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Lombard & Ulster Limited

Consolidated financial statements

Year ended 30 November 2001

Company registration number NI6915

REGISTERED
06 MAY 2002
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Lombard & Ulster Limited

Directors' report and financial statements

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Lombard & Ulster Limited

Directors and other information

Directors	C P Sullivan (Chairman) R D Brodie D J Burgess J J Conn C G Knowles N Pearce
Secretary	D J Lewis
Bankers	Ulster Bank Limited Waring Street Belfast
Solicitors	Carson and McDowell Murray House Murray Street Belfast Comerton & Hill Murray House Murray Street Belfast
Auditors	Deloitte & Touche 19 Bedford Street Belfast BT2 7EJ
Registered office	11-16 Donegall Square East Belfast BT1 5UB
Company registration number	NI 6915

Lombard & Ulster Limited

Directors' report

The directors have pleasure in presenting their report and the consolidated financial statements for the year ended 30 November 2001.

Principal activity

The Group's principal activities throughout the year have been the acceptance of deposits and provision of banking services, instalment credit and leasing facilities.

Results

The profit on ordinary activities before taxation was £5,962,000 (2000:£6,372,000) on which there was a taxation charge of £1,631,000 (2000:£2,195,000) and a minority interest of £531,000 (2000:£521,000). The directors do not recommend the payment of a dividend (2000:£14,500,000) leaving a retained profit of £3,800,000 (2000: loss £10,844,000) which is transferred to/(from) reserves.

Directors

The present members of the Board are shown on page 1 of these accounts.

R D Brodie, C G Knowles, N Pearce and C P Sullivan were all appointed to the Board on 1 August 2001.

W B Kingston and R A H Boucher resigned from the Board on 13 November 2001 and 15 January 2002 respectively. J J McNally and G J Simms both resigned from the Board on 31 December 2001.

D J Burgess retires by rotation and being eligible offers himself for re-election. In accordance with the Articles of Association, R D Brodie, C G Knowles, N Pearce and C P Sullivan retire and being eligible offers themselves for re-election.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements ;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies (Northern Ireland) Order 1986.
They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Lombard & Ulster Limited

Directors' report *(continued)*

Directors' interests

(i) *Interests in share capital*

No director had an interest in the share capital of the company. Interests of directors in the share capital of the ultimate holding company are shown in note 33 to these financial statements.

(ii) *Interests in contracts*

No director had at any time during the year a material interest in any contract that was significant in relation to the company's business.

Donations to charity

The Group made donations aggregating to £5,617 (2000: £7,859) to UK charitable organisations during the year. No political contributions were made.

Payment of suppliers

The bank does not follow any code or statement on payment practice but recognises the importance of maintaining good business relationships with its suppliers and is committed to paying all invoices within 30 days of invoice or otherwise within agreed terms. At the financial year end there were no payments outstanding to suppliers.

Auditors

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

D J Lewis
Secretary

28 February 2002

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Belfast BT2 7EJ

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Deloitte & Touche

Independent auditors' report to the members of Lombard & Ulster Limited

We have audited the financial statements of Lombard & Ulster Limited for the year ended 30 November 2001 which comprise the profit and loss account, the balance sheets, and the related notes 1 to 35. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Northern Ireland) Order 1986. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 November 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986.

Deloitte & Touche

DELOITTE & TOUCHE
Chartered Accountants and Registered Auditors

28 February 2002

Lombard & Ulster Limited

Consolidated profit and loss account

Year ended 30 November 2001

	Note	2001 £000	2000 £000
Interest receivable		**41,753**	50,477
Interest payable		**(25,177)**	(32,241)
Net interest income:		**16,576**	18,236
Fees and commission receivable		**1,362**	1,328
Fees and commission payable		**(1,832)**	(1,730)
Other operating income		**1**	2
Operating income		**16,107**	17,836
Administrative expenses	3	**(6,361)**	(6,689)
Depreciation charge		**(433)**	(332)
Other operating charges		**(566)**	(693)
Provision for bad and doubtful debts		**(2,785)**	(3,750)
		(10,145)	(11,464)
Operating profit and profit on ordinary activities before taxation	5	**5,962**	6,372
Taxation on profit on ordinary activities	7	**(1,631)**	(2,195)
Profit on ordinary activities after taxation	8	**4,331**	4,177
Minority interests - equity		**(531)**	(521)
Profit for the financial year		**3,800**	3,656
Dividends on equity shares	9	**-**	(14,500)
Retained profit/(loss) for the year	23	**3,800**	(10,844)

All items dealt with in arriving at profit for the financial year for 2001 relate to continuing operations. Figures for 2000 include the results of discontinued operations as set out in note 2.

The Group has no recognised gains or losses other than the profit for the year after taxation.

The notes on pages 8 to 27 form part of these financial statements.

Lombard & Ulster Limited

Consolidated balance sheet
At 30 November 2001

	Note	2001 £000	2001 £000	2000 £000	2000 £000
Assets					
Cash and balances at central banks			**1**		-
Loans and advances to banks	*10*		**-**		4,427
Loans and advances to customers	*11*		**405,116**		423,555
Operating lease assets	*13*		**51,148**		39,033
Tangible fixed assets	*15*		**1,141**		1,103
Other assets	*16*		**4,140**		1,174
Prepayments and accrued income			**1,607**		2,274
			463,153		471,566
Liabilities					
Deposits by banks	*17*		**396,913**		353,508
Customer accounts	*18*		**1,520**		46,747
Other liabilities	*19*		**940**		7,020
Accruals and deferred income			**5,297**		10,499
Provision for liabilities and charges:					
Deferred taxation	*20*		**4,085**		3,725
Subordinated liabilities:					
Dated loan capital	*21*		**8,500**		8,500
Minority equity interests			**5,294**		4,763
Ordinary share capital	*22*	**4,000**		4,000	
Profit and loss account	*23*	**36,604**		32,804	
Equity shareholders' funds	*24*		**40,604**		36,804
			463,153		471,566
Memorandum items	*29*				
Guarantees			**3,081**		3,522
Other contingent liabilities			**-**		-
			3,081		3,522
Commitments			**-**		-

The financial statements were approved by the board of directors on 28 February 2002 and signed on its behalf by:

R D Brodie
Director

The notes on pages 8 to 27 form part of these financial statements.

Lombard & Ulster Limited

Balance sheet

At 30 November 2001

	Note	2001		2000	
		£000	**£000**	£000	£000
Assets					
Cash and balances at central banks			**1**		-
Loans and advances to banks	*10*		**37**		2,767
Loans and advances to customers	*11*		**319,713**		333,696
Shares in group undertakings	*14*		**739**		739
Tangible fixed assets	*15*		**376**		353
Other assets	*16*		**5,695**		616
Prepayments and accrued income			**1,321**		1,379
			327,882		339,550
Liabilities					
Deposits by banks	*17*		**291,598**		259,694
Customer accounts	*18*		**983**		46,747
Other liabilities	*19*		**573**		5,296
Accruals and deferred income			**4,046**		2,466
Subordinated liabilities:					
Dated loan capital	*21*		**8,500**		8,500
Ordinary share capital	*22*	**4,000**		4,000	
Profit and loss account	*23*	**18,182**		12,847	
Equity shareholders' funds	24		**22,182**		16,847
			327,882		339,550
Memorandum items	*29*				
Guarantees			-		-
Other contingent liabilities			-		-
			-		-
Commitments			-		-

The financial statements were approved by the board of directors on 28 February 2002 and signed on its behalf by:

R D Brodie
Director

The notes on pages 8 to 27 form part of these financial statements.

Lombard & Ulster Limited

Notes

(forming part of the consolidated financial statements)

1 Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards. The principal accounting policies are set out below:

Basis of consolidation

The Group financial statements comprise the financial statements of the company for the year ended 30 November 2001 and those of all subsidiary undertakings. Where, for commercial reasons, the accounting reference dates of subsidiaries are dates other than 30 November, interim accounts up to 30 November have been used. This does not apply to JCB Finance Limited where audited accounts to 30 September 2001 have been consolidated.

Accounting convention

The Group financial statements have been prepared in accordance with the historical cost convention and in compliance with the special provisions relating to banking groups contained in Part VIII of, and Schedule 9 to, the Companies (Northern Ireland) Order 1986, as amended by the Companies (1986 Order) (Bank Accounts) Regulations (Northern Ireland) 1992.

Provision for bad and doubtful debts

Provisions for bad and doubtful debts are made as considered necessary. Provisions made (less amounts released) during the year are charged against profits. Advances are written down to estimated realisable value when the normal banking relationship with the borrower has ceased. Where the collection of interest is in significant doubt it is credited to a suspense account. Suspended interest is written off when there is no longer any realistic prospect of it being recovered.

Deferred taxation

Provision for deferred taxation is made on all timing differences to the extent that it is probable that a liability or asset will arise. It is calculated at the rates expected to be applicable when the liabilities or assets are expected to crystallise.

Instalment credit agreements

Income from instalment credit agreements is credited to interest income over the period during which the repayments fall due in proportion to the monthly balances outstanding. These balances are included under Loans and Advances to Customers after deducting unearned charges.

Assets leased to customers

Income from finance leases and operating leases is credited to interest income in proportion to the funds invested. The amounts receivable under finance lease agreements are included under Loans and Advances to Customers after deducting unearned charges. The depreciated cost of operating leased assets is disclosed separately.

Government grants

Grants receivable in respect of leased assets are treated as deferred income which is credited to the profit and loss account over the estimated economic lives of the related assets.

Lombard & Ulster Limited

Notes *(continued)*

1 Accounting policies *(continued)*

Depreciation
Expenditure on short leasehold property is amortised in equal annual instalments over the unexpired period of the lease.

Motor cars and office equipment are depreciated on a straight line basis over the estimated useful lives as follows:

Motor cars	-	4 years
Office equipment	-	5-10 years

Pension costs
The pension cost relating to the scheme operated by the Group is assessed in accordance with the advice of independent qualified actuaries so as to recognise the cost of pensions on a systematic basis over employees' service lives.

Profit sharing payments
The profit sharing entitlements of employees under the Royal Bank of Scotland Group Profit Sharing Scheme for the current year are accrued in the year in which they are earned.

Cash flow statement
The directors have relied upon the exemptions detailed in the Financial Reporting Standard No. 1 – Cash Flow Statement, and have therefore not prepared a cash flow statement as the ultimate parent undertaking, The Royal Bank of Scotland Group plc, a company incorporated in Great Britain and registered in Scotland, has prepared a group cash flow statement incorporating the cash flows of the company.

Related party transactions
Since 100% of the company's voting rights are controlled within the group of companies of which it is a member, the company has taken advantage of the exemption not to disclose transactions with entities that are part of the group or investees of the group qualifying as related parties.

2 Discontinued Operations - Disposal of Business Banking Division

On 2 October 2000 the Business Banking division of the company, comprising primarily a property loan book, was transferred at net book value to Ulster Bank Limited. The asset transfer was effected by way of a novation and the payment of a special dividend as capital support. The net asset value was £131,668,000 and results attributable to this division included in the company's comparative profit and loss account were as follows:

	2000
	£000
Interest receivable	**8,741**
Interest payable	**(6,273)**
Net interest income	**2,468**
Net fees and commissions payable	**(121)**
Other operating income	**5**
Administrative expenses	**(461)**
Provision for bad and doubtful debts	**190**
	2,081

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Notes *(continued)*

3 Administrative expenses

	2001 £000	2000 £000
Staff costs:		
- wages and salaries	**4,270**	4,253
- social security costs	**548**	395
- other pension costs (note 26)	**443**	520
Other administrative expenses	**1,100**	1,521
	6,361	6,689

4 Average number of employees

The average number of persons employed by the Group during the year was as follows:

	2001 No.	2000 No.
Managers	**10**	17
Clerical staff	**141**	139
	151	156

5 Profit on ordinary activities before tax

	2001 £000	2000 £000
Is stated after:		
Income		
Aggregate amounts receivable, including capital repayments, under finance leases, hire purchase and conditional sale contracts	**261,056**	405,782
Operating lease rentals	**15,559**	11,530
Operating lease depreciation	**(11,059)**	(8,333)
Amortisation of capital grants	**604**	726
Expenditure		
Interest on subordinated loan capital	**526**	607
Profit sharing payments	**204**	216
Rent payable on leasehold properties	**250**	358
Auditors' remuneration for - audit work	**40**	28
- non-audit work	**2**	9

Lombard & Ulster Limited

Notes *(continued)*

6 Directors emoluments

	2001	2000
	£000	£000
Total emoluments received by directors	**171**	184

Retirement benefits are accruing to the following number of directors under:

	Number of directors	
	2001	2000
Defined benefit schemes	**3**	3

7 Tax on group profit on ordinary activities

The taxation charge based on the profits for the year is made up as follows:

	2001	2000
	£000	£000
Corporation tax at 30%	**1,271**	1,831
Deferred taxation (note 20)	**360**	364
	1,631	2,195

8 Profit for the financial year

£5,335,000 (2000:£1,919,000) of the Group's profit for the financial year has been dealt with in the financial statements of the company. The profit and loss account of the company is not presented by virtue of the exemption contained within Article 238 of the Companies (Northern Ireland) Order 1990.

9 Dividends

	2001	2000
	£000	£000
Equity dividends on ordinary shares	**-**	14,500

Lombard & Ulster Limited

Notes *(continued)*

10 Loans and advances to banks

	Group 2001 £000	Company 2001 £000	Group 2000 £000	Company 2000 £000
Remaining maturity:				
3 months or less	-	37	4,427	2,767
Amounts include:				
Due from parent and fellow subsidiary undertakings	-	37	4,398	2,738

11 Loans and advances to customers

	Group 2001 £000	Company 2001 £000	Group 2000 £000	Company 2000 £000
Remaining maturity:				
3 months or less	51,079	178,219	77,026	206,464
1 year or less but over 3 months	72,159	55,230	218,593	18,821
5 years or less but over 1 year	282,860	90,749	132,437	110,433
Over 5 years	7,271	694	3,194	2,694
Bad and doubtful debt provision	(8,253)	(5,179)	(7,695)	(4,716)
	405,116	319,713	423,555	333,696
Amounts are unsubordinated and include:				
Due from subsidiary undertakings	-	180,567	-	185,330

Group amounts of loans and advance to customers include £51,816,000 (2000:£69,788,000) receivable under finance leases and £337,827,000 (2000:£350,696,000) in respect of instalment credit agreements.

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Notes *(continued)*

12 Provision for bad and doubtful debts

Group	**2001 Total £000**	2000 Total £000
At 1 December 2000	**7,695**	6,842
Charge against profits	**2,785**	3,750
Amounts written off net of recoveries	**(2,227)**	(2,897)
At 30 November 2001	**8,253**	7,695

These provisions relate to amounts held in respect of loans and advances to customers and are all specific, inclusive of a £2,423,000 latent provision.

Company	**2001 Total £000**	2000 Total £000
At 1 December 2000	**4,716**	4,489
Charge against profits	**1,796**	2,308
Amounts written off net of recoveries	**(1,333)**	(2,081)
At 30 November 2001	**5,179**	4,716

These provisions relate to amounts held in respect of loans and advances to customers and are all specific, inclusive of a £2,100,000 latent provision.

13 Operating lease assets

Group	*Cost £000*	*Accumulated depreciation £000*	*Net book value £000*
At 1 December 2000	50,713	(11,680)	39,033
Additions	26,446	-	26,446
Disposals	(10,100)	6,828	(3,272)
Charge for year	-	(11,059)	(11,059)
At 30 November 2001	**67,059**	**(15,911)**	**51,148**

There are no operating lease assets in the company.

Notes *(continued)*

14 Shares in Group undertakings

Company	**2001** **£000**	2000 £000
Cost at 1 December 2000 and 30 November 2001	**739**	739

The subsidiaries of Lombard and Ulster Limited are as follows:

	Business	*Incorporated in*
Lombard & Ulster Facilities Limited	Leasing	Northern Ireland
Lombard & Ulster Industrial Limited	Leasing	Northern Ireland
Lombard & Ulster Leasing Limited	Leasing	Northern Ireland
Lombard & Ulster Plant Limited	Leasing	Northern Ireland
JCB Finance Limited	Credit Finance and Leasing	Great Britain

The company holds 100% of the equity share capital of all subsidiary undertakings apart from JCB Finance Limited where the holding is 75%.

15 Tangible fixed assets

The Group	*Short leasehold land & buildings* £000	*Motor cars and office equipment* £000	*Total* £000
Cost			
At 1 December 2000	343	3,148	3,491
Additions	-	665	665
Disposals	-	(540)	(540)
At 30 November 2001	**343**	**3,273**	**3,616**
Accumulated depreciation:			
At 1 December 2000	343	2,045	2,388
Disposals	-	(346)	(346)
Charge for year	-	433	433
At 30 November 2001	**343**	**2,132**	**2,475**
Net book value			
At 30 November 2001	**-**	**1,141**	**1,141**
At 30 November 2000	-	1,103	1,103

Lombard & Ulster Limited

Notes *(continued)*

15 Tangible fixed assets *(continued)*

The Company	*Short leasehold land & buildings* £000	*Motor cars and office equipment* £000	*Total* £000
Cost			
At 1 December 2000	343	1,788	2,131
Additions	-	194	194
Disposals	-	(135)	(135)
At 30 November 2001	**343**	**1,847**	**2,190**
Accumulated depreciation:			
At 1 December 2000	343	1,435	1,778
Disposals	-	(117)	(117)
Charge for year	-	153	153
At 30 November 2001	**343**	**1,471**	**1,814**
Net book value			
At 30 November 2001	-	**376**	**376**
At 30 November 2000	-	353	353

Future capital expenditure:

There is no authorised or contracted expenditure which is not provided for in the financial statements.

Lombard & Ulster Limited

Notes *(continued)*

16 Other assets

	Group 2001 £000	**Company 2001 £000**	Group 2000 £000	Company 2000 £000
Trade debtors	**577**	**-**	1,042	235
Dividends receivable	**-**	**4,000**	-	-
Other	**3,563**	**1,318**	132	4
Deferred tax (note 20)	**-**	**377**	-	377
	4,140	**5,695**	1,174	616

17 Deposits by banks

	Group 2001 £000	**Company 2001 £000**	Group 2000 £000	Company 2000 £000
With agreed maturity dates:				
3 months or less but not repayable on demand	**396,913**	**291,598**	343,645	249,831
1 year or less but over 3 months	**-**	**-**	23	23
5 years or less but over 1 year	**-**	**-**	9,840	9,840
	396,913	**291,598**	353,508	259,694
Amounts include:				
Due to parent and fellow subsidiary undertakings	**395,216**	**289,901**	341,830	248,033

18 Customer accounts

	Group 2001 £000	**Company 2001 £000**	Group 2000 £000	Company 2000 £000
Repayable on demand	**-**	**-**	-	-
With agreed maturity dates:				
3 months or less but not repayable on demand	**1,520**	**983**	41,423	41,423
1 year or less but over 3 months	**-**	**-**	5,324	5,324
	1,520	**983**	46,747	46,747

Lombard & Ulster Limited

Notes *(continued)*

19 Other liabilities

	Group 2001 £000	Company 2001 £000	Group 2000 £000	Company 2000 £000
Trade creditors	-	-	913	605
Taxation	911	2	1,831	-
Dividend payable	-	-	3,500	3,500
Other liabilities	29	571	776	1,191
	940	573	7,020	5,296

20 Deferred taxation

	Group 2001 £000	Company 2001 £000	Group 2000 £000	Company 2000 £000
Analysis of provisions				
The amount provided at the rates at which liabilities are expected to crystallise is:				
Short term timing differences	(377)	(377)	(377)	(377)
Capital allowances	4,462	-	4,102	-
	4,085	(377)	3,725	(377)

	Group 2001 £000	Group 2000 £000
Movements on the provisions		
At 1 December 2000	3,725	3,361
Charge for the year (note 7)	360	364
At 30 November 2001	4,085	3,725

Lombard & Ulster Limited

Notes *(continued)*

21 Loan capital

	Group 2001 £000	**Company 2001 £000**	Group 2000 £000	Company 2000 £000
Repayable:				
- 5 years or less but over 1 year	**8,500**	**8,500**	8,500	8,500

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

Interest on the loan capital is payable quarterly at a margin over London Interbank Offered rates.

Early repayment of the loan capital is subject to the prior consent of the Bank of England.

22 Called up share capital

	2001 £000	2000 £000
Authorised:		
Ordinary shares of £1	**6,000**	6,000
Issued and fully paid:		
Ordinary shares of £1	**4,000**	4,000

23 Reserves

	Group £000	**Company £000**
Profit and loss account		
At 1 December 2000	**32,804**	**12,847**
Retained profit for the year	**3,800**	**5,335**
At 30 November 2001	**36,604**	**18,182**

24 Reconciliation of movements in shareholders' funds

Group	**2001 £000**	2000 £000
Retention/(transfer) for the year	**3,800**	(10,844)
Opening shareholders' funds	**36,804**	47,648
Closing shareholders' funds	**40,604**	36,804

Notes *(continued)*

24 Reconciliation of movements in shareholders' funds *(continued)*

Company	**2001** **£000**	2000 £000
Retention/(transfer) for the year	**5,335**	(12,580)
Opening shareholders' funds	**16,847**	29,427
Closing shareholders' funds	**22,182**	16,847

25 Commitments under operating leases

	Group 2001 £000	**Company 2001 £000**	Group 2000 £000	Company 2000 £000
Annual commitments under operating leases, which relate solely to property, were as follows :				
Operating leases which expire :				
Within 1 year	-	-	14	14
Between 1 and 5 years	-	-	44	44
In 5 years or more	-	-	6	6
	-	-	64	64

All operating leases giving rise to commitments were terminated during the year.

26 Pension costs

The Group operates a pension scheme which is a defined benefit scheme, the assets of which are held in a trust fund separate from the Group. At the date of the latest full actuarial valuation as at 31 March 2001, the market value of the assets was £17,328,000. The valuation was carried out using the attained age method. The principal actuarial assumptions adopted were that the real rate of return on new investments will be 4.5% per annum, the real rate of increase in future earnings will be 1% per annum and pension increases will be 2.5% per annum. Dividend growth is assumed to be 1% above the rate of price inflation. The total pension cost for the Group is assessed in accordance with the advice of qualified actuaries, and amounted to £443,000 (2000: £520,000). At 30 November 2001 there was a pension accrual of £1,462,000 (2000: £1,784,000).

As at 30 November 2001 there was a gross deficiency of funds as calculated under FRS17, "Retirement benefits", by the independent qualified actuaries of £2,400,000 (net deficiency of £1,680,000 after related deferred tax of £720,000). This is represented by scheme assets with a market value of £17,300,000 net of scheme liabilities with a present value of £19,700,000. Valuations were carried out using the projected unit method, principal actuarial assumptions being that the rate of increase of salaries will be 3.5% and inflation will be 2.5%. A discount rate of 5.75% is applied and pension increases are assumed to be in accordance with the rules of the scheme (5% for pre-January 1997 members and beneficiaries, 2.5% for the remaining members and beneficiaries).

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Notes *(continued)*

26 Pension costs *(continued)*

The market value of the assets held by the scheme and the expected average rates of return were:

	Long-term rate of return expected at 31 December 2001	Value at 30 November 2001 £000
Equities	7.5%	13,100
Bonds	5.0%	2,000
Property	6.5%	600
Cash	4.5%	1,600
Total market value of assets		17,300

27 Segmental reporting

All Group activities are performed in the United Kingdom and involve retail banking services.

28 Transactions involving directors and others

(i) The aggregate amounts outstanding at 30 November 2001 under transactions, arrangements and agreements made by the company for persons who are, or were, directors of the company during the year or who are, or were, connected with a director of the company during the year, relating to loans, quasi loans and credit transactions were:

	Number of directors	***Number of connected persons***	***Amount*** £000
Loans	1	-	78
Quasi loans	-	-	-
Credit transactions	-	-	-

(ii) There were no amounts outstanding at 30 November 2001 (2000:£Nil) in respect of loans, quasi loans or credit transactions made by the subsidiary companies for directors of the company or their connected persons.

(iii) The aggregate amounts outstanding at 30 November 2001 under transactions, arrangements and agreements made by the company for persons who are, or were, managers within the meaning of the Banking Act 1987 during the year relating to loans, quasi loans and credit transactions were:

	Number of managers	***Amount*** £000
Loans	3	41
Quasi loans	-	-
Credit transactions	-	-

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Notes *(continued)*

29 Memorandum items

At the year end the contract amounts and risk weighted amounts of financial commitments and contingent liabilities were:

	2001	**2001**	2000	2000
		Risk		*Risk*
	Contract amount	***weighted amount***	*Contract amount*	*weighted amount*
	£000	**£000**	£000	£000
Group				
Contingent liabilities:				
Guarantees and assets pledged as collateral security:				
- guarantees	**3,081**	**3,081**	3,522	3,522
- other contingent liabilities	**-**	**-**	-	-
	3,081	**3,081**	3,522	3,522
Commitments:				
Formal standby facilities, credit lines and other commitments to lend	**-**	**-**	-	-
Company				
Contingent liabilities:				
Guarantees and assets pledged as collateral security:				
- guarantees	**-**	**-**	-	-
- other contingent liabilities	**-**	**-**	-	-
	-	**-**	-	-
Commitments:				
Formal standby facilities, credit lines and other commitments to lend	**-**	**-**	-	-

These transactions, which have been entered into on behalf of customers and for which there are corresponding obligations by counter parties, are not included in the Group's or the Company's balance sheets.

30 Financial agreements

Gross amounts financed under instalment credit and finance lease agreements entered into during the year were £238,678,000 (2000:£400,217,000).

31 Risk management

The major risks associated with the Group's businesses are operational risk, market risk, liquidity risk and credit risk. The Group has established a comprehensive framework for managing these risks which is continually evolving as the Group's business activities change in response to market, credit, product and other developments.

The Group has established clear risk policies, including limits, reporting lines and control procedures. This framework is designed to provide tight control and is reviewed regularly by Executive Committees.

Operational risk
Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud or inadequate internal control and procedures. The Group manages this risk through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review by internal audit. The Group also maintains contingency facilities to support operations in the event of disasters

Market risk
Market risk is the risk that changes in interest rates, foreign exchange rates, and other rates, prices, volatilities, correlations or other market conditions, such as liquidity, will have an adverse impact on the Group's financial condition or results.

The principal market risk to which the Group is exposed is interest rate risk. Mismatches between the repricing dates of the Group's assets and liabilities account for most of the interest rate risk associated with its commercial banking activities.

(i) *Trading*
The Group does not have a trading book in respect of debt securities, derivatives or other money market instruments.

(ii) *Non-trading*
The Group's portfolios of non-trading financial instruments principally comprise loans (including finance leases), deposits and derivatives.

Interest rate risk
Structural interest rate risk arises where assets and liabilities in the Group's commercial banking activities have different repricing dates. Group policy requires that where material interest rate risk arises it is eliminated using derivative transactions. In monitoring exposure all on-balance sheet assets and liabilities and off-balance sheet derivative products are included in an interest rate ladder at the appropriate repricing maturity band. Where the actual interest rate repricing characteristics differ from the contractual maturity, the repricing maturity is determined by the market interest rate most closely correlated to the historical behaviour of the product interest rate.

The tables below summarise the interest rate sensitivity gap for the Group at 30 November 2001. It is not necessarily indicative of the positions at other times. A liability (or negative) gap position exists when liabilities reprice more quickly or in greater proportion than assets during a given period and tends to benefit net interest income in a declining interest rate environment. An asset (or positive) gap position exists when assets reprice more quickly or in greater proportion than liabilities during a given period and tends to benefit net interest income in a rising interest rate environment.

31 Risk management *(continued)*

Sterling

	Within 3 months	After 3 months but within 6 months	After 6 months but within 1 year	After 1 year but within 5 years	After 5 years	Non-interest bearing funds	Non-trading total
	£000	£000	£000	£000	£000	£000	£000
Assets							
Loans and advances to customers	92,020	28,143	44,018	245,653	3,535	(8,253)	405,116
Operating lease assets	3,888	1,516	12,802	32,942	-	-	51,148
Other assets	-	-	-	-	-	6,889	6,889
Total assets	**95,908**	**29,659**	**56,820**	**278,595**	**3,535**	**(1,364)**	**463,153**
Liabilities							
Deposits by bank	396,913	-	-	-	-	-	396,913
Customer accounts	1,520	-	-	-	-	-	1,520
Subordinated liabilities	8,500	-	-	-	-	-	8,500
Other liabilities	-	-	-	-	-	15,616	15,616
Shareholders' funds	-	-	-	-	-	40,604	40,604
Total liabilities	**406,933**	-	-	-	-	**56,220**	**463,153**
Off-balance sheet items	313,233	(39,858)	(55,882)	(212,493)	(5,000)	-	-
Interest rate sensitivity gap	2,208	(10,199)	938	66,102	(1,465)	(57,584)	-
Cumulative interest rate sensitivity gap	2,208	(7,991)	(7,053)	59,049	57,584	-	-

Currency risk
The Group does not maintain material open currency positions.

Liquidity risk
The Group's liquidity risk is transferred to the parent bank and managed as part of its overall liquidity policy.

Credit risk
Credit risk is the risk that companies, financial institutions, individuals and other counterparties will be unable to meet their obligations to the Group. Credit risk arises principally from the Group's lending activities but also from other transactions involving on and off balance sheet instruments.

Group Risk has specific responsibility for establishing the Group's credit risk principles and for the implementation of Group credit policy for all activities, for monitoring geographic, product and market sector concentrations within the Group's portfolio of credit risks and for managing the Group's most dedicated teams in each business unit, where there are continual reviews of the effectiveness of credit control practices and procedures. Particular attention is paid to the manner in which new risks are assumed, on-going management and monitoring of credit risks within the book, the early detection of loan quality deterioration and the structure and composition of the credit portfolio in relation to market opportunities, the competitive environment and economic projections.

32 Derivatives

The Group uses derivatives to manage its own interest rate position. Profits and losses on instruments which are being used to hedge exposures are recognised in a manner that reflects the accounting treatment of the assets or liabilities hedged. Any profit or loss on the early termination of a hedge is amortised over the remaining life of the assets or liabilities it was hedging. If an asset or liability that is hedged is sold or settled, any unrecognised profit or loss on the related hedge is taken to the profit and loss account.

The following table provides an overview of the Group's interest rate related derivative portfolio at the year end. All contracts are transacted with parent or fellow subsidiary companies. Notional principal amounts are the amounts of the underlying financial commodity on which the contract is based and represent volumes of outstanding transactions. The gross replacement cost (GRC) is the sum of the fair values of all contracts. This measure makes no allowance for netting arrangements.

	2001 Interest rate related £000	2000 Interest rate related £000
Principal amounts	**359,830**	287,466
Gross replacement cost	**(4,441)**	(2,061)

The GRC for derivatives is sensitive to both the volume of business written and the differential between current market rates and those prevailing at the inception of the contract.

At the year end, the notional principal amounts, fair values and carrying values, of the Group's derivatives were:

		2001			
	Notional principal amount £000	**Fair Values Asset £000**	**Fair Values Liability £000**	**Carrying Values Asset £000**	**Carrying Values Liability £000**
Interest rate related contracts					
Interest rate swaps	359,830	64	4,505	2,541	3,140

Notional Principal Amounts - Maturity

	1 year	**1-2 years**	**2-5 years**	**5 years**	**Total**
Interest rate related contracts					
Interest rate swaps					
At 30 November 2001	142,337	166,294	46,199	5,000	359,830
At 30 November 2000	193,587	69,655	17,224	7,000	287,466

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Notes *(continued)*

32 Derivatives *(continued)*

Unrecognised gains and losses on derivative hedges
The unrecognised net losses on instruments used for hedging as at 30 November 2001 were £4,441,000.

Non-trading derivative deferred gains and losses
At the year end the Group had no deferred gains or losses.

33 Directors' Interests

According to the register kept by the company, the interests of those who were directors at the end of the financial year in the share and loan capital of The Royal Bank of Scotland Group plc ("RBS") were as follows:

	25p Ordinary Shares		**Additional Value Shares**	
	1 December 2000*	**30 November 2001**	1 December 2000*	**30 November 2001**
D J Burgess	-	**412**	-	-
R D Brodie	2,052	**2,062**	1,333	**1,333**
J J Conn	5,435	**5,060**	6,087	**6,087**
C G Knowles	6,464	**7,103**	3,110	**3,110**
N Pearce	847	**847**	357	**357**
C P Sullivan	6,961	**1,118**	9,856	**9,856**

* *or at date of appointment to the Board if later.*

The following directors had holdings in Floating Rate Unsecured Loan Notes 2005, issued by RBS:

	Floating Rate Unsecured Loan Notes 2005	
	1 December 2000*	**30 November 2001**
R D Brodie	1,188	**1,188**
J J Conn	1,328	**1,328**
C G Knowles	11,724	**11,724**
N Pearce	1,476	**1,476**
C P Sullivan	27,023	**27,023**

* *or at date of appointment to the Board if later.*

33 Directors' Interests *(continued)*

Share options in ordinary shares of 25p each of RBS are shown in the table below.

Details of the terms and conditions appropriate to the respective option schemes are given in the 2001 accounts of RBS. The options outstanding at 30 November 2001 are potentially exercisable between various future points in time with respective weighted average exercise prices as shown:

	Share Option Schemes				Weighted average option exercise price (£)
		Number of Options			
	As at 1 December 2000*	Granted	Exercised	As at 30 November 2001	
D J Burgess	1,869	150	-	2,019	8.33
R D Brodie	16,721	4,338	-	21,059	11.26
J J Conn	2,616	150	-	2,766	7.66
C G Knowles	26,872	5,600	5,029	27,443	10.17
N Pearce	17,855	6,700	-	24,555	12.57
C P Sullivan	41,944	10,800	-	52,744	10.54

** or at date of appointment to the Board if later.*

During the year, the following director exercised options as shown:

	No. of options	Subscription price (p)	Market price at date of exercise (£)
C G Knowles	599	345	16.93
	4,430	696	17.57

At the year end, R A H Boucher, J J McNally and G J Simms were also directors of Ulster Bank Limited and details of their interests in the share and loan capital of RBS are disclosed in the 2001 accounts of Ulster Bank Limited.

No director at the end of the financial year is registered as having any other interests in the share or loan capital of The Royal Bank of Scotland Group plc or the company.

34 Ultimate Parent Undertaking

The ultimate holding company and controlling party is The Royal Bank of Scotland Group plc, a company incorporated in Great Britain and registered in Scotland

The largest group in which the results of the company are consolidated is that headed by The Royal Bank of Scotland Group plc. The smallest group in which they are consolidated is that headed by Ulster Bank Limited, the immediate parent undertaking, which is incorporated in Northern Ireland. The consolidated financial statements of these groups are available to the public at:

The Royal Bank of Scotland Group plc
42 St Andrew Square
Edinburgh
EH2 2YE

Ulster Bank Limited
Registrar of Companies
IDB House
64 Chichester Street
Belfast

35 Change in Immediate Parent Undertaking

On 1 January 2002, Lombard North Central PLC, a fellow subsidiary undertaking within the RBS group, acquired the entire issued share capital of the company from Ulster Bank Limited.