data.

Level 3 comprises financial assets and financial liabilities valued using techniques where the impact of the non-observable market data is significant in determining the fair value of the instrument. Non-observable market data is not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input, or analytical techniques.

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
AFS 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%**

y 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**

The Bank had non-financial assets held at fair value on the balance sheet in Level 3 at 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 2014 or 31 December 2013.

Movements in level 3 assets

31 December 2014	Property held at fair value £m
Opening Balance	-
Total gains or losses in profit or loss	-
Additions	4
Closing balance	4

31 December 2013	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets held at fair value				
Derivative financial instruments	-	11	-	11
Loans and advances to banks	-	337	-	337
AFS financial assets	481	1	-	482
Total financial assets held at fair value	481	349	-	830
As a % of fair value assets	58%	42%	-	100%
Financial liabilities held at fair value				
Customer accounts	-	337	-	337
Derivative financial instruments	-	11	-	11
Total financial liabilities held at fair value	-	348	-	348
As a % of fair value liabilities	-	100%	-	100%

y Fair value of assets and liabilities (continued)

31 December 2013	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	-	12,420	-	12,420
Loans and advances to customers	-	-	17,459	17,459
Total	-	12,420	17,459	29,879
Fair value of financial liabilities held at amortised cost				
Deposits from banks	-	11,679	-	11,679
Customer accounts	-	20,588	-	20,588
Subordinated liabilities	-	694	-	694
Total	-	32,961	-	32,961

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 2014		31 December 2013	
	Carrying amount £m	**Fair values £m**	Carrying amount £m	Fair values £m
Financial assets				
Loans and advances to banks	6,143	6,290	12,635	12,757
Loans and advances to customers	18,407	18,220	18,078	17,459
Financial liabilities				
Deposits from banks	5,231	5,298	11,638	11,679
Customer accounts	20,187	20,232	20,879	20,925
Subordinated liabilities	658	694	658	694

z 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 34 of the consolidated financial statements and a list of the Bank's principal undertakings can be found in note 36 of the consolidated financial statements.

Amounts included in the financial statements at 31 December 2014, in aggregate, by category of related party, are as follows:

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 income / (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 within this amount is a fee of £48,000 (year ended 31 December 2013: £50,000) to Archie Kane, Governor and Non-executive Director of the Parent who was appointed as consultant advisor to the Group in June 2012.

z Related party transactions (continued)

31 December 2013	Parent[1] £m	Subsidiaries £m	Joint venture £m	Total £m
Income statement:				
Interest income	315	24	-	339
Interest expense	(262)	-	-	(262)
Fee and commission income	3	-	-	3
Fees and commission expense	(11)	-	-	(11)
Net trading income / (expense)	21	-	-	21
Other operating income	-	-	34	34
Impairment charges on financial assets	(1)	-	-	(1)
Operating expenses paid for services provided[2]	(189)	-	-	(189)
Total income / (expense)	(124)	24	34	(66)
Assets:				
Loans and advances to banks	11,637	-	-	11,637
Loans and advances to customers	7	1,055	-	1,062
Other assets	33	-	-	33
Derivatives	4	-	-	4
Total assets	11,681	1,055	-	12,736
Liabilities:				
Deposits from banks	11,629	-	-	11,629
Customer accounts	18	22	-	40
Other liabilities	24	-	-	24
Derivatives	7	-	-	7
Total liabilities	11,678	22	-	11,700
Net exposure	3	1,033	-	1,036

[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 £50,000 to Archie Kane, Governor and Non-executive Director of the Parent who was appointed as consultant advisor to the Group in June 2012.*

aa Impact of adopting new accounting standards

Restatement of comparatives - IFRIC 21 'Levies'

As outlined in the Group accounting policies on page 83, during the year ended 31 December 2014 the Bank adopted IFRIC 21 'Levies' and has accordingly restated prior periods to reflect this.

The following table reflects the impact of IFRIC 21 'Levies' on the Bank's financial statements for the year ended 31 December 2014.

Income statement – year ended 31 December 2014	IFRIC 21 Levies £m
Other operating expenses	(15)
Profit before tax	**(15)**

The following tables set out the impact of IFRIC 21 'Levies' on the comparative amounts for the year ended 31 December 2013.

Bank income statement (selected lines)

31 December 2013	Published £m	IFRIC 21 Levies £m	Restated £m
Other operating expenses	(265)	4	(261)
Profit before tax	27	4	31

Bank balance sheet (selected lines)

31 December 2013	Published £m	IFRIC 21 Levies £m	Restated £m
Liabilities			
Provisions	24	(15)	9
Equity			
Retained earnings	(89)	15	(74)

Bank statement of comprehensive income (selected lines)

31 December 2013	Published £m	IFRIC 21 Levies £m	Restated £m
Profit for the year	38	4	42
Total comprehensive income for the year, net of tax	34	4	38

Bank statement of changes in equity (selected lines)

31 December 2013	Published £m	IFRIC 21 Levies £m	Restated £m
Retained earnings			
Balance at the beginning of the year	(127)	11	(116)
Profit for the year	38	4	42
Balance at the end of the year	(89)	15	(74)

aa Impact of adopting new accounting standards (continued)

Bank cash flow statement (selected lines)

31 December 2013	Published £m	IFRIC 21 Levies £m	Restated £m
Cash flows from operating activities			
Profit before taxation	27	4	31
Charge for provisions	17	(4)	13
Cash flows from operating activities before changes in operating assets and liabilities	111	-	111

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 5 March 2015.

Other Information

Principal business units and addresses

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First Rate Exchange Services
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Website: www.firstrate.co.uk
Managing Director: Gordon Gourlay

NIIB Group Limited
1 Donegall Square South, Belfast BT1 5LR
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Pillar III Reference Table

The Group's Pillar III document for the year ended 31 December 2014 can be accessed on the Group's website - www.bankofirelanduk.com. The reference table below details the disclosures incorporated in the Pillar III document that have been extracted from the Group's Annual Report. The Group's obligations under Article 89 of 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.

BOI (UK) Annual Report		Pillar III Disclosure		
Page Reference	**Table Name**	**Page Reference**	**Table Number**	**Table Name**
20	Regulatory capital and key capital ratios *(Resources & RWAs at 1 January 2014 and 31 December 2014 on a transitional basis and 31 December 2014 on a proforma fully loaded basis)*	4	1.1	Risk weighted assets and Regulatory capital
20	Regulatory capital and key capital ratios *(Ratios at 1 January 2014 and 31 December 2014 on a transitional basis and 31 December 2014 on a fully loaded basis)*	4	1.2	Key capital and leverage ratios
21	Capital requirements - *(31 December 2014 only)*	7	2.1	Breakdown of the Group's regulatory capital requirement
20 78	Regulatory capital and key capital ratios *(Regulatory capital only)* Consolidated balance sheet - *(Statutory Capital only)*	8	2.2	Reconciliation of Accounting Capital to Regulatory Capital
22	Movement in total regulatory capital	11	2.4	Movement in total regulatory capital
21	Capital requirements - *(Exposure at Default at 31 December 2014 only)*	17	3.1	Exposures to Credit Risk
46	Financial assets 'past due but not impaired': loans and advances to customers - *(Totals by Industry)* Financial assets - 'impaired': loans and advances to customers - *(Defaulted by Industry)*	20	3.7	Past Due and Impaired
47 & 48	Impairment provision by nature of impairment provision (audited) - *(Total Balance Sheet provision)* Impairment charge (audited) - *(Provision charges)*	22	3.11	Provision by Provision Type
116	Impairment provisions - *(Total)*	22	3.12	Provisioning charges

Abbreviations

ACIB	Associate, Chartered Institute of Bankers
AFS	Available for Sale
ALCo	Asset and Liability Committee
ATM	Automatic Teller Machine
BA	Bachelor of Arts
BA (Mod) Econ	Bachelor of Arts (Moderatorship) in Economics
BBA	British Bankers Association
BComm	Bachelor of Commerce
BoE	Bank of England
BoI	Bank of Ireland
bps	Basis points
BRC	Board Risk Committee
BSc	Bachelor of Science
BSc (Econ)	Bachelor of Science in Economics
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
ECB	European Central Bank
e.g.	Exempli gratia (for example)
ELG	Eligible Liabilities Guarantee Scheme
EU	European Union
ExRiskCo	Executive Risk Committee
FCA	Financial Conduct Authority
FCIOBS	Fellow of the Chartered Institute of Bankers
FCMA	Fellow Chartered Management Accountant
FLS	Funding for Lending Scheme
FRES	First Rate Exchange Services Limited
FRESH	First Rate Exchange Services Holdings Limited
FRS	Financial Reporting Standard
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services Act 2012
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
GDP	Gross Domestic Product
GIA	Group Internal Audit
GRPC	Group Risk Policy Committee
HSBC	Hong Kong & Shanghai Banking Corporation
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
ILAA	Individual Liquidity Adequacy Assessment
ILTR	Indexed Long Term Repo
IMF	International Monetary Fund
IPD	Investment Property Databank
IRB	Internal Ratings Based
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
LLB	Legum Baccalaureus (Bachelor of Law)
LLP	Limited Liability Partnership
LTD	Limited
LTV	Loan to Value
MA (Econ)	Master of Economics
MMR	Mortgage Market Review
MPC	Monetary Policy Committee
MSc	Master of Science

Abbreviations (continued)

NPSAC	New Product and Services Approvals Committee
NSFR	Net Stable Funding Ratio
OCI	Other Comprehensive Income
OECD	Organisation of Economic Co-operation and Development
OFT	Office of Fair Trading
ONS	Office for National Statistics
Pari passu	On equal footing
PCA	Personal Current Account
PD	Probability of Default
POFS	Post Office Financial Services
PPI	Payment Protection Insurance
PRA	Prudential Regulation Authority
PwC	PricewaterhouseCoopers LLP
QRR	Quarterly Risk Report
RAG	Red, Amber, Green
RMBS	Residential Mortgage Backed Securitisation
RMF	Risk Management Framework
R&ORC	Regulatory and Operational Risk Committee
R&ORM	Regulatory and Operational Risk Management
RPI	Retail Price Inflation
RWA	Risk Weighted Assets
SCV	Single Customer View
SIC	Standing Interpretations Committee
SLA	Service Legal Agreement
SME	Small / Medium Enterprises
SOCI	Statement of Other Comprehensive Income
SPE	Special Purpose Entity
STG	Pound Sterling
£m	Million
£bn	Billion
£'000	Thousands

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