Company Registered Number: 25766

ULSTER BANK IRELAND DESIGNATED ACTIVITY COMPANY
(FORMERLY ULSTER BANK IRELAND LIMITED)

REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS

31 December 2016

ULSTER BANK IRELAND DESIGNATED ACTIVITY COMPANY

CONTENTS

ULSTER BANK IRELAND DESIGNATED ACTIVITY COMPANY

BOARD OF DIRECTORS AND SECRETARY

DIRECTORS:	G Mallon (Executive Director) P Stanley (Executive Director) M Murphy (Independent Non-Executive Director) P Nolan (Chairman and Non-Executive Director) D O'Shea (Independent Non-Executive Director) R Quinlan (Independent Non-Executive Director)
REGISTERED OFFICE:	Ulster Bank Group Centre George's Quay Dublin 2 D02 VR98
SECRETARY:	S Anderson
AUDITORS:	Ernst & Young Chartered Accountants and Statutory Auditor Ernst & Young Building Harcourt Centre Harcourt Street Dublin 2 D02 YA40

REPORT OF THE DIRECTORS

The directors of Ulster Bank Ireland Designated Activity Company ("UBIDAC" or "the Bank") present their report, together with audited financial statements of the Bank and its subsidiaries (together "the Group") for the financial year ended 31 December 2016. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

CONVERSION TO A DESIGNATED ACTIVITY COMPANY

In accordance with the provisions of the Companies Act 2014 on 23 May 2016 Ulster Bank Ireland Limited converted to a Designated Activity Company and the name of the company changed to Ulster Bank Ireland Designated Activity Company.

ACTIVITIES AND BUSINESS REVIEW

Principal activities

The Bank, operating under the Ulster Bank brand, provides a comprehensive range of financial services through its retail and commercial banking divisions. Retail Banking provides loan and deposit products through the Group's network of branches and direct channels, including the internet, mobile and telephony. Commercial Banking provides services to business and corporate customers, including small and medium enterprises.

Business review

The Bank's core ambition is to become the number one bank for customer service, trust and advocacy by 2020. In June 2016 the Royal Bank of Scotland ("RBS") emphasised the continued strategic importance of the Ulster Bank brand as part of its commitment to serve businesses and customers in the UK, Ireland and the rest of Europe.

In November 2016, the directors approved the payment of a dividend of €1,500m to the Bank's parent company, Ulster Bank Limited ("UBL"). This significant milestone reflected the continued strength of the Bank's capital position, as evidenced by a CET1 ratio of 29.8% at 31 December 2016.

In February 2016 the Group launched its 'Help for what matters' campaign, a comprehensive brand relaunch signalling the Group's ambitions for the future based on developing lasting relationships with new and existing customers.

In Retail Banking the 'Help for the movers' element of the campaign contributed to new mortgage lending of €1billion, an increase of 48% over 2015. The increase in lending was driven largely by an equally strong uptake of both the Group's fixed and variable rate propositions. This growth was supported by a successful re-entry into the mortgage broker market and the use of new innovative technologies including the introduction of a secure video chat app for use by mobile mortgage managers to complement their ability to meet customers outside branches and normal business hours.

The Group also introduced a fee-free 'Foundation' current account. The proposition encourages customers not eligible for other current accounts to more tightly manage their finances and simultaneously improve their credit rating.

Commercial Banking continued to support and make more credit available to existing and new customers resulting in a 19% increase in new lending to €1.3 billion in 2016 from €1.1 billion in 2015. New lending activity was particularly strong in the SME division and in Commercial Real Estate where the Group is supporting the recovery in the market with the provision of finance across a number of sectors including residential development, student accommodation and investment property. In January 2016 the Group commenced a partnership with the Strategic Banking Corporation of Ireland to provide €75m in new lower-cost funding to independent SME's and agri-businesses. The farming sector endured both price and weather volatility during 2016. In recognition of these issues, the Group provided additional measures to support dairy farmers, who were experiencing cash-flow difficulties.

In its first full year of operations the Group's Lombard asset financing business performed strongly driven largely by the provision of hire purchase and lease finance for business assets, as well as a successful re-entry to the car market supporting vehicle dealers with stocking finance.

The Group continued to invest heavily in developing the channels through which its customers can interact with the Bank, with a particular focus on enhancing and optimising online and mobile capabilities. During 2016 61% of the Group's customer base were 'digitally active' this included a 22% increase in mobile app users, reflecting the continued strengthening of the Group's digital proposition. Customers can now access the mobile app using multiple devices, manage and create standing orders, and customers using enabled Android devices can now utilise the Android Fingerprint technology to log into the mobile app. The Group, in conjunction with RBS and the Royal National Institute for the Blind, developed functionality within the mobile app making it accessible and usable by blind and partially sighted customers.

The innovative 'Get Cash' feature that enables customers to withdraw cash from any Ulster Bank ATM without the use of their bank card was used over 100,000 times in 2016. The complementary 'Near Me' feature allows customers to use their smart phone to locate their nearest Ulster Bank ATM. The number of the Group's customers opting for online statements via Anytime Banking has risen to 47%.

Business review (continued)

The Group has maintained its focus on innovation and development during 2016. The partnership with Dogpatch Labs in Dublin entered its second year with the Group facilitating a second Hackathon in the CHQ building, bringing together members of the external technology community to design, code and pitch ideas on banking innovations throughout the weekend-long event. The Group remained a key supporter of the Accenture & Enterprise Ireland Fintech Innovation Lab. In February 2016 it hosted an 'Innovation Showcase' at its Central Park offices with the six participating Fintech companies presenting their propositions to a cross-section of the Group's staff.

The Group continued to make significant progress in dealing with legacy issues in 2016. The Problem Debt Management division continued to oversee the de-leveraging of impaired debt in order to strengthen the Group's balance sheet. In December 2016, as part of Project Oyster, the Group completed the sale of €1.8bn of distressed loans.

On 22 December 2015 the Group received a letter from the Central Bank of Ireland (CBI) requesting that it conduct a review into its mortgage loan books to assess instances of contractual and regulatory non-compliance that may have adversely impacted a number of its tracker mortgage customers. The Group is in the process of completing this in-depth review and has begun to write to impacted customers. A charge of €206m (2015: €5m) has been recognised in the financial statements to cover potential remediation and project costs.

In November 2016 the Group confirmed that it had agreed a settlement with the CBI of €3.3m relating to Anti-Money Laundering ("AML") compliance failings. The Group had proactively engaged the CBI in the identification of these issues and dedicated significant resources to remediation and developing a stronger AML framework.

On 30 September 2016, RBS issued a market communication outlining its plans to meet the requirements of the UK Financial Services (Banking Reform) Act 2013, designed to promote financial stability in the UK banking sector and reduce the severity of any potential future financial crisis, specifically implementing a ring-fence. The ring-fence, to be established by 1 January 2019, will separate core banking activities and services from higher risk activities. In December 2016 as part of the planned implementation and to simplify the RBS group structure, the directors of UBL, a parent company of the Group, in conjunction with RBS, agreed that NatWest Holdings Limited, the holding company for the ring-fenced bank entities, would acquire Ulster Bank (Ireland) Holdings Unlimited Company ("UBIH"), and its subsidiaries, including the Group, on 1 January 2017. The Group and Bank will therefore be positioned within the ring-fence.

The directors continue to monitor the impact of the UK decision to leave the European Union (EU) on the Group and its customers. There has been no material impact to date but the directors are conscious of the potential for future impacts.

The Group continued with its strong corporate social responsibility ("CSR") agenda and was awarded the Business Working Responsibly Mark, the highest level of CSR accreditation in Ireland. The Group contributed towards raising €452k for its charity partners through One Week In June, an all-island Ulster Bank initiative. Customers were able to donate via Ulster Bank ATMs or Anytime Banking to Concern's appeal for Haiti following the impact of Hurricane Matthew. In February 2016 the Group began partnering with Young Social Innovators, encouraging staff to volunteer to support and mentor young people in their community. MoneySense, the Group's financial education programme, has enjoyed continued success with a re-designed website launched in February and growing number of the Group's staff volunteering.

Financial performance

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

The Group reported a total profit after tax for the financial year ended 31 December 2016 of €37m (2015: €1,090m). The significant reduction primarily reflected a €791m reduction in the impairment gain, and a €220m increase in operating expenses, predominately relating to the tracker mortgage examination.

Net interest income increased by 3% to €489m due to lower funding costs, improved lending margins and pricing actions taken on retail and commercial deposits. These gains were partially offset by reduced income on free funds and a further reduction throughout 2016 in the loan book from previous asset sales and loan amortisation.

Non-interest income decreased from €242m in 2015 to €177m, primarily due to reduced mark-to-market income on interest rate swaps, a reduction in fees receivable as a result of reduced loans and advances volumes and a reduction in net gains on asset disposals.

Business Review (continued)

Financial performance (continued)

Operating expenses increased by 40% to €772m in the current financial year. The increase was driven by €199m of potential remediation and estimated project costs relating to the review into the Group's portfolio of tracker mortgage examination and an increase in property and technology costs. This was offset by the Group's continued focus on reducing the underlying cost base with decreases in staff costs driven by a decrease in headcount and a €24m reduction in defined benefit pension scheme costs.

The impairment gain of €138m, albeit significantly reduced from €929m in 2015 was driven by improved residential and commercial property market conditions increasing collateral values, the release of provisions due to asset sales and proactive debt management.

The Group's capital position remained strong during 2016, as evidenced by the CET1 ratio of 29.8% at 31 December 2016 (2015: 29.6%). After the impact on shareholders' equity of the €1,500m dividend in the financial year, the CET1 ratio remained high as total risk weighted assets (RWAs) reduced from €26,186m in 2015 to €21,009m at the balance sheet date driven by the sale of the Project Oyster portfolio combined with adjustments to the mortgage modelling approach and an improvement in the macro economic environment.

At the financial year end the total assets of the Group were €30,694m (2015: €31,019m). Return on total assets for 2016 was 0.1% (2015: 3.4%).

Outlook

The directors note that economic data trends for the Group's core market continue to be positive. The latest Central Statistics Office ("CSO") reports show annual economic (real GDP) growth of 6.6% in the first three quarters of 2016. The rate of unemployment fell by 1.6% in 2016 to 7.2% and the number of people in employment increased by 2.9% year on year to Q3 2016. Residential house prices have continued to rise: the CSO residential property price index recorded an 8.1% increase over the year to December 2016 (year to December 2015: 6.6%). It is expected that growth will moderate in 2017.

However, the Group remains vulnerable to multiple macroeconomic risks including a sustained low interest rate environment, continued low growth rates in the Eurozone, uncertainty around the impact of the UK's exit from the European Union (EU), geopolitical uncertainty and a more challenging international trade environment.

While cognisant of the macroeconomic risks outlined above, the directors believe that the overall positive economic indicators, the anticipated growth in lending, a continued cost reduction focus, investment in the Ulster Bank brand and the resolution of legacy issues will deliver a sustainable financial performance.

Risk management

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

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

Accounting policies

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Details of the Group's critical accounting policies and key sources of estimation uncertainty are included in the accounting policies on pages 24 to 26.

Share capital presented as equity

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

Board of directors

The Board is the main decision-making forum for the Bank. It has overall responsibility for management of the business and affairs of the Group, the establishment of the Group strategy and the allocation and raising of capital, and is accountable to shareholders for financial and operational performance. The Board considers strategic issues and ensures the Group manages risk effectively through approving and monitoring the Group's risk appetite, considering Group stress scenarios and agreed mitigants and identifying longer term strategic threats to the Group's business operations. The Board's terms of reference includes key aspects of the Bank's affairs reserved for the Board's decision and are reviewed at least annually.

There are a number of areas where the Board has delegated specific responsibility to management, including the Chief Executive and Chief Financial Officer. These include responsibility for the operational management of the Group's businesses as well as reviewing high level strategic issues and considering risk appetite, risk policies and risk management strategies in advance of these being considered by the Board and/or its Committees.

Specific delegated authorities are also in place in relation to business commitments across the Group.

The roles of Chairman and Chief Executive are distinct and separate, with a clear division of responsibilities. The Chairman leads the Board and ensures the effective engagement and contribution of all executive and non-executive directors. The Chief Executive has responsibility for all Group businesses and acts in accordance with authority delegated by the Board. The non-executive directors combine broad business and commercial experience with independent and objective judgement and they provide independent challenge to the executive directors and leadership team.

The Group Audit Committee comprises at least three independent non-executive directors and assists the Board in discharging its responsibilities for the disclosure of the financial affairs of the Group. It reviews the accounting policies, financial reporting and regulatory compliance practices of the Group, the Group's systems and standards of internal controls, and monitors the Group's processes for internal audit and external audit.

The Board Risk Committee comprises at least three independent non-executive directors. It provides oversight and advice to the Board on current and potential future risk exposures of the Group and risk strategy. It reviews the Group's performance on risk appetite and overseas the operation of the Group Policy Framework.

The Group Nominations Committee comprises two independent non-executive directors and is chaired by the Chairman of the Group. It assists the Board in the selection and appointment of directors. It reviews the structure, size and composition of the Board, and membership and chairmanship of Board committees.

The Executive Committee comprises the Group's most senior executives and supports the Chief Executive in managing the Group's businesses. It reviews strategic issues and initiatives, monitors financial performance and capital allocations, and considers risk strategy, policy and risk management.

Directors and secretaries

The directors and secretaries who served at any time during the financial year and up to the date of signing were as follows:

Directors	**Appointed**	**Resigned**
G Mallon	1 June 2016	
M Murphy	1 July 2016	
P Stanley		
E Gleeson		31 December 2016
P Nolan		
D O'Shea		
R Quinlan		
B Rosewell		30 June 2016
Secretaries		
R Bergin		31 January 2016
S Anderson		

In accordance with the Constitution, the directors are not required to retire by rotation.

Interests in shares or debentures

At 1 January and 31 December 2016, the directors and secretary did not have any interests in the shares or debentures of The Royal Bank of Scotland Group plc (“RBS Group”) representing more than 1% of the nominal value of its issued share capital.

Staff involvement

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

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

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

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

Employment of people with disabilities

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

Inclusion

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

Safety, health and wellbeing

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

During 2016, the Group continued to focus on compliance, governance and managing risk across both jurisdictions in which it operates. Opportunities to improve the efficiency and effectiveness of safety, health and wellbeing management policies and services were monitored and, where relevant, implemented. In 2016 we have focused on improving wellbeing for our employees through the introduction of the Global Corporate Challenge, Employee Health Checks and improved Wellbeing support materials for line managers and employees.

Policy and practice on payment of creditors

RBS Payables manages the creditors payments process on behalf of various RBS entities, including the Group. The Group endeavours to pay the majority of suppliers of goods and services within one month of the Group receiving an appropriate invoice. In order to reduce administration costs certain smaller invoices may be held over for payment with larger invoices. Where a supplier requests it, the Group will endeavour to accommodate specific payment terms. For the financial year the average trade creditor days period was 48 days (2015: 53 days).

Charitable contributions

During the financial year the Group made charitable and community investment donations in the Republic of Ireland totalling €314,952 (2015: €417,378).

Political donations

During the financial year the Group did not make any political donations (2015: €nil).

Branches outside the Republic of Ireland

The Bank and Group has a branch (as defined by Council Directive 89/666/EEC) in Northern Ireland.

Compliance with the Corporate Governance Code for Credit Institutions

The Corporate Governance Requirements for Credit Institutions 2015 (“the Code”) imposes minimum core standards upon all credit institutions licensed or authorised by the CBI with additional requirements upon credit institutions which are designated as High Impact. The Bank has been designated as a High Impact credit institution and is therefore subject to the additional requirements for High Impact designation credit institutions included within Appendix 1 of the Code.

Going concern

The Group’s business activities, together with the factors likely to affect its future development, performance and position, including potential risks and uncertainties, are set out in the Business review on pages 2 to 4.

The financial position of the Group, its cash flows, liquidity position, capital and funding sources are set out in the financial statements. Notes 9, 24 and 37 to the financial statements include the Group’s objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to market, credit and liquidity risks.

The Group avails of a number of sources of liquidity including retail and commercial deposits, the European Central Bank’s Targeted Long Term Refinancing Operation 2 (“TLTRO 2”) and debt securities in issue. In January 2016, the Group had a 1 year €1bn committed inter-group loan (“IGL”) facility with The Royal Bank of Scotland plc (“RBS plc”) which remained fully undrawn in 2016. Furthermore, the Group’s assets as at 31 December 2016 contain €2.3bn of short term liquidity instruments.

The Group’s capital position remained strong during 2016, as evidenced by the CET1 ratio of 29.8% at 31 December 2016 (2015: 29.6%).

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

Accounting records

The measures taken by the directors to secure compliance with the requirements of Sections 281 to 285 of the Companies Act 2014 with regard to the keeping of accounting records are the employment of appropriately qualified accounting personnel and the maintenance of computerised accounting systems. The Company's accounting records are maintained at the Company's registered office at Ulster Bank Group Centre, George's Quay, Dublin 2, D02 VR98.

Investments in Group undertakings

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

Country-by-Country Reporting

The Bank has opted to publish the information required under Section 77 of Statutory Instrument S.I. No. 158 of 2014 requirements (Country-by-Country Reporting) which is produced on a consolidated basis by the Group's ultimate parent company, RBS Group, on the parent's sustainability website:
www.rbs.com/sustainability/sustainability-downloads.html.

Dividends

The Directors do not recommend the payment of a final dividend (2015: €nil). In November 2016, the directors approved and paid an interim dividend of €1,500m.

Post balance sheet events

On 1 January 2017 Ulster Bank Limited sold its investment in UBIH, including its interest in the Group, to NatWest Holdings Limited, the holding company for the ring-fenced bank entities in RBS Group.

Auditors

The auditors, Ernst & Young, Chartered Accountants and Statutory Audit Firm, have taken up in office in accordance with the Companies Act 2014.

Directors' compliance statement

In accordance with the provisions of Section 225 of the Companies Act 2014, the directors acknowledge that they are responsible for securing the Bank's compliance with the relevant obligations, as defined by the Act. The directors confirm that:

- a compliance statement has been drawn up setting out the Group's policies in relation to complying with the relevant obligations;
- appropriate measures are in place that are designed to ensure material compliance with the relevant obligations; and
- the directors have carried out a review of these measures during the financial year.

Directors' disclosure to auditors

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

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

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 330(1) of the Companies Act 2014.

On behalf of the Board:

Gerry Mallon	Philip Nolan
Chief Executive Officer	Chairman

15 February 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' report and the financial statements in accordance with the Companies Act 2014 and the applicable regulations.

Irish company law requires the directors to prepare the financial statements for each financial year. Under company law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("relevant financial reporting framework"). 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 assets, liabilities and financial position of the Group and Bank as at the financial year end date and of the profit or loss of the Group and Bank for the financial year and otherwise comply with the Companies Act 2014.

In preparing these financial statements the directors are required to:

- select suitable accounting policies for the parent company and the group financial statements and then apply them consistently;

- make judgements and estimates that are reasonable and prudent;

- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Bank will continue in business.

The directors are responsible for ensuring that the Group and Bank keep or cause to be kept adequate accounting records which correctly explain and record the transactions of the Group and Bank, enable at any time the assets, liabilities, financial position and profit or loss of the Group and Bank to be determined with reasonable accuracy, enable them to ensure that the financial statements and directors' report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the Group and Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

By order of the Board:

Gerry Mallon	Philip Nolan
Chief Executive Officer	Chairman

15 February 2017

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ULSTER BANK IRELAND DESIGNATED ACTIVITY COMPANY

We have audited the financial statements of Ulster Bank Ireland Designated Activity Company for the year ended 31 December 2016 which comprise Consolidated Income Statement, Consolidated Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Cash Flow Statements, and the related notes 1 to 36 (unless stated otherwise). The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2014.

This report is made solely to the company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 9 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent 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. In addition, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the assets, liabilities and financial position of the group and parent company as at 31 December 2016 and of the profit of the group for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014; and
- the group and parent company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

Matters on which we are required to report by the Companies Act 2014

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the parent company financial statements to be readily and properly audited.
- The parent company statement of financial position is in agreement with the accounting records.
- In our opinion the information given in the directors' report is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of sections 305 to 312 of the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Martina Keane
for and on behalf of Ernst & Young
Chartered Accountants and Statutory Audit Firm

Dublin

17 February 2017

Notes:

1. The maintenance and integrity of the RBS plc and Ulster Bank Group web sites 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 web site.

2. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT *for the financial year ended 31 December 2016*

		Group	
		2016	2015
	Note	**€m**	€m
Interest receivable		**580**	643
Interest payable		**(91)**	(170)
Net interest income	2	**489**	473
Fees and commission receivable		**112**	129
Fees and commission payable		**(15)**	(12)
Income from trading activities		**61**	88
Other operating income		**19**	37
Non-interest income	3	**177**	242
Total income		**666**	715
Operating expenses	4	**(772)**	(552)
Operating (loss)/profit before impairment		**(106)**	163
Impairment gain	10	**138**	929
Operating profit before tax		**32**	1,092
Tax credit/(charge)	7	**5**	(2)
Profit for the financial year		**37**	1,090
Attributable to:			
Ordinary shareholders		**37**	1,090
		37	1,090

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *for the financial year ended 31 December 2016*

	Group	
	2016	2015
	€m	€m
Profit for the financial year	**37**	1,090
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains on defined benefit plans and other movements	**113**	227
Items that will be reclassified subsequently to profit or loss:		
Fair value gains on available-for-sale financial assets	**2**	1
Exchange differences on translation of foreign operations	**-**	(10)
Other comprehensive profit after tax	**115**	218
Total comprehensive income for the financial year	**152**	1,308
Attributable to:		
Ordinary shareholders	**152**	1,308
	152	1,308

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

ULSTER BANK IRELAND DESIGNATED ACTIVITY COMPANY

BALANCE SHEETS *as at 31 December 2016*

		Group		Bank		
					Restated	Restated
		2016	2015	**2016**	2015 (1)	2014 (1)
	Note	**€m**	€m	**€m**	€m	€m
Assets						
Cash and balances at central banks	9	**290**	343	**290**	343	304
Loans and advances to banks	9	**4,622**	3,821	**4,303**	3,363	2,882
Loans and advances to customers	9	**22,014**	22,904	**22,499**	23,282	26,382
Debt securities	9,11	**2,340**	2,572	**10,071**	11,881	12,718
Equity shares	9,12	**6**	7	**6**	7	34
Investments in Group undertakings	9,13	**-**	-	**16**	17	185
Derivatives	9,16	**1,025**	895	**986**	819	853
Property, plant and equipment	9,15	**78**	98	**77**	86	111
Prepayments, accrued income and other assets	9,17	**26**	92	**26**	92	32
Deferred taxation	9,19	**293**	287	**293**	287	286
Total assets		**30,694**	31,019	**38,567**	40,177	43,787
Liabilities						
Deposits by banks	9	**1,675**	1,152	**1,674**	1,121	3,010
Customer accounts	9	**18,954**	18,032	**28,549**	29,662	32,377
Debt securities in issue	9	**1,377**	2,005	**-**	-	-
Derivatives	9,16	**886**	647	**351**	364	582
Provisions, accruals and other liabilities	9,18	**351**	235	**351**	234	255
Retirement benefit liabilities	5,9	**244**	387	**244**	387	588
Subordinated liabilities	9,20	**719**	725	**719**	725	897
Total liabilities		**24,206**	23,183	**31,888**	32,493	37,709
Equity						
Non-controlling interests		**1**	1	**-**	-	-
Shareholders' equity:						
Called up share capital presented as equity	21	**3,592**	3,592	**3,592**	3,592	3,592
Reserves		**2,895**	4,243	**3,087**	4,092	2,486
Total equity	9	**6,488**	7,836	**6,679**	7,684	6,078
Total liabilities and equity		**30,694**	31,019	**38,567**	40,177	43,787

(1) For details of the restatement refer to Note 35.

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

The financial statements were approved by the Board of Directors on 15 February 2017 and signed on its behalf by:

Gerry Mallon	Philip Nolan	Sheryl Anderson
Chief Executive Officer	Chairman	Company Secretary

STATEMENTS OF CHANGES IN EQUITY *for the financial year ended 31 December 2016*

	Group		Bank	
	2016	2015	**2016**	2015
	€m	€m	**€m**	€m
Called up share capital presented as equity				
At 1 January and 31 December	**3,592**	3,592	**3,592**	3,592
Share premium account				
At 1 January and 31 December	**1,142**	1,142	**1,142**	1,142
Available-for-sale reserve				
At 1 January	**1**	-	**1**	-
Gains in the financial year	**2**	1	**2**	1
At 31 December	**3**	1	**3**	1
Foreign exchange reserve				
At 1 January	**23**	33	**-**	-
Exchange difference on translation of foreign operations	**-**	(10)	**-**	-
Transfer to retained earnings	**(25)**	-	**-**	-
At 31 December	**(2)**	23	**-**	-
Retained earnings				
At 1 January	**3,077**	1,760	**2,949**	1,344
Actuarial gains on defined benefit plans and other movements	**113**	227	**113**	227
Transfer from foreign exchange reserve	**25**	-	**-**	-
Profit attributable to ordinary shareholders	**37**	1,090	**380**	1,378
Dividends paid	**(1,500)**	-	**(1,500)**	-
At 31 December	**1,752**	3,077	**1,942**	2,949
Shareholders' equity at 31 December	**6,487**	7,835	**6,679**	7,684
Non-controlling interests				
At 1 January	**1**	29	**-**	-
Decrease in loan classed as equity	**-**	(28)	**-**	-
At 31 December	**1**	1	**-**	-
Total equity at 31 December	**6,488**	7,836	**6,679**	7,684

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

Ordinary shareholders	**152**	1,308	**495**	1,606
	152	1,308	**495**	1,606

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

ULSTER BANK IRELAND DESIGNATED ACTIVITY COMPANY

CASH FLOW STATEMENTS *for the financial year ended 31 December 2016*

		Group		Bank	
		2016	2015	**2016**	2015
	Note	**€m**	€m	**€m**	€m
Operating activities					
Operating profit before tax		**32**	1,092	**374**	1,378
Adjustments for:					
Depreciation, amortisation and impairment of property, plant and equipment		**10**	12	**10**	12
Interest on subordinated liabilities		**6**	9	**6**	9
Charge for defined benefit pension schemes		**43**	67	**43**	67
Cash contribution to defined benefit pension schemes		**(97)**	(41)	**(97)**	(41)
Impairment gains on loans and advances and amounts written off		**(2,627)**	(7,575)	**(2,627)**	(7,575)
Impairment of investments in Group undertakings		**-**	-	**1**	5
Elimination of foreign exchange differences		**(71)**	41	**(69)**	52
Other non-cash items		**(70)**	(170)	**(71)**	(103)
Net cash flows from trading activities	26	**(2,774)**	(6,565)	**(2,430)**	(6,196)
Changes in operating assets and liabilities		**5,417**	6,796	**4,596**	6,388
Net cash flows from operating activities before tax		**2,643**	231	**2,166**	192
Income taxes paid		**(3)**	(11)	**(2)**	(4)
Net cash flows from operating activities	26	**2,640**	220	**2,164**	188
Investing activities					
Sale and maturity of securities		**1,830**	2,753	**1,830**	2,753
Purchase of debt securities		**(1,640)**	(2,698)	**(1,640)**	(2,698)
Purchase of equity shares		**-**	(2)	**-**	(2)
Sale of equity shares		**(1)**	85	**(1)**	85
Sale of property, plant and equipment		**15**	222	**4**	18
Purchase of property, plant and equipment		**(5)**	(4)	**(5)**	(4)
Disposal of subsidiary undertakings		**-**	-	**-**	163
Dividends received		**2**	3	**2**	3
Net cash flows from investing activities		**201**	359	**190**	318
Financing activities					
Repayment of debt securities in issue		**(628)**	(175)	**-**	-
Repayment of subordinated liabilities		**-**	(174)	**-**	(174)
Interest on subordinated liabilities		**(6)**	(9)	**(6)**	(9)
Repayment of non-controlling interest investment		**-**	(28)	**-**	-
Dividends paid		**(1,500)**	-	**(1,500)**	-
Net cash flows from financing activities		**(2,134)**	(386)	**(1,506)**	(183)
Effect of exchange rate changes on cash and cash equivalents		**(4)**	10	**(4)**	10
Net increase in cash and cash equivalents		**703**	203	**844**	333
Cash and cash equivalents 1 January	29	**4,263**	4,060	**3,804**	3,471
Cash and cash equivalents 31 December	29	**4,966**	4,263	**4,648**	3,804

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

1. Accounting policies

a) Presentation of financial statements

The consolidated financial statements are prepared on a going concern basis and in accordance with IFRS issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, as adopted by the EU. The Group and Bank's financial statements are presented in accordance with the Companies Act 2014 and the European Communities (Credit Institutions: Financial Statements) Regulations 2015.

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

b) Basis of consolidation

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

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

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

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

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

c) Revenue recognition

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

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

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

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

1. Accounting policies (continued)

c) Revenue recognition (continued)

Card related services: fees from credit and debit card business include:

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

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

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

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

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

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

d) Pensions and other post-retirement benefits

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

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

Any surplus or deficit of scheme assets over liabilities adjusted for unrecognised actuarial gains and losses and past service costs is recognised on the balance sheet as an asset (surplus) or liability (deficit).

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

e) Intangible assets and goodwill

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

f) Property, plant and equipment

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

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

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

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

1. Accounting policies (continued)

g) Impairment of non-financial assets

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

h) Investment properties

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

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

i) Foreign currencies

The Group’s consolidated financial statements are presented in Euro, which is the functional currency of the Bank.

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

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

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

j) Leases

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

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

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

1. Accounting policies (continued)

j) Leases (continued)

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

k) Provisions and contingent liabilities

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

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

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

l) Taxation

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

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

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

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

m) Financial assets

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

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

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

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

1. Accounting policies (continued)

m) Financial assets (continued)

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

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

Fair value – the Group's approach to determining the fair value of financial instruments measured at fair value is set out in the section of critical accounting policies and key sources of estimation uncertainty entitled Fair value - financial instruments; further details are given in Note 9.

n) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as available-for-sale or loans and receivables is impaired. Loans (including lendings under revolving facilities) with an impairment provision must be reported as an impaired loan. This includes loans granted forbearance where there is an economic loss and therefore an impairment provision.

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

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

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

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

Impaired loans and receivables are written off, i.e. the impairment provision is applied in writing down the loan's carrying value partially or in full, when the Group concludes that there is no longer any realistic prospect of recovery of part or all of the loan. For portfolios that are collectively assessed for impairment, the timing of write off principally reflects historic recovery experience for each portfolio. For loans that are individually assessed for impairment, the timing of write off is determined on a case-by-case basis. Such loans are reviewed regularly and write offs will be prompted by bankruptcy, insolvency, restructuring and similar events. Amounts recovered after a loan has been written off are credited to the loan impairment charge for the period in which they are received. Further details are given in Note 24 in the credit risk section.

1. Accounting policies (continued)

n) Impairment of financial assets (continued)

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

o) Financial liabilities

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

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

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

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

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

Fair value – the Group's approach to determining the fair value of financial instruments measured at fair value is set out in the section of critical accounting policies and key sources of estimation uncertainty entitled Fair value - financial instruments; further details are given in Note 9.

p) Derecognition

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

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

q) Sale and repurchase transactions

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

1. Accounting policies (continued)

q) Sale and repurchase transactions (continued)

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

r) Netting

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

s) Capital instruments

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

t) Derivatives and hedging

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

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

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

The Group enters into hedge relationships in respect of changes in the fair value of a recognised asset or liability or unrecognised firm commitment (fair value hedges).

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

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

1. Accounting policies (continued)

u) Share-based payments

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

v) Cash and cash equivalents

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

w) Investments in Group undertakings

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

x) Critical accounting policies and key sources of estimation uncertainty

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

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

Loan impairment provisions

The Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost. Loans (including lendings under revolving facilities) with an impairment provision must be reported as an impaired loan. This includes loans granted forbearance where there is an economic loss and therefore an impairment provision.

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

Individual component - all impaired loans that exceed specific thresholds are individually assessed for impairment. Individually assessed loans principally comprise the Group's portfolio of commercial loans to medium and large businesses. Impairment losses are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held. These estimates take into account the customer's debt capacity and financial flexibility; the level and quality of its earnings; the amount and sources of cash flows; the industry in which the counterparty operates; and the realisable value of any security held. Estimating the quantum and timing of future recoveries involves significant judgement. The size of receipts will depend on the future performance of the borrower and the value of security, both of which will be affected by future economic conditions; additionally, collateral may not be readily marketable. The actual amount of future cash flows and the date they are received may differ from these estimates and consequently actual losses incurred may differ from those recognised in these financial statements.

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

1. Accounting policies (continued)

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

Loan impairment provisions (continued)

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

The impact of changes to the group's credit models during the financial year are discussed in Note 24.

Non performing loans

Loans are considered to be non-performing if they are categorised as Risk Elements in Lending (REiL) or potential problem loans.

REiL comprises impaired loans and accruing loans past due 90 days or more. Accruing loans past due 90 days or more comprise loans past due 90 days where no impairment loss is expected. An asset is past due when any amount of interest, principal or fee has not been paid at the date it was due.

Potential problem loans are loans for which an impairment event has taken place but no impairment loss is expected. This category is used for advances which have met a pre-defined trigger for an impairment assessment and that assessment has determined that the future expected cash flows are greater than the carrying value of the asset.

Forbearance

Forbearance takes place when a concession is made on the contractual terms of a loan in response to a customer's financial difficulties. While this can occur on either wholesale or retail loans, levels of wholesale forbearance in the group are not material.

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

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

Deferred tax

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

Pensions

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

1. Accounting policies (continued)

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

Pensions (continued)

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

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

Fair value – financial instruments

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are determined by reference to observable market prices where available and reliable. Where representative market prices for an instrument are not available or are unreliable because of poor liquidity, the fair value is derived from prices for its components using appropriate pricing or valuation models that are based on independently sourced market parameters, including interest rate yield curves, option volatilities and currency rates. Financial assets carried at fair value include government and corporate debt securities, reverse repos, loans, corporate equity shares and derivatives. Financial liabilities carried at fair value include deposits, repos, debt securities issued and derivatives. Fair value for a substantial proportion of these instruments is based on observable market prices or derived from observable market parameters. Where observable prices are not available, fair value is based on appropriate valuation techniques or management estimates.

The Group's derivative products include swaps, forwards, futures and options. Exchange traded instruments are valued using quoted prices. The fair value of over-the-counter instruments is derived from pricing models which take account of contract terms, including maturity, as well as quoted market parameters such as interest rates and volatilities. Values established from pricing models are adjusted for credit risk, liquidity risk and future operational costs.

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

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

Provisions for liabilities

Provisions are liabilities of uncertain timing or amount, and are recognised when there is a present obligation as a result of a past event, the outflow of economic benefit is probable and the outflow can be estimated reliably. Judgement is involved in determining whether an obligation exists, and in estimating the probability, timing and amount of any outflows. Where the Group can look to another party such as an insurer to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received. The provisions are management's best estimate of the anticipated costs of redress and related administration expenses.

1. Accounting policies (continued)

y) Accounting developments

International Financial Reporting Standards

A number of IFRSs and amendments to IFRS were in issue at 31 December 2016 that would affect the Group from 1 January 2017 or later.

Effective for 2017

In January 2016, the IASB amended IAS 7 'Cash Flow Statements' to require disclosure of the movements in financing liabilities. The amendment is effective from 1 January 2017.

In January 2016, the IASB amended IAS 12 'Income taxes' to clarify the recognition of deferred tax assets in respect of unrealised losses. The amendment is effective from 1 January 2017.

Neither of these amendments is expected to have a material effect on the Group's financial statements.

Effective after 2017 - IFRS 9

In July 2014, the IASB published IFRS 9 'Financial Instruments' with an effective date of 1 January 2018. IFRS 9 replaces the current financial instruments standard IAS 39, setting out new accounting requirements in a number of areas. The Group is continuing its assessment of the standard's effect on its financial statements.

The principle features of IFRS 9 are as follows:

Recognition and derecognition
The material in IAS 39 setting out the criteria for the recognition and derecognition of financial instruments has been included unamended in IFRS 9.

Classification and measurement
Financial assets - There are three classifications for financial assets in IFRS 9.

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

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

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

At initial recognition, any financial asset may be irrevocably designated as measured at fair value through profit or loss if such designation eliminates a measurement or recognition inconsistency.

The Group continues to evaluate the overall effect, but expects that the measurement basis of the majority of the Group's financial assets will be unchanged on application of IFRS 9.

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

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

1. Accounting policies (continued)

y) Accounting developments (continued)

Credit impairment
IFRS 9's credit impairment requirements apply to financial assets measured at amortised cost, to those measured at fair value through other comprehensive income, to lease receivables and to certain loan commitments and financial guarantee contracts. On initial recognition a loss allowance is established at an amount equal to 12-month expected credit losses (ECL) that is the portion of life-time expected losses resulting from default events that are possible within the next 12 months. Where a significant increase in credit risk since initial recognition is identified, the loss allowance increases so as to recognise all expected default events over the expected life of the asset. The Group expects that financial assets where there is objective evidence of impairment under IAS 39 will be credit impaired under IFRS 9, and carry loss allowances based on all expected default events.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted: determined by evaluating at the balance sheet date for each customer or loan portfolio a range of possible outcomes using reasonable and supportable information about past events, current conditions, forecasts of future events and economic conditions. The estimation of ECL also takes into account the discount of future cash flows. Recognition and measurement of credit impairments under IFRS 9 are more forward-looking than under IAS 39.

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

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

1. Accounting policies (continued)

y) Accounting developments (continued)

The table below sets out the descriptions used for credit impairment under IFRS 9, and their equivalent usage under IAS 39 and existing regulatory reporting.

Attribute	IFRS 9	IAS 39	Regulatory
Default / credit impairment	To determine the risk of a default occurring, management intends to apply a default definition that is consistent with the Basel/Regulatory definition of default. Assets that are defaulted will be shown as credit impaired. The Group intends to use 90 days past due as a consistent measure for default across all product classes.	Default aligned to loss events, by classing all financial assets for which an impairment event has taken place as nonperforming. Nonperforming assets are defined as those that have a 100% probability of default and an internal asset quality grade of AQ10 (see page 85 for definition). Impaired financial assets are those for which there is objective evidence that the amount or timing of future cash flows have been adversely impacted since initial recognition.	A default shall be considered to have occurred with regard to a particular financial asset when either or both of the following have taken place: - The Group considers that the customer is unlikely to pay its credit obligations without recourse by the institution to actions such as realising security; - the customer is past due more than 90 days. For retail exposures, the definition of default may be applied at the level of an individual credit facility rather than in relation to the total obligations of a borrower.
Probability of default (PD)	PD is the likelihood of default assessed on the prevailing economic conditions at the reporting date (point in time), adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default; it will not equate to a long run average.	Regulatory PDs are used in the latent provision calculation.	The likelihood that a customer will fail to make full and timely repayment of credit obligations over a one year time horizon. PD models reflect losses that would arise through-the-cycle; this represents a long run average view of default levels.
Significant increase in credit risk	A framework is being established that incorporates both quantitative and qualitative measures and is aligned to the Group's current risk management framework. Decisions in relation to credit deterioration will be management decisions, subject to approval by governing bodies such as the Group Provisions Committee. The staging assessment requires a definition of when a significant increase in credit risk has occurred; this moves the loss calculation for financial assets from a 12 month horizon to a lifetime horizon. Management propose to establish an approach that is primarily informed by the increase in lifetime probability of default, with additional qualitative measures to account for assets where PD does not move, but a high risk factor is determined, these include the Risk of Credit Loss framework and binary triggers (examples includes the use of payday lending, forbearance and 30 days past due). In most cases, management expect an asset that has demonstrated a doubling of its lifetime probability of default would be considered to have a significant increase in credit risk. IFRS 9 includes an option that permits assets that are 'low risk' to be excluded from this assessment; the Group does not intend to apply this option.	Not applicable	Not applicable

1. Accounting policies (continued)

y) Accounting developments (continued)

Attribute	IFRS 9	IAS 39	Regulatory
Forward-looking and multiple scenarios	The evaluation of future cash flows, the risk of default and impairment loss should take into account expectations of economic changes that are reasonable. More than one outcome should be considered to ensure that the resulting estimation of impairment is not biased towards a particular expectation of economic growth. Management have developed the default modelling capability for IFRS 9 to simulate multiple economic forecasts as part of the model outcomes for PD, LGD and exposure.	Financial asset carrying values based upon the expectation of future cash flows.	Follows financial accounting.
Loss given default (LGD)	LGD is a current assessment of the amount that will be recovered in the event of default, taking account of future conditions. It may occasionally equate to the regulatory view.	Regulatory LGD values are used for calculating collective and latent provisions.	An estimate of the amount that will not be recovered in the event of default, plus the cost of debt collection activities and the delay in cash recovery. LGD is a downturn based metric, representing a prudent view of recovery in adverse economic conditions.
Exposure at default (EAD)	EAD represents expected balance sheet exposure at default. It differs from the regulatory method as follows: - it includes the effect of amortisation; - it caps exposure at the contractual limit.	EAD is assessed as the current drawn balance plus future committed drawdowns.	EAD models provide estimates of credit facility utilisation at the time of a customer default, recognising that customers may make further drawings on unused credit facilities prior to default or that exposures may increase due to market movements. EAD cannot be lower than the reported balance sheet, but can be reduced by a legally enforceable netting agreement.
Date of initial recognition (DOIR)	The reference date used to assess a significant increase in credit risk is as follows. *Term lending:* the date the facility became available to the customer. *Wholesale revolving products*: the date of the last substantive credit review (typically annual) or, if later, the date facility became available to the customer. *Retail Cards*: the account opening date or, if later, the date the card was subject to a regular 3-year review or the date of any subsequent limit increases. *Current Accounts/ Overdrafts*: the account opening date or, if later, the date of initial granting of overdraft facility or of limit increases.	Not applicable for impairment but defined as the date when the entity becomes a party to the contractual provisions of the instrument.	Generally follows financial accounting.

1. Accounting policies (continued)

y) Accounting developments (continued)

Attribute	IFRS 9	IAS 39	Regulatory
Modification	A modification occurs when the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in derecognition. A modification requires immediate recognition in the income statement of any impact on the carrying value and EIR. Examples of modification events include forbearance and distressed restructuring. The financial impact is recognised in the income statement as an impairment release/(loss).	Modification is not separately defined but accounting impact arises as an EIR adjustment on changes that are not derecognition or impairment events.	Not applicable

The following table summarises the treatment of asset classification under IAS 39 and IFRS 9.

Assets	IFRS 9			IAS 39		
	AC(1)	**FVTPL(2)**	**FVOCI(3)**	**AC(1)**	**FVTPL(2)**	**FVOCI(3)**
Cash and balances at central banks						
Non held for trading	x			x		
Loans and advances to banks						
Held for trading		x			x	
Non held for trading	x			x		
Loans and advances to customers						
Held for trading		x			x	
Non held for trading	x	x	x	x	x	
Debt securities						
Held for trading		x			x	
Non held for trading:						
Held to maturity	x			x		
Available-for-sale		x	x			x
Other	x	x		x	x	
Equity shares						
Held for trading		x			x	
Non held for trading		x	x		x	x
Settlement balances						
Non held for trading	x			x		
Derivatives						
Held for trading		x			x	

(1) Amortised cost
(2) Fair value through profit and loss
(3) Fair value other comprehensive income

Effective after 2017 – other standards

IFRS 15 ‘Revenue from Contracts with Customers’ was issued in May 2014. It will replace IAS 11 ‘Construction Contracts’, IAS 18 ‘Revenue’ and several Interpretations. Contracts are bundled or unbundled into distinct performance obligations with revenue recognised as the obligations are met. It is effective from 1 January 2018.

IFRS 16 ‘Leases’ was issued in January 2016 to replace IAS 17 ‘Leases’. There are no substantial changes to the accounting for leases by lessors. For lessees: accounting for finance leases will remain substantially the same; operating leases will be brought on balance sheet through the recognition of assets representing the contractual rights of use and liabilities will be recognised for the contractual payments. The effective date is 1 January 2019.

The Group is assessing the effect of adopting these standards on its financial statements.

2. Net interest income

	Group	
	2016	2015
	€m	€m
Loans and advances to customers	**580**	639
Loans and advances to banks	**-**	4
Interest receivable	**580**	643
Customer accounts	**(39)**	(75)
Deposits by banks	**(25)**	(70)
Debt securities in issue	**(2)**	(7)
Subordinated liabilities	**(6)**	(9)
Interest payable on liabilities	**(72)**	(161)
Loans and advances to banks	**(13)**	(6)
Debt security assets	**(6)**	(3)
Interest payable on assets	**(19)**	(9)
Total interest payable	**(91)**	(170)
Net interest income	**489**	473

Included within net interest income is €46m (2015: €64m) of interest on impaired loans.

3. Non-interest income

	Group	
	2016	2015
	€m	€m
Fees and commission receivable	**112**	129
Fees and commission payable	**(15)**	(12)
Income from trading activities(1):		
Foreign exchange	**11**	59
Interest rates	**46**	26
Equities and other	**4**	3
Other operating income:		
Profit/(loss) on disposal or settlement of loans and receivables	**6**	(99)
Increase in fair value of investment properties	**-**	72
Increase in fair value of securities	**-**	59
Other income	**13**	5
Non-interest income	**177**	242

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

4. Operating expenses

	Group	
	2016	2015
	€m	€m
Wages, salaries and other staff costs	**165**	179
Social security costs	**18**	20
Pension costs:		
- defined benefit schemes (see Note 5)	**43**	67
- defined contribution schemes (see Note 5)	**3**	3
Restructure costs	**12**	9
Staff costs	**241**	278
Premises and equipment	**19**	53
Administration	**502**	209
Other expenses	**521**	262
Property, plant and equipment depreciation and impairment (see Note 15)	**10**	12
Operating expenses	**772**	552

€37m of expenses relating to 2015 were reclassed from premises and equipment to administration costs to more accurately reflect the nature of the expense.

Included within administration costs is €198m (2015: €18m credit) in respect of conduct provisions.

The average number of persons employed by the Group during the financial year, excluding temporary staff was 2,566 (2015: 2,715). The average number of temporary employees during 2016 was 105 (2015: 137). The number of persons employed by the Group at 31 December, excluding temporary staff, was as follows:

	Group	
	2016	2015
Employee numbers	**Number**	Number
Retail Banking	**1,066**	1,227
Commercial Banking	**412**	499
Other	**973**	959
	2,451	2,685

	Group	
	2016	2015
Auditors' remuneration	**€'000**	€'000
Audit of the Bank's individual and Group accounts	**1,173**	906
Other assurance services	**185**	210
	1,358	1,116

The figures in the auditor's remuneration table relate to fees payable to the statutory auditor.

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

Auditors' remuneration is disclosed exclusive of VAT and reimbursement of expenses.

5. Pension costs

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

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

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

Name of schemes
Ulster Bank Pension Scheme (Republic of Ireland)
First Active Pension Scheme
Lombard Ireland Limited Non-Contributory Pension and Death Benefit Plan

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

The corporate trustee of the UBPS is Ulster Bank Pension Trustees (RI) Limited ("UBPTRIL"), a wholly owned subsidiary of Ulster Bank Holdings (ROI) Limited. UBPTRIL is the legal owner of the scheme assets which are held separately from the assets of the Group. The board of UBPTRIL comprises 2 trustee directors nominated by the unions and 7 appointed by the Group. The board is responsible for operating the scheme in line with its formal rules and pensions law. It has a duty to act in the best interests of all scheme members, including pensioners and those who are no longer employed by the Group, but who still have benefits in the scheme.

Similar governance principles apply to the First Active Pension Scheme ("FAPS").

The Group acquired the Lombard Ireland Limited Non-Contributory Pension and Death Benefit Plan from Lombard Ireland Limited on 1 April 2016 having been a participating employer in this scheme for a number of years.

The independent professional trustee of the Lombard Ireland Limited Non-Contributory Pension and Death Benefit Plan is Irish Pensions Trust Limited ("IPT"). IPT is the legal owner of the scheme assets which are held separately from the assets of the Group. IPT is responsible for operating the scheme in line with its formal rules and pensions law. It has a duty to act in the best interests of all scheme members, including pensioners and those who are no longer employed by the Group, but who still have benefits in the scheme.

The schemes were closed to new entrants by 2010, when a new defined contribution scheme was launched.

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

The Group also make contributions to a small number of RBS Group Pension Schemes, the costs of which are accounted for as defined contributions.

The Group independently monitors risk within its pension funds as part of the Internal Capital Adequacy Assessment Process. The RBS Pension Committee (PC), acting as a sub-committee of the RBS Asset and Liability Committee (ALCO), formulates the RBS view of pension risk. A sub-committee of PC has responsibility for oversight of UBPS as a material RBS pension scheme; considering mechanisms that could potentially be used for managing risk within the scheme as well as financial strategy, and also reviews actuarial assumptions from a sponsor perspective as appropriate. The responsibility for choosing the assumptions rests with the Group's board.

The Group made contributions of €3m to its defined contribution schemes in 2016 (2015: €3m).

5. Pension costs (continued)

Interim valuations of the Group's schemes were prepared to 31 December 2016 by independent actuaries, using the following assumptions:

	Group and Bank	
Principal actuarial assumptions at 31 December (weighted average)	**2016**	2015
Discount rate	**2.00%**	2.60%
Rate of increase in salaries	**1.30%-2.50%**	1.30%-2.75%
Rate of increase in pensions in payment	**0.00%-1.60%**	0.88%-1.75%
Inflation assumption	**1.50%**	1.75%

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

	Group and Bank	
Major classes of plan assets as a percentage of total plan assets	**2016**	2015
Quoted assets		
Quoted equities	**40%**	39%
Government fixed interest bonds	**2%**	5%
Corporate and other bonds	**28%**	36%
Unquoted assets		
Private equity	**2%**	-
Corporate and other bonds	**-**	2%
Hedge funds	**-**	3%
Real Estate	**4%**	5%
Derivatives	**11%**	4%
Cash and other assets	**13%**	6%

	Group and Bank	
Post–retirement mortality assumptions (Main scheme)	**2016**	2015
Longevity at age 70 for current pensioners (years)		
Males	**17.6**	17.2
Females	**19.1**	18.8
Longevity at age 63 for future pensioners (years)		
Males	**24.1**	23.7
Females	**25.9**	25.5

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

5. Pension costs (continued)

	Group and Bank		
Changes in value of net pension liability	**Fair value of plan assets €m**	**Present value of defined benefit obligations €m**	**Net pension liability €m**
At 1 January 2016	**1,069**	**(1,456)**	**(387)**
Income statement:			
Return on plan assets above recognised interest income	32	-	**32**
Interest cost	-	(41)	**(41)**
Current service cost	-	(30)	**(30)**
Past service cost	-	(4)	**(4)**
	32	(75)	**(43)**
Statement of comprehensive income:			
Actuarial gains and losses due to experience gains	79	48	**127**
Actuarial gains and losses due to changes in financial assumptions	-	(62)	**(62)**
Actuarial gains and losses due to changes in demographic assumptions	-	48	**48**
	79	34	**113**
Inter group transfers	120	(144)	**(24)**
Contributions by employer	97	-	**97**
Contributions by plan participants	2	(2)	**-**
Benefits paid	(45)	45	**-**
At 31 December 2016	**1,354**	**(1,598)**	**(244)**

	Group and Bank		
Changes in value of net pension liability	**Fair value of plan assets €m**	**Present value of defined benefit obligations €m**	**Net pension liability €m**
At 1 January 2015	1,062	(1,650)	(588)
Income statement:			
Return on plan assets above recognised interest income	24	-	24
Interest cost	-	(36)	(36)
Current service cost	-	(40)	(40)
Past service cost	-	(15)	(15)
	24	(91)	(67)
Statement of comprehensive income:			
Actuarial gains and losses due to experience gains	(26)	15	(11)
Actuarial gains and losses due to changes in financial assumptions	-	175	175
Actuarial gains and losses due to changes in demographic assumptions	-	63	63
	(26)	253	227
Contributions by employer	41	-	41
Contributions by plan participants	2	(2)	-
Benefits paid	(34)	34	-
At 31 December 2015	1,069	(1,456)	(387)

The Group expects to contribute €231m to its defined benefit pension schemes in 2017, including a €200m payment to be made in quarter 1 2017 which will remove the requirement for further payments under the existing UBPS funding plan.

The weighted average duration of the Group’s defined benefit obligation is 24 years (2015: 24 years).

5. Pension costs (continued)

History of defined benefit schemes (Group and Bank)	**2016 €m**	2015 €m	2014 €m	2013 €m	2012 €m
Present value of defined benefit obligations	**(1,598)**	(1,456)	(1,650)	(1,156)	(1,096)
Fair value of plan assets	**1,354**	1,069	1,062	878	834
Net deficit	**(244)**	(387)	(588)	(278)	(262)
Experience gains on plan liabilities	**48**	15	12	54	5
Experience gains/(losses) on plan assets	**79**	(26)	129	(9)	39
Actual return on pension scheme assets	**111**	(2)	162	26	81

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

	Group and Bank			
	(Decrease)/increase in pension cost for the year		(Decrease)/increase in obligation at 31 December	
	2016 €m	2015 €m	**2016 €m**	2015 €m
0.25% increase in the discount rate	**(4)**	(4)	**(88)**	(80)
0.25% increase in inflation	**2**	2	**41**	46
0.25% additional rate of increase in pensions in payment	**2**	3	**19**	47
0.25% additional rate of increase in deferred pensions	**1**	1	**22**	17
0.25% additional rate of increase in salaries	**2**	2	**20**	22
Longevity increase of 1 year	**2**	2	**39**	43

6. Emoluments of directors

	2016 €	2015 €
Emoluments for the provision of directors' services	**1,325,291**	1,362,697
Contributions and allowances in respect of pension schemes	**40,474**	-
Emoluments relating to long-term incentive schemes	**300,519**	378,695
Total emoluments received	**1,666,284**	1,741,392

Retirement benefits are accruing to one director under defined contribution schemes at the year end (2015: none). No retirement benefits are accruing to directors under defined benefit schemes.

No share options were exercised during the year that resulted in gains to directors (2015: none).

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

During the financial year there were no emoluments in respect of compensation payments for loss of office (2015: €nil).

During the year the highest paid director received emoluments of €665,656 (2015: €711,119).

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

7. Taxation

	Group	
	2016	2015
Current taxation:	**€m**	€m
Corporation Tax at 12.5% (2015: 12.5%)		
Charge for the financial year	**(1)**	(3)
Over provision in respect of prior periods	**-**	1
Total current taxation	**(1)**	(2)
Deferred taxation:		
Charge for the financial year	**(6)**	(2)
Over provision in respect of prior periods	**6**	2
Increase in deferred tax asset in respect of previously unrecognised losses	**6**	-
Total deferred taxation	**6**	-
Tax credit/(charge) for the financial year	**5**	(2)

The actual tax credit/(charge) differs from the expected tax charge computed by applying the standard rate of Irish Corporation Tax of 12.5% (2015: 12.5%) as follows:

	2016	2015
	€m	€m
Operating profit before tax	**32**	1,092
Tax charge on operating profit at the standard rate	**(4)**	(137)
Factors affecting the charge for the financial year:		
Tax arising at rates other than the standard rate of tax	**29**	12
Temporary differences	**(15)**	(6)
Non-deductible items	**(61)**	(28)
Non-taxable income	**-**	4
Losses brought forward and utilised	**44**	150
Increase in deferred tax asset in respect of previously unrecognised losses	**6**	-
Adjustments to tax credit in respect of prior periods	**6**	3
Actual tax credit/(charge) for the financial year	**5**	(2)

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

In accordance with the exemption contained within Section 304 of the Companies Act 2014 the primary financial statements of the Bank do not include an Income Statement or Statement of Comprehensive Income. The Bank's profit after tax for the year ended 31 December 2016 was €380m (2015: €1,378m).

9. Financial instruments

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

	Group						
	Held-for-trading	Designated as at fair value through profit or loss	Available-for-sale	Loans and receivables	Other financial liabilities	Non financial assets / liabilities	Total
2016	€m	€m	€m	€m	€m	€m	€m
Assets							
Cash and balances at central banks	-	-	-	290	-	-	290
Loans and advances to banks(1)	-	-	-	4,622	-	-	4,622
Loans and advances to customers(2)	-	-	-	22,014	-	-	22,014
Debt securities	-	-	2,340	-	-	-	2,340
Equity shares	-	-	6	-	-	-	6
Derivatives	1,025	-	-	-	-	-	1,025
Property, plant and equipment	-	-	-	-	-	78	78
Prepayments, accrued income and other assets	-	-	-	-	-	26	26
Deferred taxation	-	-	-	-	-	293	293
	1,025	-	2,346	26,926	-	397	30,694
Liabilities							
Deposits by banks	28	-	-	-	1,647	-	1,675
Customer accounts(3)	-	1,089	-	-	17,865	-	18,954
Debt securities in issue(4)	-	-	-	-	1,377	-	1,377
Derivatives	886	-	-	-	-	-	886
Provisions, accruals and other liabilities	-	-	-	-	-	351	351
Retirement benefit liabilities	-	-	-	-	-	244	244
Subordinated liabilities	-	-	-	-	719	-	719
	914	1,089	-	-	21,608	595	24,206
Equity							6,488
							30,694

For notes relating to this table refer to page 40.

9. Financial instruments (continued)

	Group						
	Held-for-trading	Designated as at fair value through profit or loss	Available-for-sale	Loans and receivables	Other financial liabilities	Non financial assets / liabilities	Total
2015	€m	€m	€m	€m	€m	€m	€m
Assets							
Cash and balances at central banks	-	-	-	343	-	-	343
Loans and advances to banks[1]	-	-	-	3,821	-	-	3,821
Loans and advances to customers[2]	-	-	-	22,904	-	-	22,904
Debt securities	-	-	2,572	-	-	-	2,572
Equity shares	-	-	7	-	-	-	7
Derivatives	895	-	-	-	-	-	895
Property, plant and equipment	-	-	-	-	-	98	98
Prepayments, accrued income and other assets	-	-	-	-	-	92	92
Deferred taxation	-	-	-	-	-	287	287
	895	-	2,579	27,068	-	477	31,019
Liabilities							
Deposits by banks	42	-	-	-	1,110	-	1,152
Customer accounts[3]	-	1,358	-	-	16,674	-	18,032
Debt securities in issue[4]	-	-	-	-	2,005	-	2,005
Derivatives	647	-	-	-	-	-	647
Provisions, accruals and other liabilities	-	-	-	-	-	235	235
Retirement benefit liabilities	-	-	-	-	-	387	387
Subordinated liabilities	-	-	-	-	725	-	725
	689	1,358	-	-	20,514	622	23,183
Equity							7,836
							31,019

(1) Includes reverse repurchase agreements of €360m (2015: €nil) and items in the course of collection from other banks of €35m (2015: €40m).

(2) The Group has advances secured on residential property subject to non-recourse funding. Under IAS 39, these securitised mortgages qualify for full recognition on the balance sheet at 31 December 2016 and are included in loans and advances to customers. As at 31 December 2016 €9,992m (2015: €10,071m) is included in loans and advances to customers. There are no gross loans subject to IAS 32 (on balance sheet) netting arrangements included within loans and advances to customers (2015: €nil). No netting has taken place therefore the net effective balance sheet value is equal to the gross amount.

(3) The carrying amount of other customer accounts designated as at fair value through profit or loss is €99m higher (2015: €80m) than the principal amount. No amounts have been recognised (2015: €nil) in the profit or loss for changes in credit risk associated with these liabilities.

(4) Comprises bonds and medium term notes of €1,377m (2015: €2,005m). The medium term notes are issued by limited recourse entities that are controlled by the Group and are collateralised on residential mortgages held by the Bank. Further information on securitisations is provided in Note 23.

9. Financial instruments (continued)

	Bank						
2016	**Held-for-trading €m**	**Designated as at fair value through profit or loss €m**	**Available-for-sale €m**	**Loans and receivables €m**	**Other financial liabilities €m**	**Non financial assets / liabilities €m**	**Total €m**
Assets							
Cash and balances at central banks	-	-	-	290	-	-	290
Loans and advances to banks (1)	-	-	-	4,303	-	-	4,303
Loans and advances to customers (2)	-	-	-	22,499	-	-	22,499
Debt securities(3)	-	-	2,340	7,731	-	-	10,071
Equity shares	-	-	6	-	-	-	6
Investments in Group undertakings	-	-	-	-	-	16	16
Derivatives	986	-	-	-	-	-	986
Property, plant and equipment	-	-	-	-	-	77	77
Prepayments, accrued income and other assets	-	-	-	-	-	26	26
Deferred taxation	-	-	-	-	-	293	293
	986	-	2,346	34,823	-	412	38,567
Liabilities							
Deposits by banks	28	-	-	-	1,646	-	1,674
Customer accounts (4)	-	1,089	-	-	27,460	-	28,549
Derivatives	351	-	-	-	-	-	351
Provisions, accruals and other liabilities	-	-	-	-	-	351	351
Retirement benefit liabilities	-	-	-	-	-	244	244
Subordinated liabilities	-	-	-	-	719	-	719
	379	1,089	-	-	29,825	595	31,888
Equity							6,679
							38,567

For notes relating to this table refer to page 42.

9. Financial instruments (continued)

	Bank						
2015 Restated	Held-for-trading €m	Designated as at fair value through profit or loss €m	Available-for-sale €m	Loans and receivables €m	Other financial liabilities €m	Non financial assets / liabilities €m	Total €m
Assets							
Cash and balances at central banks	-	-	-	343	-	-	343
Loans and advances to banks (1)	-	-	-	3,363	-	-	3,363
Loans and advances to customers (2)	-	-	-	23,282	-	-	23,282
Debt securities(3)	-	-	2,572	9,309	-	-	11,881
Equity shares	-	-	7	-	-	-	7
Investments in Group undertakings	-	-	-	-	-	17	17
Derivatives	819	-	-	-	-	-	819
Property, plant and equipment	-	-	-	-	-	86	86
Prepayments, accrued income and other assets	-	-	-	-	-	92	92
Deferred taxation	-	-	-	-	-	287	287
	819	-	2,579	36,297	-	482	40,177
Liabilities							
Deposits by banks	42	-	-	-	1,079	-	1,121
Customer accounts(4)	-	1,358	-	-	28,304	-	29,662
Derivatives	364	-	-	-	-	-	364
Provisions, accruals and other liabilities	-	-	-	-	-	234	234
Retirement benefit liabilities	-	-	-	-	-	387	387
Subordinated liabilities	-	-	-	-	725	-	725
	406	1,358	-	-	30,108	621	32,493
Equity							7,684
							40,177

(1) Includes reverse repurchase agreements of €360m (2015: €nil) and items in the course of collection from other banks of €35m (2015: €40m).

(2) The Bank has advances secured on residential property subject to non-recourse funding. Under IAS 39, these securitised mortgages qualify for full recognition on the balance sheet at 31 December 2016 and are included in loans and advances to customers. As at 31 December 2016 €9,992 (2015: €10,071m) is included in loans and advances to customers. There are no gross loans subject to IAS 32 (on balance sheet) netting arrangements included within loans and advances to customers (2015: €nil), therefore the net effective balance sheet value is equal to the gross amount.

(3) Of the debt securities balance above, the Bank had pledged €236m (2015: €nil) of the debt securities to the Royal Bank of Scotland Public Limited Company ("RBS Plc") as collateral against intraday SEPA payments which RBS Plc processes on behalf of the Bank. A further €60m (2015: €48m) of the debt securities was pledged as collateral to Ulster Bank Pension Trustees (RI) Limited in respect of the funding of the Bank's pension scheme liabilities. The debt securities classified as loans and receivables in the Bank have been issued by limited recourse entities that are controlled by the Group. These securities are collateralised on the cash flows of residential mortgages held by the Bank, are long term in nature and generate variable interest, typically at mark-ups over Euro Interbank Offer Rates. The carrying value of the instruments is not considered to be impaired as at 31 December 2016 and 31 December 2015 and represents the full extent of the credit risk on the instruments.

(4) The carrying amount of other customer accounts designated as at fair value through profit or loss is €99m higher (2015: €80m) than the principal amount.

9. Financial instruments (continued)

Valuation of financial instruments carried at fair value

Control environment
The Group place reliance on NatWest Markets Independent price verification (IPV) process and eliminates its market risk on its trading book portfolios by entering into back to back positions with its ultimate parent company, The Royal Bank of Scotland plc.
The Group's control environment for the determination of the fair value of financial instruments includes formalised protocols for the review and validation of fair values independent of the businesses entering into the transactions. There are specific controls to ensure consistent pricing policies and procedures, incorporating disciplined price verification. The Group ensures that appropriate attention is given to structured products, illiquid products and other instruments which are difficult to price.

Common valuation policies, procedures, frameworks and models apply across the Group.

Independent price verification (IPV)
IPV is a key element of the control environment. Valuations may be directly from available prices, or may be derived using a model and variable model inputs. These valuations are reviewed, and if necessary amended, by a team independent of those trading the financial instruments, in the light of available pricing evidence.

IPV differences are classified according to the quality of independent market observables into IPV quality bands linked to the fair value hierarchy principles, as laid out in IFRS 13 'Fair Value Measurement'. These differences are classified into fair value levels 1, 2 and 3 (with the valuation uncertainty risk increasing as the levels rise from 1 to 3) and then further classified into high, medium, low and indicative depending on the quality of the independent data available to validate the prices. Valuations are revised if they are outside agreed thresholds.

Governance framework
IPV takes place at least each month end date, for exposures in the regulatory trading book and at least quarterly for exposures in the regulatory banking book. The IPV control includes formalised reporting and escalation of any valuation differences in breach of established thresholds. The Pricing Unit determines IPV policy, monitors adherence to that policy and performs additional independent reviews of highly subjective valuation issues. The quality and completeness of the information gathered in the IPV process gives an indication as to the liquidity and valuation uncertainty of an instrument.

Valuation hierarchy
These classifications of financial instruments are reviewed and challenged by management and are also subject to senior management review. Particular attention is paid to instruments crossing from one level to another, new instrument classes or products, instruments that are generating significant profit and loss and instruments where valuation uncertainty is high.

Valuation techniques
The Group derives the fair value of its instruments differently depending on whether the instrument is a non-modelled or a modelled product.

Non-modelled products
Non-modelled products are valued directly from a price input typically on a position by position basis.

Modelled products
Modelled products valued using a pricing model range in complexity from comparatively vanilla products such as interest rate swaps and forwards through to more complex derivatives. The valuation of modelled products requires an appropriate model and inputs into this model. Sometimes models are also used to derive inputs (e.g. to construct volatility surfaces). The Group uses a number of modelling methodologies.

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

Bond prices - quoted prices are generally available for government bonds, certain corporate securities and some mortgage-related products.

Credit spreads - where available, these are derived from prices of credit default swaps or other credit based instruments, such as debt securities. For others, credit spreads are obtained from pricing services.

Interest rates - these are principally benchmark interest rates such as the London Interbank Offered Rate (LIBOR), European Interbank Offered Rate (EURIBOR), Overnight Index Swaps (OIS) rate and other quoted interest rates in the swap, bond and futures markets.

Foreign currency exchange rates - there are observable prices both for spot and forward contracts and futures in the world's major currencies.

9. Financial instruments (continued)

Equity and equity index prices - quoted prices are generally readily available for equity shares listed on the world's major stock exchanges and for major indices on such shares.

Price volatilities and correlations - volatility is a measure of the tendency of a price to change with time. Correlation measures the degree which two or more prices or other variables are observed to move together.

Prepayment rates - the fair value of a financial instrument that can be prepaid by the issuer or borrower differs from that of an instrument that cannot be prepaid. In valuing prepayable instruments that are not quoted in active markets, the Group considers the value of the prepayment option.

Counterparty credit spreads - adjustments are made to market prices (or parameters) when the creditworthiness of the counterparty differs from that of the assumed counterparty in the market price (or parameters).

Recovery rates/loss given default - these are used as an input to valuation models and reserves for asset-backed securities and other credit products as an indicator of severity of losses on default. Recovery rates are primarily sourced from market data providers or inferred from observable credit spreads.

Valuation reserves
When valuing financial instruments in the trading book, adjustments are made to mid-market valuations to cover bid-offer spread, liquidity and credit risk.

Valuation of financial instruments in the banking books are made to the mid-price.

Credit valuation adjustments
Credit Valuation Adjustments (CVA) represents an estimate of the adjustment to fair value that a market participant would make to incorporate the counterparty credit risk inherent in derivative exposures. CVA reserve at 31 December 2016 was €2m (2015: €30m).

The CVA is calculated on a portfolio basis reflecting an estimate of the amount a third party would charge to assume the credit risk.

Where a positive exposure exists to a counterparty that is considered to be close to default, the CVA is calculated by applying expected losses to the current level of exposure. Otherwise, expected losses are applied to estimated potential future positive exposures which are modelled to reflect the volatility of the market factors which drive the exposures and the correlation between those factors.

Expected losses are determined from market implied probabilities of default and internally assessed recovery levels. The probability of default is calculated with reference to observable credit spreads and observable recovery levels. For counterparties where observable data do not exist, the probability of default is determined from the credit spreads and recovery levels of similarly rated entities.

Collateral held under a credit support agreement is factored into the CVA calculation. In such cases where the Group holds collateral against counterparty exposures, CVA is held to the extent that residual risk remains.

Debt valuation adjustments
The fair value of the Group's derivative financial liabilities is adjusted to reflect the Group's own credit risk through debt valuation adjustments (DVA). Expected gains are applied to estimated potential future negative exposures, the modelling of which is consistent with the approach used in the calculation of CVA.

9. Financial instruments (continued)

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

	Group							
	2016				2015			
	Level 1 [1]	**Level 2** [2]	**Level 3** [3]	**Total**	Level 1[1]	Level 2[2]	Level 3[3]	Total
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
Assets								
Debt securities	**2,340**	**-**	**-**	**2,340**	2,572	-	-	2,572
Equity shares	**-**	**-**	**6**	**6**	-	-	7	7
Derivatives	**-**	**596**	**429**	**1,025**	-	604	291	895
Total	**2,340**	**596**	**435**	**3,371**	2,572	604	298	3,474
Liabilities								
Deposits by banks	**-**	**28**	**-**	**28**	-	42	-	42
Customer accounts	**-**	**1,089**	**-**	**1,089**	-	1,358	-	1,358
Derivatives	**-**	**311**	**575**	**886**	-	287	360	647
Total	**-**	**1,428**	**575**	**2,003**	-	1,687	360	2,047

	Bank							
	2016				2015			
	Level 1 [1]	**Level 2** [2]	**Level 3** [3]	**Total**	Level 1[1]	Level 2[2]	Level 3[3]	Total
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
Assets								
Debt securities	**2,340**	**-**	**-**	**2,340**	2,572	-	-	2,572
Equity shares	**-**	**-**	**6**	**6**	-	-	7	7
Derivatives	**-**	**596**	**390**	**986**	-	604	215	819
Total	**2,340**	**596**	**396**	**3,332**	2,572	604	222	3,398
Liabilities								
Deposits by banks	**-**	**28**	**-**	**28**	-	42	-	42
Customer accounts	**-**	**1,089**	**-**	**1,089**	-	1,358	-	1,358
Derivatives	**-**	**311**	**40**	**351**	-	287	77	364
Total	**-**	**1,428**	**40**	**1,468**	-	1,687	77	1,764

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

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

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

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

Financial instruments included within Level 3 of the fair value hierarchy primarily consist of OTC derivatives where valuation depends upon unobservable inputs such as certain credit and exotic derivatives. No gain or loss is recognised on the initial recognition of a financial instrument valued using a technique incorporating significant unobservable data.

Included within the level 3 derivative assets and liabilities of the Group and Bank are balanced guaranteed hedging swaps in respect of securitisation transactions. These instruments are priced taking contractual principal schedule of underlying loans through a model which allows for the impact of the correlation between various market variables (interest rates and floating rate tenor basis) and varying prepayment speeds to be modelled. The model works on the premise that prepayment levels (or Constant Prepayment Rate – CPR) are negatively correlated with interest rates, meaning that more loan holders will repay when these variables are low. The model is sensitive to the estimate of future CPR which is not an observable input. If prepayments were 1% higher than expected, this would cause a movement of €17m in the value of these swaps.

9. Financial instruments (continued)

Level 3 portfolio movement tables

	Group					
	Equity shares		**Derivative assets**		**Derivative liabilities**	
	2016	2015	**2016**	2015	**2016**	2015
	€m	€m	**€m**	€m	**€m**	€m
At 1 January	**7**	34	**291**	130	**(360)**	(250)
Additions	**-**	2	**-**	-	**-**	-
Disposals	**(1)**	(29)	**-**	-	**-**	-
Credit/(charge) to income statement	**-**	-	**138**	161	**(215)**	(110)
At 31 December	**6**	7	**429**	291	**(575)**	(360)

	Bank					
	Equity shares		**Derivative assets**		**Derivative liabilities**	
	2016	2015	**2016**	2015	**2016**	2015
	€m	€m	**€m**	€m	**€m**	€m
At 1 January	**7**	34	**215**	87	**(77)**	(42)
Additions	**-**	2	**-**	-	**-**	-
Disposals	**(1)**	(29)	**-**	-	**-**	-
Credit to income statement	**-**	-	**175**	128	**37**	(35)
At 31 December	**6**	7	**390**	215	**(40)**	(77)

The following tables show the carrying values and the fair values of financial instruments on the balance sheet carried at amortised cost. The fair value of cash and balances at central banks and €2,606m of loans and advances to banks carried at amortised cost (2015: €2,455m) have been determined using procedures consistent with the requirements of level 2 valuation methodologies, as set out on page 45. All other balances have been fair valued using procedures that fall within level 3 of the fair value methodologies.

	Group			
	2016 Carrying value	**2016 Fair value**	2015 Carrying value	2015 Fair value
	€m	**€m**	€m	€m
Financial assets				
Cash and balances at central banks	**290**	**290**	343	343
Loans and advances to banks	**4,622**	**4,622**	3,821	3,821
Loans and advances to customers	**22,014**	**19,487**	22,904	20,436
Financial liabilities				
Deposits by banks	**1,647**	**1,647**	1,110	1,110
Customer accounts	**17,865**	**17,873**	16,674	16,692
Debt securities in issue	**1,377**	**1,129**	2,005	1,698
Subordinated liabilities	**719**	**591**	725	581

9. Financial instruments (continued)

	Bank			
			Restated	Restated
	2016	**2016**	2015	2015
	Carrying value	**Fair value**	Carrying value	Fair value
	€m	**€m**	€m	€m
Financial assets				
Cash and balances at central banks	**290**	**290**	343	343
Loans and advances to banks	**4,303**	**4,303**	3,363	3,363
Loans and advances to customers	**22,499**	**19,972**	23,282	20,790
Debt securities	**7,731**	**6,414**	9,309	7,907
Financial liabilities				
Deposits by banks	**1,646**	**1,646**	1,079	1,079
Customer accounts	**27,460**	**27,467**	28,304	28,323
Subordinated liabilities	**719**	**591**	725	581

Fair value calculation

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

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

Short-term financial instruments and loans and advances to banks

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

Loans and advances to customers

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

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

Debt securities

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

Deposits by banks and customer accounts

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

Debt securities in issue and subordinated liabilities

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

9. Financial instruments (continued)

Remaining maturity

	Group		
	Less than 12 months	**More than 12 months**	**Total**
2016	**€m**	**€m**	**€m**
Assets			
Cash and balances at central banks	**290**	**-**	**290**
Loans and advances to banks	**4,546**	**76**	**4,622**
Loans and advances to customers	**2,773**	**19,241**	**22,014**
Debt securities	**1,391**	**949**	**2,340**
Equity shares	**-**	**6**	**6**
Derivatives	**181**	**844**	**1,025**
Liabilities			
Deposits by banks	**168**	**1,507**	**1,675**
Customer accounts	**17,846**	**1,108**	**18,954**
Debt securities in issue	**-**	**1,377**	**1,377**
Derivatives	**85**	**801**	**886**
Subordinated liabilities	**-**	**719**	**719**

	Group		
	Less than 12 months	More than 12 months	Total
2015	€m	€m	€m
Assets			
Cash and balances at central banks	343	-	343
Loans and advances to banks	3,821	-	3,821
Loans and advances to customers	4,368	18,536	22,904
Debt securities	1,814	758	2,572
Equity shares	-	7	7
Derivatives	96	799	895
Liabilities			
Deposits by banks	1,130	22	1,152
Customer accounts	16,687	1,345	18,032
Debt securities in issue	-	2,005	2,005
Derivatives	39	608	647
Subordinated liabilities	-	725	725

	Bank		
	Less than 12 months	**More than 12 months**	**Total**
2016	**€m**	**€m**	**€m**
Assets			
Cash and balances at central banks	**290**	**-**	**290**
Loans and advances to banks	**4,227**	**76**	**4,303**
Loans and advances to customers	**3,255**	**19,244**	**22,499**
Debt securities	**9,122**	**949**	**10,071**
Equity shares	**-**	**6**	**6**
Derivatives	**181**	**805**	**986**
Liabilities			
Deposits by banks	**167**	**1,507**	**1,674**
Customer accounts	**27,441**	**1,108**	**28,549**
Derivatives	**85**	**266**	**351**
Subordinated liabilities	**-**	**719**	**719**

9. Financial instruments (continued)

	Bank		
	Less than 12 months	More than 12 months	Total
2015 Restated	€m	€m	€m
Assets			
Cash and balances at central banks	343	-	343
Loans and advances to banks	3,363	-	3,363
Loans and advances to customers	4,697	18,585	23,282
Debt securities	10,363	1,518	11,881
Equity shares	-	7	7
Derivatives	96	723	819
Liabilities			
Deposits by banks	1,121	-	1,121
Customer accounts	28,141	1,521	29,662
Derivatives	39	325	364
Subordinated liabilities	-	725	725

10. Financial assets - impairment

The following table shows the movement in the provision for impairment losses for loans and advances:

	Group and Bank			
	Individually assessed	**Collectively assessed**	**Latent**	**Total**
	€m	**€m**	**€m**	**€m**
At 1 January 2016	**1,578**	**2,216**	**340**	**4,134**
Currency translation and other adjustments	**(47)**	**(22)**	**-**	**(69)**
Amounts written-off[(1)]	**(1,462)**	**(1,056)**	**-**	**(2,518)**
Recoveries of amounts previously written-off	**22**	**7**	**-**	**29**
(Credit)/charge to the income statement	**(9)**	**121**	**(250)**	**(138)**
Unwind of discount (recognised in interest income)	**(2)**	**(44)**	**-**	**(46)**
At 31 December 2016 [(2)]	**80**	**1,222**	**90**	**1,392**

	Group and Bank			
	Individually assessed	Collectively assessed	Latent	Total
	€m	€m	€m	€m
At 1 January 2015	8,519	2,707	478	11,704
Currency translation and other adjustments	57	10	2	69
Amounts written-off[(1)]	(6,397)	(280)	-	(6,677)
Recoveries of amounts previously written-off	19	12	-	31
Credit to the income statement	(600)	(189)	(140)	(929)
Unwind of discount (recognised in interest income)	(20)	(44)	-	(64)
At 31 December 2015 [(2)]	1,578	2,216	340	4,134

(1) Includes amounts relating to impairments previously recognised on assets included in sale transactions. Amounts written-off do not include any loans and advances to banks.
(2) Impairment losses at 31 December 2016 and 31 December 2015 do not include any balances held against loans and advances to banks.

10. Financial assets - impairment (continued)

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

The following table shows analysis of impaired financial assets:

	2016			2015		
Group and Bank	**Gross carrying value €m**	**Provision €m**	**Net book value €m**	Gross carrying value €m	Provision €m	Net book value €m
Impaired financial assets						
Loans and advances to customers	**3,718**	**(1,302)**	**2,416**	6,454	(3,794)	2,660
- of which are individually assessed	**108**	**(80)**	**28**	1,794	(1,578)	216

The following tables show total impairment provisions, movements in impairment provisions and past due and impaired assets on loans and advances to customers by geographic area:

	Group and Bank					
2016	**Impaired assets €m**	**Past due more than 90 days but not impaired assets €m**	**Individually and collectively assessed provisions €m**	**Latent provisions €m**	**Total provisions €m**	**Charge/(credit) to the income statement €m**
Geographic area [1]						
United Kingdom	**5**	**-**	**1**	**-**	**1**	**1**
Republic of Ireland	**3,713**	**375**	**1,301**	**90**	**1,391**	**(139)**
	3,718	**375**	**1,302**	**90**	**1,392**	**(138)**

2015	€m	€m	€m	€m	€m	€m
Geographic area [1]						
United Kingdom	389	-	278	-	278	(23)
Republic of Ireland	6,065	27	3,516	340	3,856	(906)
	6,454	27	3,794	340	4,134	(929)

(1) The analysis by geographic area is based on the location of the lender.

10. Financial assets - impairment (continued)

The following tables show total impairment provisions, movements in impairment provisions and past due and impaired assets on loans and advances to customers by industry sector:

	Group and Bank					
2016	**Impaired assets €m**	**Past due more than 90 days but not impaired assets €m**	**Individually and collectively assessed provisions €m**	**Latent provisions €m**	**Total provisions €m**	**(Credit)/ charge to the income statement €m**
Industry sector						
Agriculture and fisheries	**20**	**2**	**12**	**-**	**12**	**(8)**
Building and construction	**47**	**-**	**45**	**-**	**45**	**-**
Business services	**60**	**8**	**63**	**-**	**63**	**(128)**
Financial services	**16**	**-**	**13**	**-**	**13**	**(1)**
Manufacturing	**13**	**-**	**6**	**-**	**6**	**(5)**
Individuals	**3,454**	**279**	**1,073**	**-**	**1,073**	**284**
Property	**48**	**2**	**46**	**-**	**46**	**(39)**
Public sector and quasi-government	**14**	**81**	**10**	**-**	**10**	**-**
Telecoms, media and technology	**2**	**-**	**2**	**-**	**2**	**12**
Tourism and leisure	**16**	**-**	**16**	**-**	**16**	**(11)**
Transport and storage	**9**	**-**	**4**	**-**	**4**	**4**
Wholesale and retail trade	**19**	**3**	**12**	**-**	**12**	**4**
Latent	**-**	**-**	**-**	**90**	**90**	**(250)**
	3,718	**375**	**1,302**	**90**	**1,392**	**(138)**

	Group and Bank					
2015	Impaired assets €m	Past due more than 90 days but not impaired assets €m	Individually and collectively assessed provisions €m	Latent provisions €m	Total provisions €m	(Credit)/ charge to the income statement €m
Industry sector						
Agriculture and fisheries	58	2	42	-	42	(5)
Building and construction	61	-	59	-	59	(6)
Business services	631	2	577	-	577	(130)
Financial services	31	-	27	-	27	(3)
Manufacturing	80	-	67	-	67	2
Individuals	3,522	16	1,211	-	1,211	(145)
Power and water	1	-	1	-	1	(2)
Property	1,685	6	1,489	-	1,489	(526)
Public sector and quasi-government	84	-	62	-	62	9
Telecoms, media and technology	6	-	5	-	5	-
Tourism and leisure	123	1	112	-	112	11
Transport and storage	15	-	10	-	10	(1)
Wholesale and retail trade	157	-	132	-	132	7
Latent	-	-	-	340	340	(140)
	6,454	27	3,794	340	4,134	(929)

10. Financial assets - impairment (continued)

	Group and Bank	
	2016	2015
	€m	€m
Gross income not recognised at balance sheet date but which would have been recognised under the original terms of non–accrual and restructured loans:		
United Kingdom	**1**	47
Republic of Ireland	**247**	671
	248	718

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

Group and Bank	**Past due 1–29 days**	**Past due 30–59 days**	**Past due 60–89 days**	**Past due more than 90 days**	**Total**
2016	**€m**	**€m**	**€m**	**€m**	**€m**
Loans and advances to customers	**763**	**301**	**217**	**375**	**1,656**
2015					
Loans and advances to customers	705	321	360	27	1,413

11. Debt securities

	Group					
	2016			2015		
	Other central and local government	**Mortgage backed securities**	**Total**	Other central and local government	Mortgage backed securities	Total
	€m	**€m**	**€m**	€m	€m	€m
Available-for-sale	**2,340**	**-**	**2,340**	2,572	-	2,572

	Bank					
	2016			2015		
	Other central and local government	**Mortgage backed securities**	**Total**	Other central and local government	Mortgage backed securities	Total
	€m	**€m**	**€m**	€m	€m	€m
Available-for-sale	**2,340**	**-**	**2,340**	2,572	-	2,572
Loans and receivables	**-**	**7,731**	**7,731**	-	9,309	9,309
Total	**2,340**	**7,731**	**10,071**	2,572	9,309	11,881

The Group and Bank recorded net unrealised gains of €2m (2015: €1m) during the financial year.

The Bank holds €7,731m (2015: €9,309m) of mortgage backed securities issued by certain securitisation vehicles which are consolidated at the Group level.

During the financial year all of the mortgage backed securities issued by Celtic Residential Irish Mortgage Securitisation No. 12 DAC ("Celtic 12"), a limited recourse entity controlled by the Group and included in the consolidated financial statements on that basis, were redeemed at par by that entity. At 31 December 2015 the value of the mortgage backed securities issued by Celtic 12 and held as assets by the Bank was €639m.

12. Equity shares

	Group and Bank	
	2016	2015
	Unlisted	Unlisted
	€m	€m
Available-for-sale	**6**	7

13. Investments in Group undertakings

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

	Bank	
	2016	2015
	€m	€m
At 1 January	**17**	185
Dissolution of Group undertakings	**-**	(163)
Impairment	**(1)**	(5)
At 31 December	**16**	17

The principal subsidiary undertaking of the Bank is shown below. Its capital consists of unlisted ordinary shares. This undertaking is owned directly and is wholly-owned.

Undertaking	**Nature of business**	**Country of incorporation**
Easycash (Ireland) Limited	Provision of ATMs in convenient locations	Republic of Ireland

A full list of subsidiary undertakings is included in Note 33. All of these undertakings are consolidated in the Group's financial statements and have an accounting reference date of 31 December.

14. Intangible assets

Intangible assets comprising goodwill and other acquired intangibles were fully impaired as at 31 December 2016 and 31 December 2015.

15. Property, plant and equipment

	Group					
2016	**Investment properties €m**	**Freehold land and buildings €m**	**Leases of 50 years or more unexpired €m**	**Leases of 50 years or less unexpired €m**	**Computer and other equipment €m**	**Total €m**
Cost or valuation:						
At 1 January 2016	15	68	15	65	62	**225**
Additions	-	2	-	1	2	**5**
Disposals and write-off of fully depreciated assets	(15)	(5)	-	-	-	**(20)**
At 31 December 2016	**-**	**65**	**15**	**66**	**64**	**210**
Accumulated impairment, depreciation and amortisation:						
At 1 January 2016	-	32	14	34	47	**127**
Disposals and write-off of fully depreciated assets	-	(5)	-	-	-	**(5)**
Impairment charge for the financial year	-	3	-	-	-	**3**
Depreciation charge for the financial year	-	-	-	4	3	**7**
At 31 December 2016	**-**	**30**	**14**	**38**	**50**	**132**
Carrying amount at 31 December 2016	**-**	**35**	**1**	**28**	**14**	**78**

	Group					
2015	Investment properties €m	Freehold land and buildings €m	Leases of 50 years or more unexpired €m	Leases of 50 years or less unexpired €m	Computer and other equipment €m	Total €m
Cost or valuation:						
At 1 January 2015	147	71	15	90	71	394
Additions	-	2	-	1	1	4
Disposals and write-off of fully depreciated assets	(204)	(5)	-	(26)	(10)	(245)
Revaluation	72	-	-	-	-	72
At 31 December 2015	15	68	15	65	62	225
Accumulated impairment, depreciation and amortisation:						
At 1 January 2015	-	31	13	43	51	138
Disposals and write-off of fully depreciated assets	-	(2)	-	(14)	(7)	(23)
Depreciation charge for the financial year	-	3	1	5	3	12
At 31 December 2015	-	32	14	34	47	127
Carrying amount at 31 December 2015	15	36	1	31	15	98

Rental income from investment properties was €nil (2015: €9m). No direct operating expenses were incurred in relation to income generating investment properties (2015: €4m). No direct operating expenses were incurred for investment properties not generating income (2015: €nil).

The historical cost of investment properties held at fair value at 31 December 2015 was €7m.

15. Property, plant and equipment (continued)

	Bank					
2016	**Investment properties €m**	**Freehold land and buildings €m**	**Leases of 50 years or more unexpired €m**	**Leases of 50 years or less unexpired €m**	**Computer and other equipment €m**	**Total €m**
Cost or valuation:						
At 1 January 2016	2	67	9	65	59	**202**
Additions	-	2	-	1	2	**5**
Disposals and write-off of fully depreciated assets	(2)	(5)	-	-	-	**(7)**
At 31 December 2016	**-**	**64**	**9**	**66**	**61**	**200**
Accumulated impairment, depreciation and amortisation:						
At 1 January 2016	-	30	9	33	44	**116**
Disposals and write-off of fully depreciated assets	-	(3)	-	-	-	**(3)**
Impairment charge for the financial year	-	3	-	-	-	**3**
Depreciation charge for the financial year	-	-	-	4	3	**7**
At 31 December 2016	**-**	**30**	**9**	**37**	**47**	**123**
Carrying amount at 31 December 2016	**-**	**34**	**-**	**29**	**14**	**77**

	Bank					
2015	Investment properties €m	Freehold land and buildings €m	Leases of 50 years or more unexpired €m	Leases of 50 years or less unexpired €m	Computer and other equipment €m	Total €m
Cost or valuation:						
At 1 January 2015	1	69	9	90	66	235
Additions	-	2	-	1	1	4
Disposals and write-off of fully depreciated assets	-	(4)	-	(26)	(8)	(38)
Revaluation	1	-	-	-	-	1
At 31 December 2015	2	67	9	65	59	202
Accumulated impairment, depreciation and amortisation:						
At 1 January 2015	-	29	8	41	46	124
Disposals and write-off of fully depreciated assets	-	(2)	-	(13)	(5)	(20)
Depreciation charge for the financial year	-	3	1	5	3	12
At 31 December 2015	-	30	9	33	44	116
Carrying amount at 31 December 2015	2	37	-	32	15	86

There was no profit on disposal of freehold land and buildings during either financial year under review.

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

16. Derivatives

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

	Group					
	2016			2015		
	Notional amounts €m	**Assets €m**	**Liabilities €m**	Notional amounts €m	Assets €m	Liabilities €m
Over-the counter derivatives						
Foreign exchange contracts:						
Spot, forwards and futures	**1,735**	**54**	**44**	3,400	38	36
Currency swaps	**1,556**	**114**	**260**	1,757	69	137
Interest rate contracts:						
Interest rate swaps	**38,711**	**736**	**582**	46,506	661	474
Options purchased	**26**	**-**	**-**	105	-	-
Options written	**26**	**-**	**-**	99	-	-
Equity and commodity contracts	**1,052**	**121**	**-**	1,308	127	-
	43,106	**1,025**	**886**	53,175	895	647

	Bank					
	2016			2015		
	Notional amounts €m	**Assets €m**	**Liabilities €m**	Notional amounts €m	Assets €m	Liabilities €m
Over-the-counter derivatives						
Foreign exchange contracts:						
Spot, forwards and futures	**1,735**	**54**	**44**	3,400	38	36
Currency swaps	**1,070**	**114**	**114**	1,140	69	68
Interest rate contracts:						
Interest rate swaps	**30,635**	**697**	**193**	37,299	585	260
Options purchased	**26**	**-**	**-**	105	-	-
Options written	**26**	**-**	**-**	99	-	-
Equity and commodity contracts	**1,052**	**121**	**-**	1,308	127	-
	34,544	**986**	**351**	43,351	819	364

17. Prepayments, accrued income and other assets

	Group		**Bank**	
	2016 €m	2015 €m	**2016 €m**	2015 €m
Prepayments	**6**	6	**6**	6
Accrued income	**5**	6	**5**	6
Other assets	**15**	80	**15**	80
	26	92	**26**	92

18. Provisions, accruals and other liabilities

	Group		Bank	
	2016	2015	**2016**	2015
	€m	€m	**€m**	€m
Accruals	**77**	124	**76**	123
Deferred income	**7**	8	**7**	8
Provisions for liabilities and charges	**236**	58	**236**	57
Other liabilities	**31**	45	**32**	46
	351	235	**351**	234

The following amounts are included within provisions for liabilities and charges:

	Group						
	Tracker mortgage examination	**Litigation**	**Global restructuring group**	**Property**	**Interest rate hedge products**	**Other**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
At 1 January 2015	-	-	-	55	42	5	102
Charge to income statement	-	-	-	18	-	7	25
Utilised in the year	-	-	-	(40)	(5)	(2)	(47)
Release to income statement	-	-	-	(1)	(18)	(3)	(22)
At 1 January 2016	-	-	-	32	19	7	58
Transfer from accruals	5	9	-	-	-	-	14
Charge to income statement	206	6	11	2	-	8	233
Utilised in the year	(21)	-	-	(5)	(6)	(4)	(36)
Release to income statement	-	-	-	(19)	(12)	(2)	(33)
At 31 December 2016	**190**	**15**	**11**	**10**	**1**	**9**	**236**

	Bank						
	Tracker mortgage examination	**Litigation**	**Global restructuring group**	**Property**	**Interest rate hedge products**	**Other**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
At 1 January 2015	-	-	-	55	42	4	101
Charge to income statement	-	-	-	18	-	6	24
Utilised in the year	-	-	-	(40)	(5)	(1)	(46)
Release to income statement	-	-	-	(1)	(18)	(3)	(22)
At 1 January 2016	-	-	-	32	19	6	57
Transfer from accruals	5	9	-	-	-	-	14
Charge to income statement	206	6	11	2	-	8	233
Utilised in the year	(21)	-	-	(5)	(6)	(3)	(35)
Release to income statement	-	-	-	(19)	(12)	(2)	(33)
At 31 December 2016	**190**	**15**	**11**	**10**	**1**	**9**	**236**

Tracker mortgage examination
In 2015 the Bank, along with other Irish banks, received a letter from the CBI requesting that it conduct a review to assess instances of contractual and regulatory non-compliance that may have adversely impacted its portfolio of tracker mortgage customers. €5m was booked as an accrual at 31 December 2015 based on expected costs of carrying out the review at that point in time. In 2016 the accrual was transferred to provisions and a further €206m was recognised to cover customer remediation and associated project costs.

Global restructuring group (GRG)
The Group established a provision of €11m (2015: €nil) in respect of the FCA review of the treatment of SME customers, relating to the automatic refund of complex fees for SME customers that were in GRG between 2008 and 2013, additional redress costs arising from a new complaints process and the associated operational costs. Background information in relation to the FCA review of SME customers is given in Note 25.

18. Provisions, accruals and other liabilities (continued)

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

Interest rate hedge products
In 2013, the CBI requested that the Bank, along with a number of other Irish banks, carry out a review of interest rate hedging products sold in the Republic of Ireland in the period 2001 to 2012. Potential redress for the Republic of Ireland customer base was established as part of an RBS Group initiative. During 2016, detailed legal reviews and specific case settlements, coupled with revised anticipated requirements for the remaining sophisticated population, resulted in a €12m reduction in the provision. A €1m provision remains to cover redress payments and legal costs for a small number of outstanding cases.

19. Deferred taxation

Provision for deferred taxation has been made as follows:

	Group and Bank			
	Pension	Accelerated capital allowances	Tax losses	Total
	€m	€m	€m	€m
At 1 January 2015	2	(2)	286	286
Transfer from fellow RBS subsidiary	-	1	-	1
At 1 January 2016	2	(1)	286	287
Credit to income statement	-	-	6	6
At 31 December 2016	**2**	**(1)**	**292**	**293**

A deferred tax asset of €292m (2015: €286m) has been recognised in respect of €2,333m (2015: €2,288m) of total tax losses of €9,489m (2015: €9,645m) carried forward at 31 December 2016. These losses arose principally from significant impairment losses reflecting weak economic conditions in the Republic of Ireland. The Irish economy continues to improve and, based on current business forecasts, the losses on which a deferred tax asset has been recognised will be utilised against future taxable profits of the company by the end of 2023. Under Irish tax legislation, tax losses do not expire and can be carried forward indefinitely.

20. Subordinated liabilities

	Group and Bank	
	2016	2015
	€m	€m
Dated loan capital	**605**	605
Undated loan capital	**114**	120
	719	725

20. Subordinated liabilities (continued)

	Group and Bank	
	2016	2015
	€m	€m
Dated loan capital		
€430m floating rate loan capital repayable 2022:[1]		
- held by Ulster Bank Limited (3 month EURIBOR plus 0.35%)	**430**	430
€100m floating rate loan capital repayable 2022:		
- held by RBS Plc (3 month EURIBOR plus 0.35%)	**100**	100
€35m floating rate repayable 2020:		
- held by Ulster Bank Limited (3 month EURIBOR plus 0.4%)	**35**	35
€40m floating rate repayable 2019:		
- held by Ulster Bank Limited (3 month EURIBOR plus 0.5%)	**40**	40
	605	605
Undated loan capital		
€38m 11.375% perpetual tier two capital	**62**	63
£20m 11.75% perpetual tier two capital	**40**	44
£1.3m perpetual floating rate tier two capital (6 month sterling LIBOR plus 2.55%)	**2**	2
£8m loan capital - held by Ulster Bank Limited	**10**	11
	114	120
Total	**719**	725

(1) The Group may prepay the loan (in whole or in part) together with interest accrued to the date fixed for prepayment on the interest payment date falling in July 2017 or any interest payment date falling thereafter, provided that a minimum 30 days notice is provided to the lender or the Irish Financial Services Regulatory Authority ("IFSRA") is notified at least one month prior to the date scheduled for repayment.

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

Dated loan capital
Interest on the dated loan capital is payable quarterly at a margin over Euro Interbank Offer Rates (EURIBOR).

Undated loan capital
The €38m, £20m and £1.3m subordinated perpetual bonds were issued by First Active Limited, in the Republic of Ireland, at par on conversion of First National Building Society to a public limited company pursuant to Section 107 of the Building Societies Act, 1989 to replace the issued fixed and floating rate permanent interest bearing shares of the Society. The issuance of the bonds transferred to the Bank when First Active Limited transferred its banking business in February 2010. The claims of the holders of the bonds are subordinate to the claims of all creditors of the Bank.

The £8m loan stock, which is perpetual, is held by Ulster Bank Limited and is repayable at the option of the Bank with prior consent of the CBI. This loan stock does not carry interest.

Interest on the £1.3m perpetual floating rate tier two capital is payable at a margin over London Interbank Offer Rates (LIBOR) as noted above.

21. Share capital presented as equity

	Group and Bank			
	Allotted, called up and fully paid		Authorised	
	2016	2015	**2016**	2015
	€m	€m	**€m**	€m
Equity shares:				
Ordinary B shares of €1.27	**1,825**	1,825	**2,223**	2,223
Ordinary B shares of €1	**1,745**	1,745	**2,400**	2,400
Ordinary A shares of £1	**22**	22	**34**	37
Total share capital	**3,592**	3,592	**4,657**	4,660

	Allotted, called up and fully paid		Authorised	
	2016	2015	**2016**	2015
Number of shares	**Millions**	Millions	**Millions**	Millions
Equity shares:				
Ordinary B shares of €1.27	**1,437**	1,437	**1,750**	1,750
Ordinary B shares of €1	**1,745**	1,745	**2,400**	2,400
Ordinary A shares of £1	**15**	15	**25**	25
Total share capital	**3,197**	3,197	**4,175**	4,175

All share classes rank pari passu in all respects.

22. Leases

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

Amounts receivable under finance lease and hire purchase agreements:

	Group and Bank					
	2016			2015		
	Gross amounts	**Present value adjustments**	**Present value**	Gross amounts	Present value adjustments	Present value
Year in which receipt will occur:	**€m**	**€m**	**€m**	€m	€m	€m
Within 1 year	**89**	**(4)**	**85**	75	(5)	70
After 1 year but within 5 years	**97**	**(6)**	**91**	67	(5)	62
After 5 years	**2**	**-**	**2**	-	-	-
	188	**(10)**	**178**	142	(10)	132

Future minimum amounts payable under non–cancellable operating leases:

	Group and Bank							
	2016				2015			
Year in which payment will occur:	**Within 1 year €m**	**After 1 year but within 5 years €m**	**After 5 years €m**	**Total €m**	Within 1 year €m	After 1 year but within 5 years €m	After 5 years €m	Total €m
Operating lease obligations:								
Premises	**14**	**34**	**21**	**69**	19	54	36	109

22. Leases (continued)

	Group and Bank	
	2016	2015
	€m	€m
Amounts recognised in income statement		
Operating lease expense – minimum payments	**14**	15

23. Collateral and securitisations

Securities repurchase agreements and lending transactions

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

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

There were no securities transferred under repurchase transactions included within debt securities on the balance sheet at 31 December 2016 and 31 December 2015. There were securities received as collateral under reverse repurchase agreements of €360m at 31 December 2016 (2015: nil).

Other collateral given

	Group	
	2016	2015
Group assets charged as security for liabilities	**€m**	€m
Loans and advances to customers	**9,992**	10,071

	Group	
	2016	2015
Liabilities secured by charges on assets	**€m**	€m
Debt securities in issue(1)	**5,424**	7,550
Deposits by banks	**28**	42
	5,452	7,592

(1) €4,047m of the debt securities in issue are held by the Group (2015: €5,545m) and consolidated in the Group accounts.

During the financial year all of the debt securities in issue by Celtic 12, a limited recourse entity controlled by the Group and included in the consolidated financial statements on that basis were redeemed at par by that entity. At 31 December 2015 the value of the debt securities in issue from Celtic 12 was €1,073m, €639m of these were held by the Bank and consolidated in the Group accounts.

At the balance sheet date the Bank had pledged €236m (2015: €nil) of the debt securities to RBS plc as collateral against intraday SEPA payments which RBS plc processes on behalf of the Bank. A further €60m (2015: €48m) of the debt securities was pledged as collateral to Ulster Bank Pension Trustees (RI) Limited in respect of the funding of the Bank's pension scheme liabilities.

Securitisations and other asset transfers

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

23. Collateral and securitisations (continued)

Securitisations and other asset transfers (continued)

It is primarily the extent of risks and rewards assumed that determines whether these entities are consolidated in the Group's financial statements.

The following table sets out the asset categories together with the carrying amounts of the assets and associated liabilities for those securitisations where substantially all the risks and rewards of the asset have been retained by the Group and continue to be presented in its balance sheet.

	2016		2015	
	Assets	**Liabilities**	Assets	Liabilities
	€m	**€m**	€m	€m
Residential mortgages	**9,992**	**1,377**	10,071	2,005

The banks securitised mortgages reduced during the financial year as a result of the redemption if the Celtic 12 debt securities.

24. Risk management

Risk overview

The management of risk is a fundamental activity performed throughout all of the Group's operations. As such, it underpins The Group's reputation, performance and future success. It is therefore critically important that the adequacy and effectiveness of the risk management processes are of the highest standard and subject to continuous review and enhancement.

The embedding of the Three Lines of Defence (3LoD) model has strengthened the risk management framework, ensuring there is a clear distinction between Risk Management, Risk Oversight and Control and Independent Risk Assurance across the business.

Risk culture

A sound risk culture, as part of a healthy organisational culture, is essential to the realisation of the Group's ambition to build a truly customer centric bank. Our objective is to embed a robust risk culture that consistently supports appropriate risk awareness, behaviours and judgements about risk-taking in a strong risk governance framework.

Employees at all levels are responsible for the management of risks. The Group expects employees to exhibit behaviours that support a sound risk culture. These behaviours are aligned to the Group's values of 'Serving customers ', 'Working together', 'Doing the right thing' and 'Thinking long-term'. They act as a clear starting point for a sound and effective risk culture.

Aligned to these values is Our Code. Our Code provides guidance on expected behaviours and sets out the standards of conduct that support the values. It explains how the values can effect and support decisions that are taken and describes the principles that must be followed.

Risk appetite

Risk appetite defines the types of risk the Group is willing to accept, within risk capacity, in order to achieve strategic objectives and business plans. Beyond this level, the bank would face a loss of market confidence and no longer be able to carry out its business activities. It links the goals and priorities to risk management in a way that guides and empowers staff to serve customers well and achieve financial targets.

Risk capacity defines the maximum level of risk the Group can assume before breaching constraints determined by regulatory capital and liquidity needs, the operational environment, and from a conduct perspective. Articulating risk capacity is helpful in determining where risk appetite should be set, ensuring there is a buffer between internal risk appetite and the Group's ultimate capacity to absorb losses.

24. Risk management (continued)

Risk appetite framework
The Risk Appetite Framework bolsters effective risk management by promoting sound risk taking and ensuring emerging risk and risk taking activities are recognised, assessed, escalated and addressed in a timely manner.

The Board approves the Risk Appetite Framework annually.

Strategic risks
Strategic risks are the foundations upon which the Group ensures it remains safe and sound while implementing its strategic business objectives. They are:
- Capital adequacy;
- Earnings volatility;
- Funding and liquidity;
- Stakeholder confidence.

The Board sets risk appetite for strategic risks to help ensure the Group is well placed to meet its priorities and long-term targets even under challenging economic environments.

All other risk appetites for material risks should align to strategic risks. Risk appetite for strategic risks is tested using a variety of stress tests.

Risk appetite statements
Risk appetite is communicated across the Group through risk appetite statements. Each statement provides clarity on the scale and type of activities permitted, in a manner that is easily conveyed to staff. Risk appetite statements consist of qualitative statements of appetite supported by risk limits and triggers that operate as a defence against excessive risk-taking.

The purpose of risk appetite statements is to strengthen understanding of acceptable levels of risk. The risk appetite statements are established at a Group-wide level for strategic risks and material risks.

The annual process of establishing risk appetite statements is completed alongside the business and financial planning process to ensure risk appetite remains appropriate given the levels of risk expected over the planning horizon. The effective communication of risk appetite is essential in embedding appropriate risk-taking into the Group’s culture.

The Group frequently reviews its risk profile to ensure it remains within risk appetite and that management focus is brought to bear on all material risks and emerging risk issues. The Group has effective processes in place to report against risk appetite to the Board and senior management.

Three lines of defence
The three lines of defence model is used industry-wide for the management of risk. It provides a clear set of principles by which to implement a cohesive operating model, one that provides a framework for the articulation of accountabilities and responsibilities for managing risk across the organisation.

24. Risk management (continued)

Credit risk assurance
Risk assurance is an independent second line of defence function in which most of the Group's credit risk quality assurance and Model Risk Management activities are centralised. These teams provide assurance to both internal and external stakeholders including the Board, senior management, risk functions, Internal Audit and the regulators.

Credit risk quality assurance undertake reviews which assess various aspects of risk as appropriate: including: the quality of risk portfolios; the completeness, suitability, accuracy and timeliness of risk measurements; the quality of risk management practices; policy compliance; and adherence to risk appetite. This includes monitoring the Group's credit portfolios exposures to assist in early identification of emerging risks, as well as undertaking targeted reviews to examine specific concerns raised either by these teams or by their stakeholders.

Risk type	**How the risk arises**
Capital Adequacy risk	Capital adequacy risk is the risk that the bank has insufficient capital and other loss absorbing debt instruments in base or stress conditions to operate effectively.
Liquidity and funding risk	Liquidity and funding risk arise through differences between asset and liability maturity dates and arises from day-to-day operations.
Business risk	Business risk arises as a result of the bank's exposure to the macro-environment, to the competitive environment, and to technological changes. In addition, internal factors such as volatility in sales volumes, and input costs, and other operational risks such as the Group's ability to assess the business operating environment, or to execute its chosen strategy, contribute to business risk.
Reputational risk	Reputational risk can arise from the conduct of employees; activities of customers and the sectors and countries in which they operate; provision of products and transactions; as well as operations and infrastructure.
Conduct and regulatory risk	Conduct risk arises if customers are not treated in line with their and other stakeholders' expectations. Conduct risk also arises if the Group does not take effective action to prevent fraud, bribery and money laundering. Regulatory risk arises from the Group's regulatory, business or operating environments and the Group's response to them
Operational risk	Operational risk arises from a failure to manage operations, transactions and assets appropriately. It may arise from human error, an inability to deliver change on time or adequately, or the unavailability of technology services or the loss of customer data. Fraud and theft are sources of operational risk, as is the impact of natural and man-made disasters. It may also arise from a failure to take appropriate measures to protect assets or take account of changes in law.
Pension risk	The Group is exposed to pension risk through its defined benefit schemes and the variations in their value.
Credit risk	Credit risk arises from lending and available-for-sale debt securities. Counterparty credit risk results from derivatives and securities financing transaction activities.
Market risk	The majority of the Group's market risk relates to non-traded market risk exposure from retail and commercial banking activities from assets and liabilities that are not classified as held for trading.

24. Risk management (continued)

Capital adequacy risk
Capital consists of financial resource and instruments issued that are available to the bank and that have a degree of permanency and are capable of absorbing losses. A number of strict conditions set by regulators must be satisfied to be eligible to count as capital.

Capital adequacy risk is the risk that the bank has insufficient capital and other loss absorbing debt instruments in base or stress conditions to operate effectively including meeting minimum regulatory requirements, operating within Board approved Group risk appetite and supporting its strategic goals.

Capital management is the process by which the bank manages its capital risk and is a key focus of its risk management activities.

Constituents of capital held
The determination of what instruments and financial resources are eligible to be counted as capital is laid down by applicable regulation.

Capital is categorised by applicable regulation under two tiers (1 and 2) according to the ability to absorb losses, degree of permanency and the ranking of absorbing losses. There are three broad categories of capital across these two tiers:
- **Common Equity Tier 1 (CET1) capital**. CET1 capital must be perpetual and capable of unrestricted and immediate use to cover risks or losses as soon as these occur. This includes ordinary shares issued and retained earnings. CET1 capital absorbs losses before other types of capital and any loss absorbing instruments.
- **Additional Tier 1 (AT1) capital**. This is the second form of loss absorbing capital and must be capable of absorbing losses on a going concern basis. These instruments are either written down or converted into CET1 capital when a pre-specified CET1 ratio is reached. Coupons on AT1 issuances are discretionary and may be cancelled at the discretion of the issuer at any time. AT1 capital must have a minimum maturity of five years.
- **Tier 2 capital**. Tier 2 capital is the bank's supplementary capital and provides loss absorption on a gone concern basis. Tier 2 capital absorbs losses after Tier 1 capital. It typically consists of subordinated debt securities with a minimum maturity of five years.

In addition to capital, other specific loss absorbing instruments may be used to cover certain gone concern capital requirements which, in the EU, is referred to as minimum requirement for own funds and eligible liabilities (MREL).

Capital adequacy ratios
The bank has to hold a minimum amount and quality of capital to satisfy regulatory capital adequacy requirements.

Risk-weighted assets
Capital adequacy ratios compare the amount of capital held to risk-weighted assets (RWAs). RWAs are a measure of the Bank's assets and off-balance sheet positions that capture both the size and risks inherent in those positions.

For regulatory purposes, RWAs are grouped into four categories:

Risk	Description
Credit	Risk of loss from a borrower failing to repay amounts due by the due date
Counterparty credit	Risk of loss from a counterparty not meeting its contractual obligations. Also included is the risk of loss from changes in the fair value of derivative instruments
Market	Risk of loss arising from fluctuations in market prices
Operational	Risk of loss from inadequate or failed internal processes, people and systems or from external events

24. Risk management – capital adequacy risk (continued)

Risk-weighted assets (continued)

Minimum percentage
Regulation defines a minimum percentage of capital compared to RWAs. There are two broad categories of capital requirements:

Category	Description
Minimum capital adequacy ratio	Represents the minimum amount of capital that all banks must hold at all times
Capital buffers	Comprises of: • Capital required to be held by banks that may be used in periods of stress • Capital held by banks that are deemed to be systemically important

The Group may be required to hold capital over and above the minimum requirements under the Pillar 2 framework. Pillar 2 looks at capital that may need to be held against risks that are not fully captured or not captured under minimum requirements and risks across a forward-looking planning horizon.

Under the Pillar 2 framework that applies to the Group, the bank may be required to hold capital beyond the minimum requirements.

Leverage ratios
The bank has to hold a minimum amount and quality of capital to satisfy the leverage ratio regulatory requirements. Unlike capital adequacy ratios, leverage ratio requirements do not consider the riskiness of the bank's positions.

The leverage exposure is broadly aligned to the accounting value of the bank's on and off-balance sheet exposures but subject to certain adjustments for trading positions, repurchase agreements and off balance sheet exposures.

In common with capital adequacy ratios, the leverage ratio requirement for the bank consists of a minimum requirement and a leverage ratio buffer.

Capital management
Capital management is the process by which the bank ensures that it has sufficient capital and other loss absorbing instruments to operate effectively including meeting minimum regulatory requirements, operating within Board approved the Group risk appetite, maintaining its credit rating and supporting its strategic goals.

Capital management is critical in supporting the bank's business and is enacted through a Group-wide end to end framework. The key elements of the Group capital management approach are set out below.

Risk appetite
Capital risk appetite is set by the Board, reflecting the Group's strategic objectives, current and future prudential regulatory requirements and market expectations.

It is expressed as a set of target ratios for CET1 total capital and leverage under both normal and stress financial conditions. Performance against risk appetite is regularly monitored.

Capital planning
Capital planning is integrated into the Group's wider annual budgeting process and is one of the tools that the Group uses to monitor and manage the risk of excessive leverage.

Stress testing
Stress testing is a key risk management tool used by the Group, covering the bank and its businesses, and is a fundamental component of the Group's approach to capital management.

Stress testing is used to quantify, evaluate and understand the potential impact on the financial strength of the Group, including its capital position, given specified changes to risk factors. Stress testing includes:
- Scenario testing: to examine the impact of a hypothetical future state of the world to define changes in risk factors affecting the Group; and
- Sensitivity testing: to examine the impact of an incremental change to one or more risk factors.

24. Risk management – capital adequacy risk (continued)

Capital management (continued)

Specific areas that involve capital management include:
- **Strategic financial and capital planning**: through assessing the impact of sensitivities and scenarios on the capital plan and capital ratios
- **Risk appetite**: through gaining a better understanding of the drivers of and the underlying risks associated with risk appetite
- **Risk identification**: through a better understanding of the risks that could potentially impact the Group's financial strength and capital position
- **Risk mitigation**: through identifying actions that can be taken to mitigate risks or could be taken in the event of adverse changes to the business or economic environment. Risk mitigation is substantially supplemented through the Group's recovery plan.

Internal assessment of capital adequacy
The Group conducts an annual internal assessment of its material risks and evaluates how much capital is required to cover these risks. This is referred to as the Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP is approved by the Board and submitted to the Regulator.

The ICAAP consists of a point in time capital assessment of the Group's exposures and risks at the financial year end and a forward looking stress capital assessment.

The ICAAP is used by the Group to form a view of capital adequacy separately to the regulatory minimum requirements. The ICAAP is used by the CBI/ECB to make an assessment of bank-specific capital requirements through the Supervisory Review and Evaluation Process (SREP) framework.

Governance
Capital management is subject to substantial review and governance across the Group including capital management policies that are approved by the Executive Risk Committee and/or Board Risk Committee. The Board approves the Group's capital plans.

Recovery and resolution planning
The Group maintains a recovery plan that sets out credible recovery options that could be implemented in the event of a severe stress to restore its business to a stable and sustainable condition, focussing on addressing the Group's capital and liquidity position.

The recovery plan sets out a range of triggers that activate the implementation of the recovery plan and sets out the operational plan for its implementation.

The recovery plan is a key component of the overall risk management of the Group including the framework for managing its capital and is prepared and updated annually and approved by the Board.

Resolution is implemented if RBS and/or the Group fails and the appropriate regulator places the Group into resolution. Resolution is owned and implemented by the appropriate regulatory authority and the Group through its parent has a multi-year programme in place to develop resolution capability and meet regulatory requirements.

The Group is working with its parent RBS and global regulators to ensure that the Group is compliant with the principles of resolution planning, demonstrating the process by which the Group and relevant regulatory bodies can develop a set of actions that would be taken to manage the failure of the Group in an orderly manner.

Liquidity and funding risk

Definition
Liquidity and funding risk is the risk that the Group is unable to meet its financial obligations, including financing wholesale maturities or customer deposit withdrawals, as and when they fall due.

24. Risk management – liquidity and funding risk (continued)

Sources of liquidity and funding
Liquidity and funding risk arises through the maturity transformation role that banks perform. It is dependent on Group specific factors such as maturity profile, composition of sources and uses of funding, the quality and size of the liquidity portfolio as well as broader market factors, such as wholesale market conditions alongside depositor and investor behaviour.

The Group's primary funding sources are as follows:

Type	Description
Customer deposits	Retail and Corporate deposits
Wholesale markets	Short-term (less than 1 year) unsecured money markets and secured repo market funding.
Term debt	Issuance of long-term (more than 1 year) unsecured and secured debt securities.

The Group may access various funding facilities offered by central banks from time to time. The use of such facilities can be both part of a wider strategic objective to support initiatives to help stimulate economic growth or as part of the broader liquidity management and funding strategy. Overall usage and repayment of available central bank facilities will fit within the overall liquidity risk appetite and concentration limits.

Policy, framework and governance
The key elements of the Group's liquidity and funding framework are as follows:

Type	Description
Risk appetite	Meeting regulatory and set internal risk limits for liquidity and funding.
Policies	Managing liquidity and funding across the Group.
Governance	Management oversight and three lines of defence.

Internal liquidity and funding policies are designed to ensure that the Group:
- *Has a clearly stated liquidity and funding risk tolerance*: the appetite for liquidity risk is set by the Group Board as a percentage of Regulatory Liquidity Coverage. The Board also sets the appetite for funding risk to ensure that stable sources of funding are used to fund the Group's core assets. The Group monitors its liquidity and funding positions against these risk tolerances on a daily basis. In setting risk limits the Board considers the nature of the Group's activities, overall risk appetite, market best practice and regulatory compliance.
- *Has in place strategies, polices and practices to ensure that the Group maintains sufficient liquidity*: the risk management framework determines the sources of liquidity risks and the steps that can be taken when these risks exceed certain actively monitored limits. These actions include when and how to use the liquid asset portfolio, and what other adjustments to the balance sheet should be undertaken to manage these risks within the Group's risk appetite.
- *Incorporates liquidity costs, benefits and risks in product pricing and performance management*: the Group uses internal funds transfer pricing to ensure that these costs are reflected in the measurement of business performance, and to correctly incentivise businesses to source the most appropriate mix of funding.

The liquidity and funding risk tolerance forms part of the Group's bank-wide risk appetite statement, which is overseen by the Board Risk Committee and then approved by the Group Board. The risk appetite statement defines key metrics, risk trigger levels and capacity for liquidity and funding management within the Group. The Group Asset and Liability Management Committee (ALCO), oversees the implementation of liquidity and funding management across the Group in accordance with set risk appetite.

Regulatory oversight and liquidity framework
The Group operates under the financial supervision of the ECB, with the key regulatory metrics being:

Ratio	Exposure type	Description
Liquidity coverage ratio	Liquidity profile	Coverage of 30 day net cash outflows in stress - effective from 1 October 2015.
Net stable funding ratio	Structural funding profile	Required and available stable funding sources less than and greater than 1 year timeline. Expected to take effect from 1 January 2018.
CBI Maturity Mismatch	Liquidity and funding profile	Maturity mismatch approach for cash flows by time band, with consideration of liquid assets held, effective since 2009.

24. Risk management - liquidity and funding risk (continued)

Regulatory oversight and liquidity framework (continued)

Liquidity risk regulation for the Group is driven by the quantitative and qualitative requirements of the CBI with financial supervision now joint with the ECB under the Single Supervisory Mechanism (SSM).

Activity	Description
ILAAP	An annual exercise to complete the Internal Liquidity Adequacy Assessment Process (ILAAP).
SREP	An annual liquidity review aspect of the Supervisory Review and Evaluation Process (SREP) with the SSM, that involves a comprehensive review of the Group ILAAP, liquidity policies and risk management framework.

Measurement, monitoring and contingency planning
In implementing the liquidity risk management framework, a suite of tools are used to monitor, limit and stress test the risks within the balance sheet. The limits control the amount and composition of funding sources, asset and liability mismatches and funding concentrations, in addition to the level of liquidity risk.

Liquidity risks are reviewed daily, with performance reported to ALCo at least monthly. Any breach of internal metric limits will set in motion a series of actions and escalations outlined under the Group Recovery Plan. The plan sets out credible recovery options that could be implemented in the event of a severe stress to restore the business to a stable and sustainable position, focussing on addressing the bank's capital and liquidity position.

Stress testing
Under the liquidity risk management framework the Group maintains the ILAAP, a component of which is an assessment of net stressed liquidity outflows. The Group considers a range of severe but plausible stress scenarios on cash flows, liquidity resources, profitability, solvency, asset encumbrance and survival horizon.

Type	Description
Idiosyncratic scenario	The market perceives the Group to be suffering from a severe stress event which results in an immediate assumption of increased credit risk or concerns over solvency.
Market-wide scenario	A market stress event affecting all participants in a market through contagion, counterparty failure and other market risks. The Group is impacted under this scenario but no more severely than any other participant with equivalent exposure.
Combined scenario	This scenario models the combined impact of an idiosyncratic and market stress occurring at once. The combined scenario reflects the contingency that a severe name-specific event occurs at the Group in conjunction with a broader market stress, causing wider damage to the market and financial sector and severely impacting funding markets and assets.

The Group uses the most severe of the three outcomes above to set the internal stress testing view. The results of this enable the bank to set its internal liquidity risk appetite to complement the regulatory LCR requirement.

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

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

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

24. Risk management – liquidity and funding risk (continued)

Contractual maturity (continued)

	Group					
2016	**0–3 months €m**	**3–12 months €m**	**1–3 years €m**	**3–5 years €m**	**5–10 years €m**	**10–20 years €m**
Assets by contractual maturity						
Cash and balances at central banks	290	-	-	-	-	-
Loans and advances to banks	4,545	1	-	-	76	-
Debt securities	428	974	953	-	-	-
Total maturing assets	5,263	975	953	-	76	-
Loans and advances to customers	1,583	1,582	3,793	4,133	6,017	6,750
Total assets	**6,846**	**2,557**	**4,746**	**4,133**	**6,093**	**6,750**
Liabilities by contractual maturity						
Deposits by banks	133	8	1,506	1	-	-
Debt securities in issue	24	69	167	145	284	343
Subordinated liabilities	-	8	55	50	566	106
Total maturing liabilities	157	85	1,728	196	850	449
Customer accounts	15,178	2,673	1,036	78	-	-
Total liabilities	**15,335**	**2,758**	**2,764**	**274**	**850**	**449**
Maturity gap	**(8,489)**	**(201)**	**1,982**	**3,859**	**5,243**	**6,301**
Cumulative maturity gap	**(8,489)**	**(8,690)**	**(6,708)**	**(2,849)**	**2,394**	**8,695**

	Group					
2015 Restated	0–3 months €m	3–12 months €m	1–3 years €m	3–5 years €m	5–10 years €m	10–20 years €m
Assets by contractual maturity						
Cash and balances at central banks	343	-	-	-	-	-
Loans and advances to banks	3,821	-	-	-	-	-
Debt securities	526	1,301	786	-	-	-
Total maturing assets	4,690	1,301	786	-	-	-
Loans and advances to customers	1,996	1,655	4,045	3,778	6,475	7,331
Total assets	6,686	2,956	4,831	3,778	6,475	7,331
Liabilities by contractual maturity						
Deposits by banks	61	1,023	-	-	-	-
Debt securities in issue	40	114	270	228	429	487
Subordinated liabilities	4	7	18	93	570	119
Total maturing liabilities	105	1,144	288	321	999	606
Customer accounts	14,473	2,230	1,166	178	3	-
Total liabilities	14,578	3,374	1,454	499	1,002	606
Maturity gap	(7,892)	(418)	3,377	3,279	5,473	6,725
Cumulative maturity gap	(7,892)	(8,310)	(4,933)	(1,654)	3,819	10,544

24. Risk management – liquidity and funding risk (continued)

Contractual maturity (continued)

	Bank					
2016	**0–3 months €m**	**3–12 months €m**	**1–3 years €m**	**3–5 years €m**	**5–10 years €m**	**10–20 years €m**
Assets by contractual maturity						
Cash and balances at central banks	290	-	-	-	-	-
Loans and advances to banks	4,226	1	-	-	76	-
Debt securities	8,158	974	953	-	-	-
Total maturing assets	12,674	975	953	-	76	-
Loans and advances to customers	2,067	1,582	3,793	4,133	6,017	6,750
Total assets	**14,741**	**2,557**	**4,746**	**4,133**	**6,093**	**6,750**
Liabilities by contractual maturity						
Deposits by banks	133	8	1,506	1	-	-
Subordinated liabilities	-	8	55	50	566	106
Total maturing liabilities	133	16	1,561	51	566	106
Customer accounts	24,773	2,673	1,036	78	-	-
Total liabilities	**24,906**	**2,689**	**2,597**	**129**	**566**	**106**
Maturity gap	**(10,165)**	**(132)**	**2,149**	**4,004**	**5,527**	**6,644**
Cumulative maturity gap	**(10,165)**	**(10,297)**	**(8,148)**	**(4,144)**	**1,383**	**8,027**

	Bank					
2015 Restated	0–3 months €m	3–12 months €m	1–3 years €m	3–5 years €m	5–10 years €m	10–20 years €m
Assets by contractual maturity						
Cash and balances at central banks	343	-	-	-	-	-
Loans and advances to banks	3,362	-	-	-	-	-
Debt securities	9,835	1,301	786	-	-	-
Total maturing assets	13,540	1,301	786	-	-	-
Loans and advances to customers	4,013	2,386	4,064	3,779	6,501	7,331
Total assets	17,553	3,687	4,850	3,779	6,501	7,331
Liabilities by contractual maturity						
Deposits by banks	51	1,023	-	-	-	-
Subordinated liabilities	4	7	18	93	570	119
Total maturing liabilities	55	1,030	18	93	570	119
Customer accounts	28,340	2,230	1,161	179	184	-
Total liabilities	28,395	3,260	1,179	272	754	119
Maturity gap	(10,842)	427	3,671	3,507	5,747	7,212
Cumulative maturity gap	(10,842)	(10,415)	(6,744)	(3,237)	2,510	9,722

24. Risk management – liquidity and funding risk (continued)

Contractual maturity (continued)

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

Other contractual cash obligations

	Group and Bank					
2016	**0–3 months €m**	**3–12 months €m**	**1–3 years €m**	**3–5 years €m**	**5–10 years €m**	**10–20 years €m**
Operating leases	**4**	**10**	**20**	**14**	**16**	**5**
Contractual obligations to purchase goods or services	**-**	**2**	**3**	**-**	**-**	**-**
	4	**12**	**23**	**14**	**16**	**5**

	Group and Bank					
2015	0–3 months €m	3–12 months €m	1–3 years €m	3–5 years €m	5–10 years €m	10–20 years €m
Operating leases	5	14	34	20	22	12
Contractual obligations to purchase goods or services	1	2	4	4	-	-
	6	16	38	24	22	12

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

If the repayment of a financial asset or liability is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the asset is included in the latest date on which it can repay regardless of early repayment whereas the liability is included at the earliest possible date that the conditions could be fulfilled without considering the probability of the conditions being met.

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

Business risk

Definition
Business risk is the risk that the Group makes inappropriate business or strategic choices or that the Group is not able to execute its chosen strategy in line with its budget. The risk is that the Group does not deliver its strategic plans budgeted performance which could lead to a deterioration in stakeholder trust and confidence or to a breach of regulatory thresholds.

The Group could make inappropriate business or strategic choices if it fails to adequately assess the current and prospective operating environment. The Group may not be able to execute its chosen strategy in line with budget if there are material changes to its internal or external operating environment.

24. Risk management - business risk (continued)

Sources of risk
Business risk arises as a result of the bank's exposure to the macro-environment, to the competitive environment, and to technological changes. In addition, internal factors such as volatility in sales volumes, and input costs, and other operational risks such as the Group's ability to assess the business operating environment, or to execute its chosen strategy, contribute to business risk.

Governance
The Board has ultimate responsibility for business risk and for approving strategic plans, initiatives and changes to strategic direction.

The Group's strategic planning process is managed by the Strategic Finance department. The Risk and Finance functions are key contributors to strategic planning. As part of the process, each customer business develops a strategic plan within a framework set by the Group's senior management. The strategic plans are consolidated at the Group-wide level, and reviewed and assessed against risk appetite by the Chief Executive, the Chief Financial Officer and the Head of Strategic Finance before presentation to, and approval by, the Board.

Risk assessment, controls and assurance
Business risk is directly managed and controlled through the Group's strategic planning, budgeting and new product development processes, in which the following elements are incorporated:
- Evaluation of the macroeconomic environment;
- Industry analysis;
- Competitor analysis, across geography, product, and customer;
- Customer behaviour analysis (understanding customer segments, trends and behaviours);
- Impact of technological developments;
- Assessment of regulatory developments and changes; and
- Evaluation of the political environment.

The following aspects of the strategic planning process also control business risk:
- The Top Risks process which aims to identify early, monitor closely and avoid or otherwise manage effectively strategic risks that have the highest likelihood of impacting strategic plans; and
- Sensitivity analysis which is undertaken on the consolidated budget to assess the robustness of the plan and compliance with strategic risk objectives, including under a variety of stressed conditions.

Furthermore, business risk is controlled as a result of having a requirement for the Group and each business to incorporate the following elements in its strategic plans:
- Organisational capabilities;
- Organisational resources;
- Organisational commitment; and
- Requirements of stakeholders, including customers, regulators, employees, and investors.

Risk appetite
The Group has limited appetite to make inappropriate business or strategic choices or to deliver a financial performance that is materially worse than its chosen strategic business plan.

Risk identification and monitoring
Business risk is identified and managed at the product and transaction level. Estimated revenue, costs and capital, including the potential range of outcomes, are key considerations in the design of any new product or in any new investment decision. All policies that ultimately seek to manage and control financial impact at the product and transaction level are therefore relevant to business risk management, including policies on conduct, funding and investment spending.

24. Risk management - business risk (continued)

Risk mitigation
The Group operates a monthly rolling forecasting process to identify projected changes in, or risks to, key financial metrics, and ensures appropriate actions are taken.

Key strategies are reviewed and approved by the Board. These reviews are intended to maximise the capture of market and customer insight while providing independent scrutiny and challenge. Strategic plans contain analysis of current and expected operating conditions, current and targeted competitive and market positioning, key strategic initiatives, financial and customer targets and milestones, and upside and downside risks.

A major part of the Top Risks process is to ensure that all appropriate action is taken to mitigate the most material risks to strategic objectives.

A full sensitivity analysis of the consolidated strategic plan is undertaken, at the end of the strategic and financial planning process, to assess the robustness of the plan, and compliance with strategic risk objectives, under a variety of stressed conditions. Following consideration of an opportunity, the Group may decide not to pursue the opportunity as a result of a perceived strategic risk.

The Group also undertakes strategic reviews to decide on how to react to specific developments.

Conduct and regulatory risk

Definition
Conduct and regulatory risk is the risk that the behaviour of the Group and its staff towards customers, or in the markets in which it operates, leads to unfair or inappropriate customer outcomes and results in reputational damage, financial loss or both. The damage or loss may be the result of a failure to comply with (or adequately plan for changes to) relevant official sector policy, laws, regulations, or major industry standards, or of failing to meet customers' or regulators' expectations.

Sources of risk
Conduct and regulatory risk exists across all stages of the Group's relationships with its customers, from the development of its business strategies, to post-sales processes. The activities through which conduct risk may arise are varied and include product design, marketing and sales, complaint handling, staff training, and handling of confidential Insider Information. Conduct risk also exists if the Group does not take effective action to prevent fraud, bribery and money laundering. Regulatory risk arises from the regulatory, business or operating environment and from the Group's response to it.

The Group continues to resolve issues related to historical misconduct and unsustainable strategic decision-making. To prevent the recurrence of similar issues, the Group aims to underpin its business model with a strong risk culture across its businesses. This culture promotes appropriate risk awareness and judgements about risk-taking. Through its business model, the Group will continue to be exposed to credit, market, operational and liquidity risks, but also a range of other risk types including pension, reputational, conduct and regulatory. These, and the business model related risks outlined here, are considered further in the following sections. Capital and risk management are conducted on an overall basis within RBS Group such that common policies, procedures, frameworks and models apply across RBS Group. Therefore, for the most part, discussions on these aspects reflect those in RBS Group as relevant for the businesses and operations in the Group.

Governance
The Group is responsible for defining appropriate standards of conduct and driving adherence to them, designing the framework for managing conduct and regulatory risk, and overseeing remediation activity. The Board and its senior committees receive updates on conduct risk exposures and action plans through regular reporting.

Controls and assurance
Under the Policy framework, the Group has conduct risk policies. Each policy is designed to provide both high-level direction and the Group-wide requirements. The policies ensure the Group meets its regulatory obligations, and provide the necessary clarity to staff on their conduct obligations.

The Group's Regulatory Affairs department separately oversees regulatory developments, interactions with regulators and regulatory approvals for individuals.

Assurance and monitoring activities are essential to measure the extent to which the Group manages its delivery of specific customer outcomes. Risk assessments are used to identify material conduct risks and implement key controls across all business areas. The risk assessment process is designed to confirm that risks are effectively managed and prioritised, as well as ensure controls are tested.

24. Risk management - conduct and regulatory risk (continued)

Controls and assurance (continued)
Scenario analysis is used to assess the impact of extreme but plausible conduct risks including financial crime. The scenarios assess the risks that could significantly affect the Group's financial performance or reputation and are an important component in the operational risk framework and capital model.

Risk appetite
The conduct risk appetite framework has now been embedded and the Conduct Performance Assessment, which forms part of it, facilitates a consistent approach across the Group for assessing conduct and regulatory risk.

Risk Appetite Statements, in line with the Group-wide risk appetite, articulate the levels of risk which businesses and functions must not exceed. Where businesses are operating outside of appetite, the problems are addressed through agreed risk mitigation plans

Risk monitoring and measurement
The Group's senior boards and committees receive updates on conduct risk through monthly reporting. The Group reports on the most material conduct matters to the appropriate committees, including the Board, the Group Audit Committee and Board Risk Committee.

The Group Audit Committee is provided with a whistleblowing report on a biannual basis. It details cases by internal reporting categories based on the definition of whistleblowing, which is contained within the Group's Speak Up policy.

The Group continues to work with each business to enhance the management information linked to their risk appetite statements. This is required to help ensure appropriate customer outcomes are delivered and that management information is compliant with the Basel Committee on Banking Supervision's principles for effective risk data aggregation and risk reporting.

Risk mitigation
The Group communicates information to customer-facing businesses and functions about regulatory developments and discussions with regulators. This helps identify and execute any required mitigating changes to strategy or to business models.

Early identification and effective management of changes in legislation and regulation are critical to the successful mitigation of conduct and regulatory risk. The effects of all changes are managed to ensure timely compliance readiness. Changes assessed as having a 'High' or 'Medium-High' impact are managed closely.

Operational risk

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

Operational risk may directly affect customers, lead to financial loss or damage the Group's reputation (for example, a major IT systems failure or fraudulent activity). There can also be a link between operational risk failures and conduct risk issues.

Sources of risk
Operational risk may arise from a failure to manage operations, systems, transactions and assets appropriately. This can take the form of human error, an inability to deliver change adequately or on time, the non-availability of technology services, or the loss of customer data. Fraud and theft are sources of operational risk, as is the impact of natural and man-made disasters. It can also arise from a failure to account for changes in law, regulations or taking appropriate measures to protect assets.

Risk governance
A strong Operational Risk management function is vital to support the Group's ambitions to serve its customers better. Improved management of operational risk against a defined appetite directly supports the strategic risk objective of improving stakeholder confidence and is vital for stability and reputational integrity.

The Operational Risk function, part of the second line of defence, undertakes a leadership role and is tasked with delivering a robust operational risk management framework and culture across the Group. The Head of Operational Risk reports to the Chief Risk Officer.

24. Risk management - operational risk (continued)

Risk governance (continued)
The Operational Risk function is responsible for the design, development, delivery and continuous improvement of the operational risk management framework. The Operational Risk Policy is incorporated into the Group's Policy Framework and provides direction for the consistent identification, assessment, management, monitoring and reporting of operational risk. Through a network of oversight teams, the function seeks to ensure the integrity of the framework, and manages overall operational risk profile against risk appetite.

Controls and assurance
The Control Environment Certification (CEC) process is a half-yearly self-assessment by the CEO. It gives an assessment on the adequacy and effectiveness of the internal control environment in a consistent and comparable manner, highlighting areas where targeted effort is needed to meet the standards required in order to create a safer and more secure bank for customers. It covers material risks and the key controls that underpin them, including financial, operational and compliance controls, as well as the supporting risk management frameworks.

The CEC outcomes, including forward-looking assessments for the next two half-yearly cycles and the progress made to improve the control environment, are reported to the Board, the Group Audit Committee and the Board Risk Committee ("BRC"). They are also shared with external auditors.

The CEC process helps to ensure compliance with the Group Policy Framework and Sarbanes-Oxley 404 requirements concerning internal control over financial reporting.

Risk appetite
The operational risk appetite framework supports effective management of key operational risks. It expresses the level and types of operational risk the Group is willing to accept in order to achieve its strategic objectives and business plans.

The Group's operational risk appetite is expressed through a set of qualitative risk appetite statements and quantitative measures which are defined at an aggregate, bank-wide and individual business level. Appetite covers the Group's most material operational risks, defined by a materiality assessment, which considers past, current and future risk exposures. Appetite exposures for all material risks are regularly reported to business risk committees, the, ERC and BRC.

The aggregation of operational risk appetite drives measurement of how effective the Group is managing its material risks across the core components of the operational risk management framework. It provides for an aggregate view of risk appetite, risk and control profile, loss event data management and control environment.

Above these sit the Group-level operational risk appetite statement which encompasses the full range of operational risks. This drives the strategic risk measurement of stakeholder confidence and is reviewed annually by the ERC. The statement is supported by three simple measures: (i) the relationship between operational risk losses and the Group's gross income; (ii) metrics covering control environment performance; and (iii) the requirement for the material the Group-wide operational risks to be managed within risk appetite.

Risk identification and assessment
Across all business areas, risk and control assessments are used to identify and assess material operational and conduct risks and key controls. To support identification of risk concentrations, all risks and controls are mapped to the risk directory. Risk assessments are refreshed at least annually to ensure they remain relevant and capture any emerging risks.

The process is designed to confirm that risks are effectively managed and prioritised in line with the stated risk appetite. Controls are tested at the appropriate frequency to verify that they remain fit-for-purpose and operate effectively.

During 2016, work continued on rolling out and embedding the enhanced end-to-end risk and control assessment methodology originally developed in 2015. This approach, which strengthens understanding of the risk profile of key products and services, is used to identify and quantify the most material operational risks. Subject matter experts and key stakeholders are engaged from across the Group to underpin management action in line with the Group's financial and non-financial appetite statement. Assessments were carried out on a number of critical products and services during 2016. The results of these assessments support the Group's ongoing journey to build on, and enhance, its control environment.

24. Risk management - operational risk (continued)

Risk mitigation
Risks are mitigated through the application of key preventative and detective controls. This is an integral step in the risk assessment methodology, which determines residual risk exposure. Control owners are accountable for the design, execution, performance and maintenance of key controls.

These key controls are regularly assessed for adequacy and tested for effectiveness. The control testing results are monitored and, where a material change in performance is identified, it results in a re-evaluation of the associated risk.

The Group purchases insurance to provide the business with financial protection against specific losses and to comply with statutory or contractual requirements.

Risk monitoring
Monitoring and reporting are part of the Group's operational risk management processes, which aim to ensure that risks are identified, considered by senior executives, and managed effectively. The most material operational risks and their position relative to risk appetite are regularly reviewed at the ERC, along with any emerging risks and the actions taken to mitigate them. These are also reported to the BRC. Exposures specific to each business are communicated through regular risk and control reports discussed at business risk committees.

Risk measurement
The Group uses the standardised approach to calculate its operational risk capital requirement. This is based upon multiplying three years' average historical gross income by coefficients set by the regulator based, on type of income.

As part of the wider Internal Capital Adequacy Assessment Process (ICAAP) an operational risk economic capital model is used as a key capital benchmark. The model uses loss data and scenario analysis inputs from the operational risk framework, plus external loss data and certain other factors to provide a risk-sensitive view of the Group's operational risk capital requirement.

Scenario analysis is used to assess how extreme but plausible operational risks will affect the Group. It provides a forward-looking basis for evaluating and managing operational risk exposures.

Event and loss data management
The operational risk event and loss data management process ensures the Group captures and records operational risk loss events that meet defined criteria. Loss data is used for regulatory and industry reporting and is included in capital modelling when calculating regulatory capital for operational risk.

The most serious events are escalated in a simple, standardised process to all senior management, by way of a 'Notifiable Event Process'.

All losses and recoveries associated with an operational risk event are reported against their financial accounting date. A single event can result in multiple losses (or recoveries) that may take time to crystallise. Losses and recoveries with a financial accounting date in 2016 may relate to events that occurred, or were identified in, prior years.

Pension risk

Definition
Pension obligation risk is the risk to the Group caused by its contractual or other liabilities to or with respect to a pension scheme (whether established for its employees or those of a related company or otherwise). It also means the risk that the Group will make payments or other contributions to or with respect to a pension scheme because of a moral obligation or because it considers that it needs to do so for some other reason.

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

24. Risk management - pension risk (continued)

Sources of risk (continued)
The Ulster Bank Pension Scheme (Republic of Ireland) ("UBPS") is the largest of the schemes and the main source of pension risk. It operates under trust deeds by which the corporate trustees are wholly owned subsidiaries of the Group. The trustee boards comprise seven directors selected by the Group and two directors nominated by members.

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

Risk mitigation
The trustee board is solely responsible for the investment of the scheme's assets which are held separately from the assets of the Group. The Group and the trustee board must agree on the investment principles and the funding plan. An Investment Review Committee is in place for the scheme, comprising Bank and trustee representatives, which has specific responsibility for scheme investment matters.

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

In November 2009, the scheme was closed to new employees.

During 2013, new funding agreements were put in place for the UBPS and FAPS under the revised Minimum Funding Standard framework which came into place in 2013 in the Republic of Ireland. These have resulted in funding plans requiring contributions for UBPS of €16.9m p.a. until 2023 and for FAPS of €6.8m p.a. until 2020 (in both cases increasing in line with inflation each year). For both schemes contingent asset arrangements have been put in place to cover the Risk Reserve requirements arising under the Minimum Funding Standard framework. These funding plans were reviewed as part of ongoing funding valuations during 2016 and remain in place; however UBIDAC and the Trustee of UBPSRI have agreed a €200m payment to be made in Q1 2017 which will remove the requirement for further payments under the existing UBPS funding plan.

A funding plan was put in place for the Lombard scheme during 2016 which requires contributions of €1.65m p.a. until 2025.

Credit risk

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

Sources of credit risk
The principal sources of credit risk for the Group are as follows:

Lending - the Group offers a number of lending products that involve an obligation to provide credit facilities to customers. To mitigate the risk of loss, security may be obtained in the form of physical collateral (such as commercial real estate assets and residential property) or financial collateral (such as cash and bonds). Exposures arising from leasing activities are also included.

Derivatives and securities financing - the Group enters into derivatives contracts and securities financing transactions. These result in counterparty credit risk, which is the risk of financial loss arising from the failure of a counterparty to meet obligations that vary in value by reference to a market rate or asset price. To mitigate the risk of loss, collateral and netting are used along with the additional legal rights provided under the terms of over-the-counter contracts.

Debt securities - the Group holds some debt securities for liquidity management purposes and is exposed to credit risk as a result.

Off-balance sheet products - the Group provides trade finance and guarantees for customers, as well as committed but undrawn lending facilities, and is exposed to credit risk as a result.

Other activities - the Group is exposed to settlement risk through its activities in foreign exchange, trade finance and payments.

24. Risk management - credit risk (continued)

Credit risk management function

Governance
As is standard practice in the industry, credit risk management activities are organised along two separate lines, wholesale and retail, reflecting the distinction between business types and consequent drivers of credit risk. Wholesale focuses on activities with institutional, corporate and SME customers. Retail covers personal customers, small businesses as well as personal lending activities in Private Banking. Nonetheless, many activities remain common to both business lines.

The activities of the Group's credit risk management functions, which is led by the Wholesale and Retail Chief Credit Officers, include:

- approving credit for customers;
- ensuring that credit risk is within the risk appetite set by the Board;
- managing concentration risk and credit risk control frameworks;
- developing and ensuring compliance with credit risk policies; and
- conducting assessments of provision adequacy.

Risk appetite
Risk appetite across all risk types is set by the Group's Board using specific quantitative targets under stress, including earnings volatility and capital adequacy. The credit risk frameworks take into account concentrations at Bank-wide level and have been designed to reflect factors that influence the ability to meet those targets. Tools such as stress testing and economic capital are used to measure credit risk volatility and develop links between the credit risk appetite frameworks and risk appetite targets. The frameworks are supported by a suite of policies and transaction acceptance standards that set out the risk parameters within which businesses must operate.

Risk models
The Group uses the output of credit risk models in the credit approval process - as well as for ongoing credit risk assessment, monitoring and reporting - to inform credit risk appetite decisions. These models are divided into different categories:

Model	Calculation method	Wholesale	Retail
Probability of Default	Individual counterparty	Each customer is assigned a probability of default (PD) rating and corresponding grade. PD is calculated using a combination of quantitative inputs, such as recent financial performance, and qualitative inputs such as management performance and sector outlook.	Each customer account is scored and models are used to assign a PD rating. Inputs vary across portfolios and include both internal account and customer level data, as well as data from credit bureaus. This score is used to support automated credit decision-making through the use of a statistically-derived scorecard.
Loss Given Default	Individual counterparty	Loss given default (LGD) models estimate the amount that would not be recovered in the event of a customer default. When estimating LGD, the Group's models assess both borrower and facility characteristics, as well as any credit risk mitigants. The cost of collections and a time-discount factor for the delay in cash recovery are also incorporated.	
Exposure At Default	Individual counterparty	Exposure at default (EAD) models provide estimates of credit facility utilisation at the time of a customer default, recognising that customers may make further drawings on unused credit facilities prior to default or that exposures may increase due to market movements. Regulatory requirements stipulate that EAD must always be equal to, or higher, than current utilisation, though exposures can be reduced by a legally enforceable netting agreement.	
Economic Capital	Portfolio level	The credit economic capital model is a framework that allows for the calculation of portfolio credit loss distributions and associated metrics over a given risk horizon for a variety of business purposes. The model takes into account migration risk (the risk that credit assets will deteriorate in credit quality across multiple years), factor correlation (the assumption that groups of obligors share a common factor) and contagion risk (for example, the risk that the weakening of the sovereign's credit worthiness has a significant impact on the creditworthiness of a business operating in that country).	

24. Risk management - credit risk (continued)

Risk models (continued)

Impact of credit model changes

The Group reviews and updates models on an ongoing basis in order to reflect the impact of more recent data, changes to products and portfolios, and new regulatory requirements.

Model changes affect year-on-year comparisons of risk measures in certain disclosures. Where meaningful, in commentary, differentiations are made between instances where movements in risk measures reflect the impact of model changes and those where such movements reflect changes in the size of underlying credit portfolios or their credit quality.

During the financial year the following changes were made on the retail mortgage portfolio:

- to mitigate the risk of impairment write-backs caused by unsustainable property price increases, a new methodology for incorporating the Central Statistics Office's residential property price index was introduced in quarter 2 2016.
- A revised criteria of loss events which trigger an impairment assessment was introduced in quarter 3 2016.
- A new empirically based loss-given-default model for performing and non-performing exposures was introduced in quarter 3 2016.
- To align with the revised criteria of loss events which trigger an impairment assessment, a new probability of default model was introduced in quarter 3 2016.

While the overall quantum of mortgage provisions remained constant, the implementation of the new methodology reduced by €260m the quantum of impairments calculated outside of the models, as the new suite captirues all key portfolio dynamics. The other major impact was a reallocation of a €230m provisions from the latent to the collective portfolio, which is directionally consistent with the risk profile of the portfolio.

The following table analyses the sensitivity of the Income Statement to key inputs to the credit risk models.

Metric	Sensitivity	2016 €m
Retail Probability of Default	1% movement in Good Book (across all segments)	18
Wholesale Probability of Default	1% movement	13
Probability of Default - Combined	**1% movement**	**31**
Wholesale Loss Given Default	1% movement in collective & latent LGD	2
Retail Loss Given Default	1% house price movement	12
Retail Loss Given Default	1% movement in cure rates	10
Retail Emergence Period	1 month increase	2
Wholesale Emergence Period	1 month increase	3
Emergence Period - Combined	**1 month increase**	**5**

24. Risk management – credit risk (continued)

Risk mitigation
Risk mitigation techniques are used in the management of credit portfolios across the Group, typically to mitigate credit concentrations in relation to an individual customer, a borrower group or a collection of related borrowers. Where possible, customer credit balances are netted against obligations. Mitigation tools applied can include: structuring a security interest in a physical or financial asset; use of credit derivatives, including credit default swaps, credit-linked debt instruments and securitisation structures; and use of guarantees and similar instruments (for example, credit insurance) from related and third parties. When seeking to mitigate risk, at a minimum the Group considers the following:
- the suitability of the proposed risk mitigation, particularly if restrictions apply;
- the means by which legal certainty is to be established, including required documentation, supportive legal opinions and the steps needed to establish legal rights;
- the acceptability of the methodologies to be used for initial and subsequent valuation of collateral, the frequency of valuations and the advance rates given;
- the actions which can be taken if the value of collateral or other mitigants is less than needed;
- the risk that the value of mitigants and counterparty credit quality may deteriorate simultaneously;
- the need to manage concentration risks arising from collateral types; and
- the need to ensure that any risk mitigation remains legally effective and enforceable.

For further information, refer to the sub-sections on wholesale credit risk management and retail credit risk management.

Counterparty credit risk
The Group mitigates counterparty credit risk arising from both derivatives transactions and repurchase agreements through the use of market standard documentation, enabling netting, and through collateralisation.

Amounts owed by the Group to a counterparty are netted against amounts the counterparty owes the Group, in accordance with relevant regulatory and internal policies. However, generally, this is only done if a netting agreement is in place. A legal opinion, to the effect that the agreement is enforceable in the relevant jurisdictions, is also required.

Collateral may consist of either cash or securities. Additional collateral may be called should the net value of the obligations to the Group rise or should the value of the collateral itself fall. The majority of agreements are subject to daily collateral calls with collateral valued using internal valuation methodologies.

The Group restricts counterparty credit exposures by setting limits that take into account the potential adverse movement of an exposure after adjusting for the impact of netting and collateral (where applicable).

Risk assessment and monitoring
Practices for credit stewardship - including credit assessment, approval and monitoring as well as the identification and management of problem debts - differ between the wholesale and retail portfolios. A key aspect of credit risk stewardship is ensuring that, when signs of impairment are identified, appropriate impairment provisions are recognised.

Impairment, provisioning and write-offs
In the overall assessment of credit risk, impairment, provisioning and write-offs are used as key indicators of credit quality.

Impairment
A financial asset is impaired if there is objective evidence that the amount, or timing, of future cash flows has been adversely affected. Days-past-due measures are typically used to identify evidence of impairment. In both wholesale and retail portfolios, a period of 90 days past due is used as an initial trigger. Other indicators of impairment include the borrower's financial condition; a forbearance event; a loan restructuring; the probability of bankruptcy; or evidence of diminished cash flows.

Provisioning
The amount of an impairment loss is measured as the difference between the asset carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The current net realisable value of the collateral will be taken into account in determining the need for a provision. This includes cash flows from foreclosure (less costs of obtaining and selling the collateral), whether or not foreclosure is probable. Impairment provisions are not recognised where amounts due are expected to be settled in full on the realisation of collateral. The Group uses one of the following three methods to quantify the provision required: individual; collective; and latent, as set out below:

24. Risk management – credit risk (continued)

Impairment, provisioning and write-offs (continued)

Provision method	Customer type	Quantification method	Key factors considered
Individual	Impaired, individually significant	Case-by-case assessment of future cash flows	• Customer and guarantor performance. • Value of collateral. • Future economic conditions based on factors available at the time.
Collective	Impaired but not individually significant, grouped into homogenous portfolios	Quantitative review of relevant portfolio	• Level of arrears. • Value of security. • Historical and projected cash recovery trends. • Current economic conditions. • Operational processes. • Latest cash collection profile.
Latent	Not impaired	PD% x LGD% x Drawn Balance x Emergence Period[1]	• For wholesale and retail customers PD, LGD, Drawn balance and Emergence Period. • Portfolio-level emergence periods are based on products or businesses with similar homogenous characteristics. Emergence periods range from 120 to 365 days.

[1]The emergence period is the period between the occurrence of an impairment event and a loan being identified and reported as impaired.

Wholesale

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

Risk assessment

Before credit facilities are made available to customers, a credit assessment is undertaken. The assessment process is the same for all customers. However, the Group's credit risk management is organised in terms of the complexity of the assessment rather than aligned to businesses. Credit is only granted to customers following joint approval by an approver from the business and the credit risk function.

These approvers act within a delegated approval authority under the wholesale Credit Authorities Framework (CAF).

The level of delegated authority held by approvers is dependent on their experience and expertise. Only a small number of senior executives hold the highest authority provided under the CAF. Both business and credit approvers are accountable for the quality of each decision taken but the credit risk approver holds ultimate sanctioning authority.

When assessing credit risk the following must be considered at a minimum:

- the amount, terms, tenor, structure, conditions, purpose and appropriateness of all credit facilities;
- compliance with relevant credit policies and transaction acceptance standards;
- the customer's ability to meet obligations, based on an analysis of financial information;
- a review of payment and covenant compliance history;
- the customer's risk profile, including sector, sensitivity to economic and market developments and management capability;
- legal capacity of the customer to engage in the transaction;
- credit risk mitigation including requirements for valuation and revaluation. The customer's credit grade and the loss given default estimate for the facilities, including any expected changes;
- the requirement for the provision of financial information, covenants and/or monitoring formulae to monitor the customer's financial performance;
- refinancing risk - the risk of loss arising from the failure of a customer to settle an obligation on expiry of a facility through the drawdown of another credit facility provided by the Group or by another lender;
- consideration of other risks such as environmental, social and ethical, regulatory and reputational risks; and
- the portfolio impact of the transaction, including the impact on any credit risk concentration limits or agreed business risk appetite.

Where the customer is part of a group, the credit assessment considers aggregated credit risk limits for the customer group as well as the nature of the relationship with the broader group (e.g. parental support) and its impact on credit risk. Credit relationships are reviewed and credit grades (PD and LGD) re-approved annually.

The review process addresses borrower performance, including reconfirmation or adjustment of risk parameter estimates; the adequacy of security; compliance with terms and conditions; and refinancing risk.

24. Risk management – credit risk (continued)

Wholesale (continued)

Risk mitigation
The Group mitigates credit risk relating to Wholesale customers through the use of netting, collateral and market standard documentation, depending on the nature of the counterparty and its assets. The most common types of mitigation are:

- Commercial real estate.
- Other physical assets - Including stock, plant, equipment, machinery, vehicles, ships and aircraft. Such assets are suitable collateral only if the Group can identify, locate, and segregate them from other assets on which it does not have a claim. The Group values physical assets in a variety of ways, depending on the type of asset and may rely on balance sheet valuations in certain cases.
- Receivables - These are amounts owed to the Group's counterparties by their own customers. The Group values them after taking into account the quality of its counterparty's receivable management processes and excluding any that are past due.

All collateral is assessed case by case to ensure that it will retain its value independently of the provider. The Group monitors the value of the collateral and, if there is a shortfall, will seek additional collateral.

Commercial real estate valuations
The Group has a panel of chartered surveying firms that cover the spectrum of geography and property sectors in which the Group takes collateral. The Group has a programme that identifies suitable valuers for particular assets, all of whom must be Members or Fellows of the Institute of Chartered Surveyors (MRICS, FRICS). They are contracted through a single service agreement to ensure consistency of quality and advice. Valuations are commissioned when an asset is taken as security; a material increase in a facility is requested; or an event of default is anticipated or has occurred.

Problem debt management

Early problem identification
Each segment has defined early warning indicators (EWIs) to identify customers experiencing financial difficulty, and to increase monitoring if needed. EWIs may be internal, such as a customer's bank account activity, or external, such as a publicly-listed customer's share price. If EWIs show a customer is experiencing potential or actual difficulty, or if relationship managers or credit officers identify other signs of financial difficulty they may decide to classify the customer within the Risk of Credit Loss Framework.

Risk of Credit Loss framework
In early 2016, the Risk of Credit Loss framework replaced the Group's previous Watchlist process for managing problem debts.

The new framework focuses on wholesale customers whose credit profiles have deteriorated since origination. Expert judgement is applied by experienced credit risk officers to classify cases into categories that reflect progressively deteriorating credit risk to the bank. There are two classifications which apply to non-defaulted customers within the framework - Heightened Monitoring and Risk of Credit Loss. The framework also applies to those customers that have met the Group's default criteria (AQ10 exposures).

Heightened Monitoring customers are performing customers who have met certain characteristics, which have led to material credit deterioration. Collectively, characteristics reflect circumstances that may affect the customer's ability to meet repayment obligations. Characteristics include trading issues, covenant breaches, material PD downgrades and past due facilities. Sector-specific characteristics also exist. Heightened Monitoring customers require pre-emptive actions (outside the customer's normal trading patterns) to return or maintain their facilities within the bank's current risk appetite prior to maturity.

Risk of Credit Loss customers are performing customers who have met the criteria for Heightened Monitoring and also pose a risk of credit loss to the bank in the next 12 months, should mitigating action not be taken or be successful.

24. Risk management - credit risk (continued)

Wholesale (continued)

Concentration risk management

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

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

Sector concentration - sector concentration risk arises from the potential for excessive exposure to exist to any one or combination of correlated industry sectors that could behave similarly under stressed conditions. Risk appetite and portfolio strategies are set at sector or sub-sector level in order to mitigate this potential risk where historic experience or trends in external factors or portfolio performance give cause for concern.

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

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

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

Asset quality *(*unaudited)

The table below shows the relationship between asset quality (AQ) band and PD.

AQ Band	Probability of default	Indicative S&P rating
AQ1	0% - 0.034%	AAA to AA
AQ2	0.034% - 0.048%	AA-
AQ3	0.048% - 0.095%	A+ to A-
AQ4	0.095% - 0.381%	BBB+ to BBB-
AQ5	0.381% - 1.076%	BB+ to BB
AQ6	1.076% - 2.153%	BB to B+
AQ7	2.153% - 6.089%	B+ to B
AQ8	6.089% - 17.222%	B- to CCC+
AQ9	17.222% - 100%	CCC to C
AQ10	1.000	D

24. Risk management - credit risk (continued)

Asset quality (unaudited) (continued)

The following table provides, for wholesale and retail assets combined, a breakdown of the credit quality of third party financial assets by AQ band.

	Group					
2016	**Cash and balances at central banks €m**	**Loans and advances to banks €m**	**Loans and advances to customers €m**	**Derivatives €m**	**Commitments €m**	**Contingent liabilities €m**
AQ1	290	1,799	311	925	17	19
AQ2	-	-	-	-	79	-
AQ3	-	2,801	356	11	388	128
AQ4	-	21	3,431	42	1,082	100
AQ5	-	1	7,803	10	1,052	56
AQ6	-	-	3,453	37	551	43
AQ7	-	-	813	-	245	43
AQ8	-	-	450	-	37	4
AQ9	-	-	1,415	-	9	1
AQ10	-	-	-	-	50	23
Accruing past due	-	-	1,656	-	-	-
Non–accrual	-	-	3,718	-	-	-
Impairment provisions	-	-	(1,392)	-	-	-
Total	**290**	**4,622**	**22,014**	**1,025**	**3,510**	**417**

	Group					
2015	Cash and balances at central banks €m	Loans and advances to banks €m	Loans and advances to customers €m	Derivatives €m	Commitments €m	Contingent liabilities €m
AQ1	343	1,145	252	782	60	-
AQ2	-	414	-	40	83	-
AQ3	-	2,260	303	36	431	122
AQ4	-	2	1,804	29	953	99
AQ5	-	-	5,755	4	790	30
AQ6	-	-	7,460	1	509	83
AQ7	-	-	938	-	224	29
AQ8	-	-	492	-	42	2
AQ9	-	-	2,167	-	8	3
AQ10	-	-	-	3	61	29
Accruing past due	-	-	1,413	-	-	-
Non–accrual	-	-	6,454	-	-	-
Impairment provisions	-	-	(4,134)	-	-	-
Total	343	3,821	22,904	895	3,161	397

24. Risk management - credit risk (continued)

Asset quality (unaudited) (continued)

	Bank					
	Cash and balances at central banks	**Loans and advances to banks**	**Loans and advances to customers**	**Derivatives**	**Commitments**	**Contingent liabilities**
2016	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
AQ1	290	1,480	796	885	17	19
AQ2	-	-	-	-	79	-
AQ3	-	2,801	356	11	388	128
AQ4	-	21	3,431	42	1,082	100
AQ5	-	1	7,803	10	1,052	56
AQ6	-	-	3,453	37	551	43
AQ7	-	-	813	1	245	43
AQ8	-	-	450	-	37	4
AQ9	-	-	1,415	-	9	1
AQ10	-	-	-	-	50	23
Accruing past due	-	-	1,656	-	-	-
Non–accrual	-	-	3,718	-	-	-
Impairment provisions	-	-	(1,392)	-	-	-
Total	**290**	**4,303**	**22,499**	**986**	**3,510**	**417**

	Bank					
	Cash and balances at central banks	Loans and advances to banks	Loans and advances to customers	Derivatives	Commitments	Contingent liabilities
2015	€m	€m	€m	€m	€m	€m
AQ1	343	686	631	706	60	-
AQ2	-	414	-	40	83	-
AQ3	-	2,261	303	36	431	122
AQ4	-	2	1,804	29	953	99
AQ5	-	-	5,755	4	790	30
AQ6	-	-	7,459	1	509	83
AQ7	-	-	938	-	224	29
AQ8	-	-	492	-	42	2
AQ9	-	-	2,167	-	8	3
AQ10	-	-	-	3	61	29
Accruing past due	-	-	1,413	-	-	-
Non–accrual	-	-	6,454	-	-	-
Impairment provisions	-	-	(4,134)	-	-	-
Total	343	3,363	23,282	819	3,161	397

Loans and advances to customers, past due at balance sheet date but not considered impaired are shown in Note 10.

24. Risk management - credit risk (continued)

Credit risk concentrations

Credit risk assets by industry and geography
Industry analysis plays an important part in assessing the potential for concentration risk in the loan portfolio. Particular attention is given to industry sectors where the Group believes there is a high degree of risk or potential for volatility in the future.

The tables below analyse financial assets by geographical region (based on location of transaction office) and sector.

	Group				
	Gross loans and advances to banks and customers	**Debt securities and equity shares**	**Derivatives**	**Total**	**Netting and offset** [1]
2016	**€m**	**€m**	**€m**	**€m**	**€m**
Republic of Ireland					
Central and local government	32	2,329	-	2,361	-
Manufacturing	470	-	6	476	3
Construction	211	-	-	211	6
Finance	4,952	-	949	5,901	28
Service industries and business activities	2,487	-	69	2,556	61
Agriculture, forestry and fishing	523	-	-	523	19
Property	925	-	1	926	2
Individuals		-			
Home mortgages	17,877	-	-	17,877	-
Other	474	-	-	474	-
Interest accruals	20	17	-	37	-
Total Republic of Ireland	**27,971**	**2,346**	**1,025**	**31,342**	**119**
UK					
Manufacturing	2	-	-	2	-
Service industries and business activities	47	-	-	47	-
Property	8	-	-	8	-
Total UK	**57**	**-**	**-**	**57**	**-**
Total					
Central and local government	32	2,329	-	2,361	-
Manufacturing	472	-	6	478	3
Construction	211	-	-	211	6
Finance	4,952	-	949	5,901	28
Service industries and business activities	2,534	-	69	2,603	61
Agriculture, forestry and fishing	523	-	-	523	19
Property	933	-	1	934	2
Individuals					
Home mortgages	17,877	-	-	17,877	-
Other	474	-	-	474	-
Interest accruals	20	17	-	37	-
	28,028	**2,346**	**1,025**	**31,399**	**119**

[1] For notes relating to this table refer to page 88.

24. Risk management - credit risk (continued)

Credit risk concentrations (continued)

Credit risk assets by industry and geography (continued)

	Group				
2015	Gross loans and advances to banks and customers €m	Debt securities and equity shares €m	Derivatives €m	Total €m	Netting and offset[1] €m
Republic of Ireland					
Central and local government	43	2,572	-	2,615	-
Manufacturing	626	-	3	629	8
Construction	476	-	2	478	25
Finance	4,206	7	812	5,025	-
Service industries and business activities	3,269	-	76	3,345	83
Agriculture, forestry and fishing	624	-	1	625	22
Property	1,887	-	1	1,888	3
Individuals					
Home mortgages	18,753	-	-	18,753	-
Other	437	-	-	437	-
Interest accruals	24	-	-	24	-
Total Republic of Ireland	30,345	2,579	895	33,819	141
UK					
Manufacturing	10	-	-	10	-
Construction	55	-	-	55	-
Service industries and business activities	112	-	-	112	-
Property	337	-	-	337	-
Total UK	514	-	-	514	-
Total					
Central and local government	43	2,572	-	2,615	-
Manufacturing	636	-	3	639	8
Construction	531	-	2	533	25
Finance	4,206	7	812	5,025	-
Service industries and business activities	3,381	-	76	3,457	83
Agriculture, forestry and fishing	624	-	1	625	22
Property	2,224	-	1	2,225	3
Individuals					
Home mortgages	18,753	-	-	18,753	-
Other	437	-	-	437	-
Interest accruals	24	-	-	24	-
	30,859	2,579	895	34,333	141

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

24. Risk management - credit risk (continued)

Credit risk concentrations (continued)

Credit risk assets by industry and geography (continued)

	Bank				
	Gross loans and advances to banks and customers	Debt securities and equity shares	Derivatives	Total	Netting and offset [(1)]
2016	€m	€m	€m	€m	€m
Republic of Ireland					
Central and local government	32	2,329	-	2,361	-
Manufacturing	470	-	6	476	3
Construction	211	-	-	211	6
Finance	5,122	7,731	910	13,763	28
Service industries and business activities	2,483	-	69	2,552	61
Agriculture, forestry and fishing	523	-	-	523	19
Property	925	-	1	926	2
Individuals					
Home mortgages	17,877	-	-	17,877	-
Other	474	-	-	474	-
Interest accruals	20	17	-	37	-
Total Republic of Ireland	**28,137**	**10,077**	**986**	**39,200**	**119**
UK					
Manufacturing	2	-	-	2	-
Service industries and business activities	47	-	-	47	-
Property	8	-	-	8	-
Total UK	**57**	**-**	**-**	**57**	**-**
Total					
Central and local government	32	2,329	-	2,361	-
Manufacturing	472	-	6	478	3
Construction	211	-	-	211	6
Finance	5,122	7,731	910	13,763	28
Service industries and business activities	2,530	-	69	2,599	61
Agriculture, forestry and fishing	523	-	-	523	19
Property	933	-	1	934	2
Individuals					
Home mortgages	17,877	-	-	17,877	-
Other	474	-	-	474	-
Interest accruals	20	17	-	37	-
	28,194	**10,077**	**986**	**39,257**	**119**

[(1)] For note relating to this table refer page 90.

24. Risk management - credit risk (continued)

Credit risk concentrations (continued)

Credit risk assets by industry and geography (continued)

	Bank				
2015 Restated	Gross loans and advances to banks and customers €m	Debt securities and equity shares €m	Derivatives €m	Total €m	Netting and offset[1] €m
Republic of Ireland					
Central and local government	43	2,572	-	2,615	-
Manufacturing	626	-	3	629	8
Construction	476	-	2	478	25
Finance	4,126	9,316	736	14,178	-
Service industries and business activities	3,269	-	76	3,345	83
Agriculture, forestry and fishing	624	-	1	625	22
Property	1,887	-	1	1,888	3
Individuals					
Home mortgages	18,753	-	-	18,753	-
Other	437	-	-	437	-
Interest accruals	24	-	-	24	-
Total Republic of Ireland	30,265	11,888	819	42,972	141
UK					
Manufacturing	10	-	-	10	-
Construction	55	-	-	55	-
Service industries and business activities	112	-	-	112	-
Property	337	-	-	337	-
Total UK	514	-	-	514	-
Total					
Central and local government	43	2,572	-	2,615	-
Manufacturing	636	-	3	639	8
Construction	531	-	2	533	25
Finance	4,126	9,316	736	14,178	-
Service industries and business activities	3,381	-	76	3,457	83
Agriculture, forestry and fishing	624	-	1	625	22
Property	2,224	-	1	2,225	3
Individuals					
Home mortgages	18,753	-	-	18,753	-
Other	437	-	-	437	-
Interest accruals	24	-	-	24	-
	30,779	11,888	819	43,486	141

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

24. Risk management – credit risk (continued)

Retail credit risk management

Retail credit risk management within the Group is conducted in line with the common policies, procedures, frameworks and models that apply across the Group.

Risk appetite

The Group uses a credit risk appetite framework to control credit risk for its retail businesses. The framework sets limits that measure and control, for each relevant franchise or reportable segment, the quality of both existing and new business. The actual performance of each portfolio is tracked relative to these limits and action taken where necessary. These limits apply to a range of credit risk-related measures including expected loss of the portfolio, the expected loss in a given stress scenario, projected credit default rates and the LTV of retail mortgage portfolios.

Retail credit risk assessment

Retail lending entails making a large number of small-value loans. To ensure that these lending decisions are made consistently, the Group analyses credit information, including the historical debt servicing behaviour of customers with respect to both the Group and their other lenders. The Group then sets its lending rules accordingly, developing different rules for different products. The process is somewhat automated, with customers receiving a credit score that reflects a comparison of their credit profile with the rule set. For relatively high-value, complex personal loans, including all residential mortgage lending, specialist credit managers make the final lending decision, having considered the application in totality.

Retail risk mitigation

The Group takes collateral in the form of residential property to mitigate the credit risk arising from mortgages and home equity lending. The Group values residential property during the loan underwriting process by either appraising properties individually or valuing them collectively using statistically valid models. The Group updates residential property values quarterly using the relevant residential property index, namely the Central Statistics Office residential property price index

Problem debt management

The management of retail mortgage customers in financial difficulty has been developed considering both Code of Conduct on Mortgage Arrears (CCMA) requirements and the steps outlined in the Mortgage Arrears Resolution Process ("MARP") ensuring that:

- Each customer's individual circumstances are taken account of while treating them in a consistent manner.
- The reason for non payment of arrears is established and a sustainable solution for the borrower is sought.

The extensive range of forbearance solutions made available to customers as part of Mortgage Arrears Resolution Strategies ("MARS") increases engagement options available to mortgage customers in financial difficulty with the twin aims of providing:

- Suitable customers with an appropriate vehicle to long term sustainability.
- Avenues for customers with unsustainable mortgages to exit their home in a way that minimises the impact to both the customer and the Bank.

Forbearance

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

Where the customer met the loan terms prior to modification and there is a realistic expectation that the customer will adhere to forbearance terms, these loans may in certain restricted circumstances (including appropriate consideration of probation periods) be classified as performing loans.

Identification of forbearance

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

Forbearance options include, but are not limited to:

- **Payment concessions** - a temporary reduction in, or elimination of, the periodic (usually monthly) loan repayment is agreed with the customer. At the end of the concessionary period, forborne principal and accrued interest outstanding is scheduled for repayment over an agreed period. The Group also offers payment concessions in the form of discounted interest rates that involve the forgiveness of some interest.
- **Capitalisation of arrears** - the customer repays the arrears over the remaining term of the mortgage and returns to an up-to-date position.
- **Term extensions** - the maturity date of the loan is extended.
- **Interest only conversions** - the loan converts from principal and interest repayment to interest only repayment on a permanent or temporary basis.

24. Risk management – credit risk (continued)

Retail credit risk management (continued)

Forbearance (continued)

For unsecured portfolios, payment plans can be arranged for customers in difficulty. Arrangements to facilitate the repayment of overdraft excesses or loan arrears are generally agreed dependent on affordability. Where repayment arrangements are not affordable, debt consolidation loans may be provided to customers.

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

	2016		2015	
Arrears status and provisions	**Balance €m**	**Provisions €m**	Balance €m	Provisions €m
No missed payments	**2,764**	**339**	3,380	432
1-3 months in arrears	**953**	**152**	778	138
>3 months in arrears	**1,537**	**432**	2,006	633
Total	**5,254**	**923**	6,164	1,203

The incidence of the main types of retail forbearance on the balance sheet as at 31 December 2016 is analysed below. Definitions are based on those used within the CBI forbearance guidelines.

	2016 €m	2015 €m
Interest only conversions - temporary and permanent	**320**	465
Term extensions – capital repayment & interest only	**368**	350
Payment concession/holidays	**3,283**	3,880
Capitalisation of arrears	**1,283**	1,469
Total	**5,254**	6,164

Impairments for forbearance
The methodology used for provisioning and impairments for forborne loans will clearly differ depending on whether the loans are performing or non-performing.

For the latent calculation, an extended emergence period is applied to account for the impact of forbearance within the portfolio. Additionally, for portfolios with material forbearance, forborne loans form a separate risk pool for calibration purposes.

For non-performing loans, forborne loans which result in an economic loss to the group form a separate risk pool where specific LGDs are allocated using observed performance of these loans.

Recoveries
- Once a loan has been identified as impaired, it is managed by recoveries teams in the relevant businesses. The teams seek to minimise the Group's loss by maximising cash recovery while treating customers fairly.
- Where an acceptable repayment arrangement cannot be agreed with the customer litigation may be considered. Additionally, certain forbearance options are made available to customers managed by the recoveries function.

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

24. Risk management - credit risk (continued)

	Group	
	2016	2015
Residential mortgages – distribution by average LTV (1)	**%**	%
<=50%	42.0	38.4
>50% and <=60%	9.2	8.3
>60% and <=70%	10.3	8.6
>70% and <=80%	9.7	9.0
>80% and <=90%	8.3	8.1
>90% and <=100%	6.4	6.8
>100%	14.1	20.8
Total portfolio average LTV at 31 December	74.6	83.4
Average LTV on new originations during the financial year	75.2	76.6

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

The tables below show period-end exposure weighted LTV analyses for the Group's residential mortgage portfolio split between performing and non-performing as per current methodology. 2015 data has been refreshed using the incumbent definition of non-performing to enable a like-for-like comparison. The tables highlight the relatively weaker quality of non-performing exposures. Project Oyster effects are clearly visible in the >130% LTV non-performing cohort.

	2016	2015
Performing residential mortgages average LTV by exposure	**€m**	€m
<70%	**6,752**	5,775
>70% and <=90%	**3,424**	3,127
>90% and <=110%	**2,369**	2,510
>110% and <=130%	**1,235**	2,003
>130%	**135**	547
Total	**13,915**	13,962
Total portfolio average by LTV	**70.8%**	77.5%

	2016	2015
Non-performing residential mortgages average LTV by exposure	**€m**	€m
<70%	**992**	958
>70% and <=90%	**718**	709
>90% and <=110%	**923**	943
>110% and <=130%	**879**	1,131
>130%	**450**	1,048
Total	**3,962**	4,789
Total portfolio average by LTV	**93.3%**	102.2%

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

	Group	
	2016	2015
Retail	**%**	%
Mortgages	**8.7**	9.5

24. Risk management - credit risk (continued)

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

	2016	2015
	€m	€m
Derivative assets gross exposure	**28**	42

	2016		2015	
Non-performing corporate loans (excluding commercial real estate)	**Loans**	**Provisions**	Loans	Provisions
	€m	**€m**	€m	€m
Secured	**171**	**142**	1,189	1,059
Unsecured	**6**	**6**	37	33

Market risk

Definition
Market risk is the risk of losses arising from fluctuations in interest rates, credit spreads, foreign currency rates, equity prices, commodity prices and other factors, such as market-implied volatilities, that may lead to a reduction in earnings, economic value or both.

The principal market risks to which the Group is exposed to are non-trading interest rate and foreign exchange risks as a result of its retail and commercial banking activities. Traded market risk from customer derivative and foreign exchange activities is eliminated by entering into back-to-back positions with RBS plc.
The following disclosures in this section are audited:

- Traded market risk - Internal VaR
- Non-traded market risk:
  - Interest rate VaR and
  - Foreign exchange risk

Sources of risk

Traded market risk
Traded market risk is limited to over-the-counter customer derivatives and foreign exchange transactions executed with the Markets business. As above, traded market risk is eliminated by a hedging programme executing back-to-back positions with RBS plc.

Non-traded market risk
The majority of non-traded market risk exposure arises from retail and commercial banking activities and from the High Quality Liquid Asset portfolio and investment of equity capital.

Non-traded market risk largely comprises interest rate risk and foreign exchange risk.

Interest rate risk
Non-traded interest rate risk (NTIRR) arises from the provision to customers of a range of banking products that have differing interest rate characteristics and from non-interest bearing assets and liabilities on the balance sheet. When aggregated, these products form portfolios of assets and liabilities with varying degrees of sensitivity to changes in market interest rates. Mismatches in these characteristics can give rise to volatility in net interest income as interest rates vary.

NTIRR comprises three primary risk factors: gap risk, basis risk and option risk which are detailed further on page 96.

Credit spread risk
Credit spread risk arises from the potential adverse economic impact of a move in the spread between bond yields and swap rates, where the bond portfolios are accounted at fair value in the non-trading book.

Foreign exchange risk
Non-traded foreign exchange risk exposures arise from three main sources:

- **Structural foreign exchange risk** - arising from the capital deployed in foreign subsidiaries, branches and joint arrangements and related currency funding where it differs from sterling.
- **Transactional foreign currency exposure** - arising from mismatches in the currency balance sheet.
- **Foreign currency profit streams**

24. Risk management (continued)

Sources of risk (continued)

Equity risk
Non-traded equity risk is the potential variation in income and reserves arising from changes in the values of non-trading book equity positions. Equity exposures may arise through strategic acquisitions and certain restructuring arrangements.

Accounting volatility risk
Accounting volatility risk arises when a non-trading book exposure is accounted at amortised cost but economically hedged by a derivative that is accounted at fair value. Although this is not an economic risk, the difference in accounting between the exposure and the hedge creates volatility in the income statement.

Pension risk
Pension-related activities also give rise to market risk.

Risk governance
Responsibility for identifying, measuring, monitoring and controlling the market risk arising from trading or non-trading activities lies with Markets and Treasury respectively, with second-line-of-defence oversight provided by the Market Risk function.

Market risk positions are reported monthly to the Group ALCo and the Group's Executive Risk Committee and quarterly to the Board Risk Committee. In addition, Market Risk maintains daily and monthly monitoring.

RBS Executive Risk Forum (ERF) approves Group market risk frameworks. Market risk policy statements set out the governance and risk management framework through effective identification, measurement, reporting, mitigation, monitoring and control and are approved by the Group ALCO.

The Group's policy is to manage risk exposures within an appetite that is set by the ERF and endorsed by the Group ALCo. This appetite is expressed in the form of exposure limits.

Risk appetite
The Group's qualitative market risk appetite is set out in policy statements.

Its quantitative market risk appetite is expressed in terms of limits for the non-trading activities that are consistent with business plans. De-minimis traded market risk limits are approved to cover any timing issues with booking the back-to-back hedging.

Market risk cascades the non-traded limits further down the organisation as required to Treasury desks. For each desk, a document known as a dealing authority compiles details of all applicable limits and trading restrictions.

The limit framework at the Group level comprises VaR, stressed value-at-risk (SVaR) and sensitivity and stress limits.

The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments.

To ensure approved limits are not breached and that the Group remains within its risk appetite, triggers at the Group and lower levels have been set such that if exposures exceed a specified level, action plans are developed by the front office, Market Risk and Finance.

Risk identification and assessment
Identification and assessment of traded and non-traded market risk is achieved through gathering, analysing, monitoring and reporting market risk information by business line or at a consolidated level. Industry expertise, continued system developments and techniques such as stress testing are also used to enhance the effectiveness of the identification and assessment of all material market risks.

This is complemented by the New Product Risk Assessment process, which requires market risk teams to assess and quantify the market risk associated with all proposed new products.

Risk monitoring
Traded and non-traded market risk exposures are monitored against limits and analysed daily by market risk reporting and control functions and monthly in the case of Structural interest rate risk.

The Market Risk function also prepares daily risk reports that detail exposures against a more granular set of limits and triggers. Limit reporting is supplemented with stress testing information as well as ad hoc reporting.

24. Risk management – market risk (continued)

Risk measurement

The Group uses a comprehensive set of methodologies and techniques to measure traded and non-traded market risk.

The main risk measurement methods are VaR, SVaR, sensitivity and Earnings at Risk. Risks that are not adequately captured by VaR or SVaR are captured by the Risks not in VaR (RNIV) framework to ensure that the Group is adequately capitalised for market risk. In addition, stress testing is used to identify any vulnerabilities and potential losses in excess of VaR and SVaR.

The key inputs into these measurement methods are market data and risk factor sensitivities. Sensitivities refer to the changes in deal or portfolio value that result from small changes in market parameters that are subject to the market risk limit framework. Revaluation ladders are used in place of sensitivities to capture the impact on the income statement of large moves in risk factors or the joint impact of two risk factors.

These methods have been designed to capture correlation effects and allow the Group to form an aggregated view of its traded market risk across risk types, markets and business lines while also taking into account the characteristics of each risk type.

Risk assessment, monitoring and mitigation

Interest rate risk
Non-traded interest rate risk (NTIRR) factors are grouped into the following categories:

- Gap risk - which arises from the timing of rate changes in non-trading book instruments. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).
- Basis risk - which captures the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices, or on the same interest rate indices but with different tenors.
- Option risk - which arises from option derivative positions or from optional elements embedded in assets, liabilities and/or off-balance sheet items, where the Group or its customer can alter the level and timing of their cash flows. Option risk can be further characterised into automatic option risk and behavioural option risk.

NTIRR can be measured from either an economic value-based or earnings-based perspective (or both). Value-based approaches measure the change in value of the balance sheet assets and liabilities over a longer timeframe, including all cash flows. Earnings-based approaches measure the potential short-term (generally one year) impact on the income statement of charges in interest rates.

The Group uses both approaches to quantify its interest rate risk: VaR as its value-based approach and sensitivity of net interest income (NII) as its earnings-based approach.

24. Risk management – market risk (continued)

Risk assessment, monitoring and mitigation (continued)

Calculation of regulatory capital
The Group capitalises non-traded market risk as part of the Pillar 2A Internal Capital Adequacy Assessment Process (ICAAP). The approach combines both earnings based and economic value based methodologies, in accordance with regulatory guidelines. The calculation captures the principal sources of non-traded market risk – interest rate risk, basis risk, credit spread risk, structural foreign exchange risk and accounting volatility risk.

Pillar 1 capital must be held for non-trading book foreign exchange exposures, as outlined under CRR Articles 455 and 92(3)c. Structural foreign exchange exposures are excluded from the calculations as outlined under CRR Article 352(2); such exposures are considered under Pillar 2A.

Total VaR

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

	31 December 2016	**Maximum**	**Minimum**	**Average**
	€m	**€m**	**€m**	**€m**
Value-at-Risk	**1.1**	**2.0**	**0.5**	**1.0**

	31 December 2015	Maximum	Minimum	Average
	€m	€m	€m	€m
Value-at-Risk	0.9	1.4	0.5	0.8

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

Interest Rate VaR is presented in the table below:

	31 December 2016	**Maximum**	**Minimum**	**Average**
	€m	**€m**	**€m**	**€m**
Value-at-Risk	**1.0**	**1.6**	**0.5**	**0.9**

	31 December 2015	Maximum	Minimum	Average
	€m	€m	€m	€m
Value-at-Risk	0.8	1.2	0.5	0.8

25. Memorandum items

Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2016. Although the Group is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of the Group's expectation of future losses.

	Group and Bank	
	2016	2015
	€m	€m
Contingent liabilities:		
Guarantees and assets pledged as collateral security [1]	**179**	179
Other contingent liabilities	**238**	218
	417	397
Commitments:		
Documentary credits and other short-term trade related transactions	**2**	4
Commitments to lend:		
- less than one year	**1,223**	1,065
- one year and over	**2,261**	2,000
Other commitments	**24**	92
	3,510	3,161

(1) The amount of guarantees and assets pledged as collateral security includes €31m in 2016 (2015: €33m) incurred on behalf of or for the benefit of fellow subsidiary undertakings.

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

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

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

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

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

Regulatory enquiries and investigations - in the normal course of business the Bank and its subsidiaries co-operate with regulatory authorities in various jurisdictions in their enquiries or investigations into alleged or possible breaches of regulations.

Additional contingent liabilities arise in the normal course of the Group's business. It is not anticipated that any material losses will arise from these transactions.

25. Memorandum items (continued)

Commitments (continued)
The Bank has given guarantees on the liabilities of the following subsidiary undertakings in accordance with the provision of Section 357 of the Companies Act 2014 and these entities will avail of the exemptions under Section 357 regarding the provisions of Sections 347 and 348.

Easycash (Ireland) Limited
First Active Insurances Services Limited
First Active Investments No.4 Limited
Hume Street Nominees Limited
Meritvale Limited
Norgay Property Limited
The RBS Group Ireland Retirement Savings Trustee Limited
UB SIG (ROI) Limited
Ulster Bank Group Treasury
Ulster Bank Wealth Unlimited Company
Walter Property Limited
West Register (Republic of Ireland) Property Limited

Contractual obligations for future expenditure not provided in the financial statements

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

	Group and Bank	
	2016	2015
	€m	€m
Contracts to purchase goods or services	**5**	11

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

CBI tracker mortgage review
The CBI has written to Irish banks requiring lenders to conduct a complete review of their mortgage loan books (including redeemed or sold loans as required) to assess compliance with both contractual and regulatory requirements relating to tracker mortgages and in situations where customer detriment is identified from the review, provide appropriate redress and compensation in order to ensure fair outcomes for customers. The request for a review was received by the Group in a formal letter from the CBI on 22 December 2015. The review requires a detailed plan to be submitted followed by the completion of monthly data templates. In addition the Group is required to submit a final report that details the methodology used in conducting the review and includes assurance and sign off by an independent party on all aspects of the work carried out. The report must detail any findings on customer detriment and the proposals in respect of redress and compensation where relevant. The bank has booked a provision of €206m during the year based on the expected costs incurred in carrying out the review.

Separately, on 15 April 2016, the CBI notified the Group that it was also commencing an investigation under its Administrative Sanctions Procedure into suspected breaches of the Consumer Protection Code 2006 during the period 4 August 2006 to 30 June 2008 in relation to certain customers who switched from tracker mortgages to fixed rate mortgages.

FCA review of RBS's treatment of SMEs
In November 2013, a report by Lawrence Tomlinson, entrepreneur in residence at the UK Government's Department for Business Innovation and Skills, was published ("Tomlinson Report"). The Tomlinson Report was critical of RBS's treatment of SMEs.

The Tomlinson Report was passed to the PRA and FCA. Shortly thereafter, the FCA announced that an independent Skilled Person would be appointed under section 166 of the Financial Services and Markets Act to review the allegations in the Tomlinson Report. On 17 January 2014, a Skilled Person was appointed. The Skilled Person's review was focused on RBS's UK small and medium sized business customers with credit exposures of up to £20 million whose relationship was managed within RBS's GRG or within similar units within RBS's commercial banking division that were focused on customers in financial difficulties. In the period 2008 to 2013 RBS was one of the leading providers of credit to the UK SME sector.

25. Memorandum items (continued)

FCA review of RBS's treatment of SMEs (continued)
Separately, in November 2013, RBS instructed the law firm Clifford Chance to conduct an independent review of the principal allegation made in the Tomlinson Report: RBS was alleged to be culpable of systematic and institutional behaviour in artificially distressing otherwise viable businesses and, through that, putting businesses into insolvency. Clifford Chance published its report on 17 April 2014 and, while it made certain recommendations to enhance customer experience and transparency of pricing, it concluded that there was no evidence to support the principal allegation.

A separate independent review of the principal allegation, led by Mason Hayes & Curran, Solicitors, was conducted in the Republic of Ireland. The report was published in December 2014 and found no evidence to support the principal allegation.

The Skilled Person review focussed on the allegations made in the Tomlinson Report and certain observations made by Sir Andrew Large in his 2013 Independent Lending Review, and was broader in scope than the reviews undertaken by Clifford Chance and Mason, Hayes & Curran which are referred to above. The Skilled Person delivered the draft findings from its review to the FCA in March 2016. RBS was then given the opportunity to consider and respond to those draft findings before the Skilled Person delivered its final report to the FCA during September 2016.

On 8 November 2016, the FCA published an update on its review. In response, RBS announced steps that will impact SME customers in the UK and the Republic or Ireland that were in GRG between 2008 and 2013. These steps are (i) an automatic refund of certain complex fees; and (ii) a new complaints process, overseen by an Independent Third Party. These steps have been developed with the involvement of the FCA which agreed that they are appropriate for RBS to take.

The Group estimates the costs associated with the new complaints review process and the automatic refund of complex fees to be approximately €11m, which has been recognised as a provision at 31 December 2016. This includes operational costs together with the cost of refunded complex fees and the additional estimated redress costs arising from the new complaints process.

Anti-money laundering ("AML") remediation
The Group is engaged with the CBI in relation to a long-running AML remediation project. A settlement meeting was held with the CBI and a fine of €3.3m has been paid.

26. Net cash flow from operating activities

	Group		Bank	
	2016	2015	**2016**	Restated 2015
	€m	€m	**€m**	€m
Net cash flow from trading activities	**(2,774)**	(6,565)	**(2,430)**	(6,196)
Decrease in loans and advances to banks and customers	**3,677**	10,557	**3,571**	11,012
Decrease/(increase) in debt securities	**2**	(158)	**1,580**	614
Decrease/(increase) in other assets	**68**	(44)	**68**	(57)
(Increase)/decrease in derivative assets	**(130)**	(2)	**(167)**	34
Changes in operating assets	**3,617**	10,353	**5,052**	11,603
Increase/(decrease) in deposits by banks and customers	**1,445**	(3,398)	**(560)**	(4,974)
Increase/(decrease) in other liabilities	**116**	(29)	**117**	(23)
Increase/(decrease) in derivative liabilities	**239**	(130)	**(13)**	(218)
Changes in operating liabilities	**1,800**	(3,557)	**(456)**	(5,215)
Total taxes paid	**(3)**	(11)	**(2)**	(4)
Net cash inflow from operating activities	**2,640**	220	**2,164**	188

27. Interest received and paid

	Group		Bank	
	2016	2015	**2016**	2015
	€m	€m	**€m**	€m
Interest received	**590**	656	**632**	743
Interest paid	**(35)**	(207)	**(221)**	(384)
	555	449	**411**	359

28. Analysis of changes in financing during the financial year

	Group					
	Share capital and share premium		**Subordinated liabilities**		**Debt securities in issue**	
	2016	2015	**2016**	2015	**2016**	2015
	€m	€m	**€m**	€m	**€m**	€m
At 1 January	**4,734**	4,734	**725**	897	**2,005**	2,180
Net cash flows from financing	**-**	-	**-**	(174)	**(628)**	(175)
Currency translation and other adjustments	**-**	-	**(6)**	2	**-**	-
At 31 December	**4,734**	4,734	**719**	725	**1,377**	2,005

	Bank			
	Share capital and share premium		**Subordinated liabilities**	
	2016	2015	**2016**	2015
	€m	€m	**€m**	€m
At 1 January	**4,734**	4,734	**725**	897
Net cash flows from financing	**-**	-	**-**	(174)
Currency translation and other adjustments	**-**	-	**(6)**	2
At 31 December	**4,734**	4,734	**719**	725

29. Analysis of cash and cash equivalents

	Group		Bank	
	2016	2015	**2016**	2015
	€m	€m	**€m**	€m
At 1 January				
Cash	**805**	843	**347**	306
Cash equivalents	**3,458**	3,217	**3,457**	3,165
	4,263	4,060	**3,804**	3,471
Net cash inflow	**707**	193	**848**	323
Effect of exchange rate changes on cash and cash equivalents	**(4)**	10	**(4)**	10
At 31 December	**4,966**	4,263	**4,648**	3,804
Comprising:				
Cash and balances at central banks	**290**	343	**290**	343
Debt securities	**177**	175	**177**	175
Loans and advances to banks	**4,499**	3,745	**4,181**	3,286

30. Divisional analysis

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

The Group reports on a divisional basis as follows:

Retail Banking, including Business Direct customers, provides loan and deposit products through a network of branches and direct channels.

Commercial Banking provides services to business and corporate customers.

Other is central functions comprising Group and corporate functions such as treasury, finance, risk, legal, problem debt management, communications and human resources which support the Retail Banking and Commercial Banking divisions.

Class of Business	**Group**						
	Total income						
2016	**Net interest income €m**	**Non-interest income €m**	**Total €m**	**Operating expenses before depreciation €m**	**Depreciation and amortisation €m**	**Impairment gain €m**	**Operating profit before tax €m**
Retail Banking	376	103	479	(296)	-	19	202
Commercial Banking	123	79	202	(55)	-	119	266
Other	(10)	(5)	(15)	(411)	(10)	-	(436)
Total	**489**	**177**	**666**	**(762)**	**(10)**	**138**	**32**

Class of Business	**Group**						
	Total income						
2015	Net interest income €m	Non-interest income €m	Total €m	Operating expenses before depreciation €m	Depreciation and amortisation €m	Impairment gain €m	Operating profit before tax €m
Retail Banking	346	97	443	(100)	-	112	455
Commercial Banking	115	72	187	(52)	-	81	216
Other	12	73	85	(388)	(12)	736	421
Total	473	242	715	(540)	(12)	929	1,092

	Group			
Class of Business	**2016**		2015	
	Assets €m	**Liabilities €m**	Assets €m	Liabilities €m
Retail Banking	**17,759**	**10,127**	18,268	9,878
Commercial Banking	**4,737**	**9,306**	4,891	8,201
Other	**8,198**	**4,773**	7,860	5,104
Total	**30,694**	**24,206**	31,019	23,183

30. Divisional analysis (continued)

Geographical divisions	**Group**					
	2016			2015		
	Republic of Ireland	**United Kingdom**	**Total**	Republic of Ireland	United Kingdom	Total
	€m	**€m**	**€m**	€m	€m	€m
Total Income	**656**	**10**	**666**	715	-	715
Operating profit before tax	**22**	**10**	**32**	1,072	20	1,092
Net assets/(liabilities)	**6,665**	**(177)**	**6,488**	7,838	(2)	7,836
Total assets	**30,638**	**56**	**30,694**	30,782	237	31,019

31. Transactions with directors

Transactions, agreements entered into by authorised institutions in respect of loans to persons who were directors of the Bank (or persons connected with them) at any time during the financial period were as follows:

Directors

	Principal and interest				
	As at 1 January (or date of appointment if later)	As at 31 December	Maximum outstanding amount during the financial year	Interest due but not yet paid	Provision
Name of director	€	€	€	€	€
D O'Shea [1]	525,283	485,991	525,283	-	-

(1) Mortgage loans held at commercial interest rates. During the period €39,291 was repaid.

Connected parties

Pursuant to the provisions of the Companies Act 2014 the amounts required to be disclosed are as follows:

- the aggregate amounts outstanding as at 31 December 2016 were €151,478,
- the aggregate maximum amounts outstanding during the period were €207,763,
- the number of relevant persons for or with whom relevant transactions as at 31 December 2016 were made by the institution was 6, and
- the maximum number of relevant persons for or with whom relevant transactions, arrangements and agreements that subsisted at any time during the period were made by the institution was 6.

There were no guarantees, security or arrangements involving a guarantee or security entered into by authorised institutions in the Group in respect of guarantees to persons who were directors of the Bank (or persons connected with them) at any time during the financial period.

At 31 December 2016, the total amount outstanding under any arrangement by the Bank with any director or person connected to a director was less than 10% of the Bank’s total assets.

There were no amounts outstanding at 31 December 2016 (2015: €nil) in respect of loans made to directors by subsidiary undertakings which were not authorised institutions.

32. Directors’ and secretary's interest in shares

At 31 December 2016, the directors and secretary did not have any interest in the shares or debentures of The Royal Bank of Scotland Group plc representing more than 1% of the nominal value of its issued share capital.

33. Related parties

The Bank's immediate parent company is Ulster Bank Holdings (ROI) Limited.

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

For the financial year ended 31 December 2016 the smallest subgroup into which the Bank is consolidated is Ulster Bank Limited, a company incorporated in Northern Ireland. Copies of the consolidated financial statements for this subgroup can be obtained from The Secretary, Ulster Bank Limited, 11-16 Donegall Square East, Belfast, BT1 5UB, or at www.rbs.com.

UK Government

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

The following table details active related undertakings incorporated in the Republic of Ireland which are 100% owned by the Group and fully consolidated for accounting purposes.

Entity name	Activity(1)
Easycash (Ireland) Limited	SC
First Active Insurances Services Limited	BF
First Active Investments No. 4 Limited	INV
Hume Street Nominees Limited	OTH
Norgay Property Limited	INV
The RBS Group Ireland Retirement Savings Trustee Limited	TR
UB SIG (ROI) Limited	INV
Ulster Bank Wealth Unlimited Company	INV
Walter Property Limited	INV
West Register (Republic of Ireland) Property Limited	INV

The following table details active related undertakings incorporated in the Republic of Ireland where the Group ownership is less than 100%.

Entity name	Activity (1)	Accounting treatment (2)	Group Interest %
Qulpic Limited	INV	FC	67
Zrko Limited	INV	FC	67
The Drive4Growth Company Limited	OTH	IA	20

The following table details related undertakings incorporated in the Republic of Ireland that are not active but fully consolidated.

Entity name	Activity (1)	Accounting treatment (2)	Group Interest %
Meritvale Limited	INV	FC	100
Ulster Bank Group Treasury Limited	INV	FC	100
Ulster Bank Investment Funds Limited	INV	FC	100
Ulster International Finance	INV	FC	100

Notes:

(1) Activity - Banking and Financial institution (BF), Other/non-financial (OTH), Service Company (SC), Investment (shares or property) holding company (INV), Trustee (TR)

(2) Accounting treatment - Fully consolidated (FC), Investment Accounting (IA)

33. Related parties (continued)

There are certain securitisation companies in which the Bank does not hold any of the voting rights but the activities of those companies are conducted on behalf of the Bank and it retains the majority of the residual ownership risks and benefits related to their activities. Therefore in accordance with the requirements of IFRS 10 the results of these securitisation companies are included in the Group's consolidated financial statements.

During the financial year the Group had the following transactions with related parties:

(a) Directors and key management

At 31 December 2016, amounts advanced by the Bank were €492,673 in respect of loans to 3 persons who served as directors during the financial period.

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

	Number of directors	Number of key management	Connected parties	Transaction €
Transactions during the financial year				
Loans made during the financial year:				
– at a commercial rate	-	1	1	78,722
Balances outstanding at the end of the financial year				
Loans:				
- at a commercial rate	3	7	6	1,398,062
- at a preferential rate	-	3	-	342,147
Customer accounts:				
- Savings	5	10	25	3,513,086

33. Related parties (continued)

(b) Related party transactions

Included in the Group and Bank's balance sheet are the following balances with related parties at the financial year end:

	Group		Bank	
	2016	2015	**2016**	2015
Assets	**€m**	€m	**€m**	€m
Loans and advances:				
Parent companies	**1,799**	1,138	**1,480**	679
Key management	**2**	2	**2**	2
Other related parties, including fellow subsidiaries	**160**	226	**8,772**	13,029
	1,961	1,366	**10,254**	13,710
Equity shares:				
Other	**6**	7	**6**	7
Derivatives:				
Parent companies	**916**	766	**877**	690
Total assets	**2,883**	2,139	**11,137**	14,407
Liabilities				
Deposits:				
Parent companies	**147**	109	**146**	78
Key management	**3**	2	**3**	2
Other related parties, including fellow subsidiaries	**142**	190	**9,737**	14,233
	292	301	**9,886**	14,313
Subordinated loans:				
Parent companies	**614**	616	**614**	616
Other related parties, including fellow subsidiaries	**16**	17	**16**	17
	630	**633**	**630**	**633**
Derivatives:				
Parent companies	**740**	557	**204**	274
Total liabilities	**1,662**	1,491	**10,720**	15,220

33. Related parties (continued)

(c) Compensation of key management

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

	Group	
	2016	2015
	€	€
Short term benefits	**4,048,276**	3,495,977
Termination benefit	**289,484**	206,604
Long term benefits	**509,322**	413,200
Share-based benefits	**157,843**	347,168
Post-employment benefits	**164,773**	88,269
	5,169,698	4,551,218

34. Post balance sheet events

On 1 January 2017 Ulster Bank Limited sold its investment in UBIH, including its interest in the Group, to NatWest Holdings Limited, the holding company for the ring-fenced bank entities in RBS Group.

35. Restatement

The 2015 Bank balance sheet has been restated to adjust for €2,413m of loans and advances to customers and customer accounts balances representing intra entity balances that should have been eliminated at UBIDAC Bank level. There is no impact on the Group balance sheet. The 2014 Bank balance sheet is presented as the opening statement of financial position as required under IAS 8.

BALANCE SHEET *as at 31 December 2015*

	Bank		
	Previously reported 2015	Adjustment 2015	Restated 2015
	€m	€m	€m
Assets			
Loans and advances to customers	25,695	(2,413)	23,282
Total assets	25,695	(2,413)	23,282
Liabilities			
Customer accounts	32,075	(2,413)	29,662
Total liabilities	32,075	(2,413)	29,662

BALANCE SHEET *as at 31 December 2014*

	Bank		
	Previously reported 2014	Adjustment 2014	Restated 2014
	€m	€m	€m
Assets			
Loans and advances to customers	29,165	(2,783)	26,382
Total assets	29,165	(2,783)	26,382
Liabilities			
Customer accounts	35,160	(2,783)	32,377
Total liabilities	35,160	(2,783)	32,377

36. Date of approval

The financial statements were approved by the Board of Directors on 15 February 2017.

37. Capital resources - unaudited

Capital regulation

The EU adopted legislative package, known as CRD IV which came into force on 1 January 2014. CRD IV consists of the Capital Requirements Regulation ("CRR") which is directly applicable across firms in the EU, and the new Capital Requirements Directive ("CRD"), which has been implemented by member states of the European Economic Area through national law. CRD IV is designed to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework. Some of the new provisions of CRD IV are being introduced on a phased basis until 2018.

The Bank Recovery and Resolution Directive ("BRRD") marks another step by European authorities in improving the stability of the financial system. The new framework is intended to enable resolution authorities to resolve failing banks with a lower risk of triggering contagion to the broader financial system, while sharing the costs of resolution with bank shareholders and creditors. To achieve this objective, the BRRD includes explicit provisions for the 'bail-in' of senior creditors where necessary.

Capital management

The objectives of the Group's capital management and risk appetite framework are to at all times comply with the regulatory capital requirements and to ensure that the Group has sufficient capital to cover the current and future risk inherent in its business and to support its future development.

The Group achieves this through a semi-annual Internal Capital Adequacy Assessment Process ("ICAAP"), which is subject to supervisory review and evaluation. This is the Group's main capital management tool and gives a clear picture of the Group's capital and material risks. The key stages in this ICAAP process are as follows:

- A Material Integrated Risk Assessment (MIRA) process conducted semi-annually reviews all material risks as defined in the Risk Directory and the relevant risk management framework and identifies those that require a Pillar 2 capital assessment for risks not already captured under Pillar 1.
- A Risk Appetite Statement is prepared, consistent with the Group's business strategy. The risk appetite is set annually at and is monitored on a quarterly basis by measuring the current risk profile against the risk appetite.
- Financial planning which incorporates stress testing drives the levels of required capital to support growth plans and meet regulatory requirements. Base and stress capital plans over a 5 year timeframe are produced as part of the integrated financial planning process;
- The final stage of the ICAAP is the clear identification and quantification of additional risks identified in the MIRA process not considered already sufficiently capitalised within the Pillar 1 calculations. The objective is to demonstrate that the Group maintains adequate capital resources in excess of minimum regulatory capital requirements and in line with internal base and stress assessments and short to medium term business objectives.

37. Capital resources - unaudited (continued)

The Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV - which was enacted in Irish law by S.I. No. 158 of 2014 and S.I. No. 159 of 2014) requirements are being implemented on a phased basis from 1 January 2014, with full implementation from 1 January 2019. The capital resources disclosures for 2016 below reflect the transition arrangements of the legislation together with the CBI guidance (Implementation of Competent Authority Discretions and Options in CRD IV and CRR) on the application of transitional rules in Ireland.

	Unaudited(1) **2016** **€m**	Unaudited(1) 2015 €m
Shareholders' equity (excluding non-controlling interests)	**6,487**	7,835
Non-controlling interests		
Non-controlling interests per balance sheet	**1**	1
Other adjustments to non-controlling interests for regulatory purposes	**(1)**	(1)
	-	-
Regulatory adjustments and deductions		
Own Credit	**(3)**	-
Defined benefit pension fund adjustment	**71**	193
Deferred tax assets	**(59)**	(28)
Excess of expected losses over impairment provisions	**(116)**	(12)
Qualifying deductions exceeding AT1 capital	**(39)**	(9)
Other regulatory adjustments	**(79)**	(230)
	(225)	(86)
Core tier 1 capital	**6,262**	7,749
Deductions		
Excess of expected losses over impairment provisions	**(39)**	(9)
Qualifying deductions exceeding AT1 capital	**39**	9
Total tier 1 capital	**6,262**	7,749
Qualifying tier 2 capital		
Paid up capital instruments and subordinated loans	**649**	670
Tier 2 deductions		
Residual amount for shortfall of provisions to expected loss	**(39)**	(9)
	(39)	(9)
Total tier 2 capital	**610**	661
Total regulatory capital	**6,872**	8,410
Key capital ratios	**%**	%
Tier 1	**29.8**	29.6
Total capital	**32.7**	32.1
Risk weighted assets by risk		
Credit risk	**18,987**	24,143
Counterparty risk	**589**	470
Market risk	**14**	10
Operational risk	**1,419**	1,563
Total risk weighted assets	**21,009**	26,186

(1) The capital metrics included in the above table have not been audited for the financial years ended 31 December 2016 and 31 December 2015.

37. Capital resources - unaudited (continued)

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

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

38. Non-performing exposures - unaudited

A non-performing exposure (NPE), as defined by the European Banking Authority, is a credit exposure:

- that is considered to be impaired; or
- that is in default; or
- that is a material exposure that is more than 90 days past-due; or
- where the debtor is assessed as unlikely to fulfil the credit obligations in full without realisation of collateral regardless of the existence of any past-due amount or number of days past-due; or
- that is an exposure to a debtor where more than 20% of the on-balance sheet exposures to that debtor are more than 90 days past due (the pulling effect); or
- that is a performing forborne contract under probation that is extended additional forbearance measures or becomes more than 30 days past-due (there is a 2 year probation period from the date that a forborne exposure is classified as performing before classification as forborne can be discontinued).

NPEs include financial instruments at amortised cost, financial instruments at fair value other than held-for-trading and off balance sheet exposures.

An exposure is no longer considered to be non-performing when it is not impaired, not in default and has no amount past due by more than 90 days; however a non-performing exposure that has been extended forbearance must be classified as non-performing for a minimum of 12 months with consideration taken of the financial situation of the debtor before classification as performing. Following the forbearance measures, there is not any past-due amount regarding the full repayment of the exposure according to the post forbearance conditions.

The additional criteria that distinguish NPEs from impaired loans mean that the Group's NPEs must by definition be greater than the impaired loans. These include the mandatory 12 month classification of forborne balances as non-performing, the 20% pulling effect, that consideration is not given to collateral in the determination of non-performing exposures, the 90 days past-due automatic threshold for designation as non-performing for non-forborne balances and the 30 days past-due threshold for performing forborne balances under probation. Under IAS 39 the past-due more than 90 days exposures would all be assessed for impairment.

The table below shows the Group's NPEs at the balance sheet date.

	Group	
	2016	2015
	€m	€m
Non-performing exposures	**4,754**	8,223
- of which are impaired	**3,718**	6,454