LOMBARD & ULSTER LIMITED

DIRECTORS' REPORT AND ACCOUNTS

13 MONTHS ENDED

31 DECEMBER 2002

Lombard & Ulster Limited is registered in Northern Ireland, No. NI 6915

Registered Office: 11-16 Donegall Square East, Belfast, BT1 5UB

Lombard & Ulster Limited

2002 Directors' Report & Accounts

Directors

C P Sullivan (Chairman)

R D Brodie

D J Burgess

G C Clemett

J J Conn

C G Knowles

N Pearce

Secretary

D J Lewis

Contents

DIRECTORS' REPORT

for the 13 months ended 31 December 2002

Activities

The principal activities of the company are the provision of a range of banking and financial services including instalment credit, loans and the acceptance of deposits from the public.

Accounting reference date

On 14 August 2002 Lombard & Ulster Limited changed its accounting reference date from 30 November to 31 December. As a consequence, this report and the accompanying accounts relate to 13 months ended 31 December 2002 and the comparatives for the year ended 30 November 2001.

Banking status

The company is an Authorised Firm under the terms of the Financial Services and Markets Act 2000.

Share and Loan Capital

On 1 January 2002, Lombard North Central PLC ("Lombard") acquired all the share capital of the company. The ultimate parent undertaking is The Royal Bank of Scotland Group plc ("RBS").

Results and dividends

The profit before taxation for the period was £3,419,000 (2001 profit £6,063,000). The taxation charge was £274,000 (2001 charge £728,000), giving a profit after taxation of £3,145,000 (2001 £5,335,000).

The directors have approved an interim dividend of £13,000,000. The directors do not recommend the payment of a further dividend (2001 £nil) and the retained loss (2001 retained profit) has been transferred to reserves.

Staff participation

On 1 January 2002 the company became a wholly owned subsidiary of Lombard. The operations of the company have now been integrated with those of the Lombard Group. Former staff of the company are now remunerated through Lombard North Central PLC which has taken on responsibility for staff matters.

Policy statement on payment of suppliers

Following the integration of the company's operations within the Lombard Group, the administration of supplier payment and policy has been transferred to Lombard. It is Lombard's policy:

(a) wherever appropriate, to settle the terms of payment when agreeing the terms of each transaction;
(b) to ensure the supplier is aware of the terms; and
(c) to abide by them.

In all other circumstances, Lombard is committed to paying suppliers within 30 days of receipt of a valid invoice.

Donations

The company made no donations (2001: £5,617) to UK charitable organisations during the year. No political contributions were made.

The Board

The present members of the Board are shown on the contents page.

Mr G C Clemett was appointed to the Board on 2 September 2002.

The following directors resigned from the Board during the period:

Mr J J McNally, on 31 December 2001.
Mr G J Simms, on 31 December 2001.
Mr R A H Boucher, on 15 January 2002.

Directors' interests

C P Sullivan, R D Brodie, G C Clemett, C G Knowles and N Pearce are also directors of the immediate parent undertaking, Lombard North Central PLC, a company which is itself required to keep a register of directors' interests, and are therefore not required to notify their interests in the shares or debentures of The Royal Bank of Scotland Group plc undertakings to the company. The remaining directors have their interests shown in note 27 to the accounts.

Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

By Order of the Board
Derek J Lewis, LLB, FCIS , Secretary

28 March 2003

STATEMENT OF DIRECTORS' RESPONSIBILITIES
for the 13 months ended 31 December 2002

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss for that period. In preparing those 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, and
- 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 to enable them to ensure that the financial statements comply with the Companies (Northern Ireland) Order 1986. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Report of the Independent Auditors

To the Members of Lombard & Ulster Limited

We have audited the financial statements of Lombard & Ulster Limited for the 13 months ended 31 December 2002 which comprise the profit and loss account, the balance sheet and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with article 243 of the Companies (Northern Ireland) Order 1986. 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 auditors' 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 described in the statement of directors' responsibilities, the 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 is not disclosed.

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

Basis of 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, 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 as at 31 December 2002 and of its profit for the 13 month period 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
Crawley

28 March 2003

PROFIT AND LOSS ACCOUNT
for the 13 months ended 31 December 2002

	Notes	13 months ended 31 December 2002 £000	Year ended 30 November 2001 £000
Interest receivable and similar income		**9,920**	27,615
Interest payable		**(6,888)**	(19,859)
Net interest income		**3,032**	7,756
Dividend income from group undertakings		**-**	4,000
Fees and commissions receivable		**895**	754
Fees and commissions payable		**(987)**	(1,404)
Other operating income		**13**	397
Operating income		**2,953**	11,503
Administrative expenses	2	**(409)**	(3,176)
Depreciation		**(252)**	(153)
Other operating charges		**(113)**	(315)
Provisions for bad and doubtful debts	9	**1,240**	(1,796)
		466	(5,440)
Operating profit and profit on ordinary activities before tax	3	**3,419**	6,063
Tax on profit on ordinary activities	5	**(274)**	(728)
Profit on ordinary activities after tax		**3,145**	5,335
Dividends	6	**(13,000)**	-
Retained (loss)/profit for the period	19	**(9,855)**	5,335

All transactions for 2001 and 2002 are derived from continuing operations.

The company has no recognised gains or losses other than the profit for the year after taxation of £3,145,000 in the 13 month period ended 31 December 2002 and of £5,335,000 in the year ended 30 November 2001.

The notes on pages 7 to 22 form an integral part of these accounts.

BALANCE SHEET
at 31 December 2002

	Notes	31 December 2002 £000	30 November 2001 £000
Assets			
Cash and balances at central banks		-	1
Loans and advances to banks	7	-	37
Loans and advances to customers	8	**74,116**	319,713
Shares in group undertakings	10	**739**	739
Tangible fixed assets	11	**122**	376
Other assets	12	**4,766**	5,695
Prepayments and accrued income		**362**	1,321
Total assets		**80,105**	327,882
Liabilities			
Deposits by banks	13	**40,986**	291,598
Customer accounts	14	**705**	983
Other liabilities	15	**16,650**	573
Accruals and deferred income		**937**	4,046
Subordinated liabilities	17	**8,500**	8,500
Called up share capital	18	**4,000**	4,000
Profit and loss account	19	**8,327**	18,182
Equity shareholders' funds	20	**12,327**	22,182
Total liabilities		**80,105**	327,882

Memorandum items

Contingent liabilities	21	-	-
Commitments	21	-	-

These accounts were approved by the Board of Directors on 28 March 2003 and signed on its behalf by

C P SULLIVAN
Director

The notes on pages 7 to 22 form an integral part of these accounts.

1 *Accounting policies*

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

The company has implemented Financial Reporting Standard 19, 'Deferred Tax ', which requires recognition of deferred tax assets and liabilities on all timing differences, with specified exceptions. Previously, provision was made for deferred tax only to the extent that timing differences were expected to reverse and the deferred tax liability crystallise in the foreseeable future. The adoption of the new policy has had no material financial effect.

(a) Accounting convention
The accounts have been prepared in accordance with applicable accounting standards and upon the basis of historical cost and in accordance with the special provisions of 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, relating to banking companies.

The accounts fall within the scope of Statements of Recommended Practice ("SORPs") issued by the British Bankers' Association. The accounts have been prepared in accordance with all relevant SORPs currently in effect, in all material aspects.

The company is exempt under Section 228 of the Companies Act 1985 from the obligation to prepare group financial statements as the company is itself a wholly owned subsidiary of Lombard North Central PLC, which is registered in England and Wales. These financial statements present information about the company as an individual undertaking and not about its group.

Related party transactions with directors are disclosed in note 25. As a wholly owned subsidiary within the RBS group, the company has taken advantage of the exemption permitted by Financial Reporting Standard 8, 'Related Party Disclosures', and does not disclose transactions with other RBS group companies and investees of the RBS group qualifying as related parties. Similarly, as a wholly owned subsidiary undertaking, the company is exempt under Financial Reporting Standard 1, 'Cash Flow Statements', from the requirement to prepare a cash flow statement.

(b) Instalment credit agreements
Where the amount of the total charges on instalment credit agreements is established at the commencement of the agreement, income for the period is credited to the profit and loss account in proportion to the balance outstanding. On contracts subject to variable rates of interest, charges are debited to customers' accounts and recognised as income as and when they accrue.

(c) Interest receivable
Interest receivable is credited to profit and loss account as it accrues unless there is significant doubt that it can be collected, as set out in accounting policy 1(f) below.

(d) Depreciation
Short leasehold premises are amortised by equal annual instalments over the unexpired term of the lease. Motor cars and office equipment are depreciated on a straight-line basis over four and five to ten years respectively.

1 Accounting policies (continued)

(e) Pension costs
Pension costs are assessed in accordance with the advice of qualified actuaries, so as to recognise the cost of pensions on a systematic basis over employees' period of service.

(f) Provisions for bad and doubtful debts
Specific provisions are made against advances when, as a result of a detailed appraisal of the advances portfolio, it is considered that recovery is doubtful. A general provision is made against advances to cover bad and doubtful debts which have not been separately identified but are known from experience to be present in any portfolio of bank advances. The specific and general provisions are deducted from advances. Provisions made during the period are charged against profits.

Interest receivable on doubtful advances is brought into the profit and loss account as it accrues provided that its collectability is not subject to significant doubt. Interest debited to customers' accounts, the collectability of which is subject to significant doubt, is credited to an interest in suspense account. Advances and receivables classified as bad debts are written off in part or in whole when the extent of the loss incurred has been confirmed.

(g) Taxation
Provision is made for taxation at current enacted rates on taxable profits. Timing differences arise where gains and losses are accounted for in different periods for financial reporting purposes and for taxation purposes. Deferred taxation is accounted for in full for all such timing differences. Deferred tax assets are only recognised to the extent that it is regarded that it is more likely than not that they will be recovered. Deferred tax amounts are not discounted.

(h) Investments in subsidiary undertakings
Investments in subsidiary undertakings are stated at cost less provision for any permanent impairment in value.

(i) Off-balance sheet instruments
The company at times enters into off-balance sheet instruments to hedge exposures to interest rate risk. Profits and losses on off-balance sheet instruments are recognised in a manner that reflects the accounting treatment of the assets and liabilities hedged. Where an underlying item or position matures, or is sold, the related hedge will be terminated. Any resulting gain or loss will be accounted for in a similar manner to that arising on the underlying asset or liability.

2 Administrative expenses

	13 months ended 31 December 2002 £000	Year ended 30 November 2001 £000
Staff costs		
- wages and salaries	**14**	2,326
- social security costs	**10**	146
- other pension costs	**290**	227
Other administrative expenses	**95**	477
	409	3,176

3 Profit on ordinary activities before tax

	13 months ended 31 December 2002 £000	Year ended 30 November 2001 £000
Profit on ordinary activities before tax is stated after:		
(i) Income		
Aggregate amounts receivable, including capital repayments under hire purchase and conditional sale contracts	**85,167**	97,539
(ii) Expenditure		
Charges incurred with respect to subordinated liabilities	**382**	478
Profit on disposal of tangible fixed assets	**(6)**	-
Leasehold property rentals	**40**	250
Auditor's remuneration	**6**	40
Fees paid to auditors for non-audit work	**-**	2

The charge shown above for auditors' remuneration relates to an under provision of fees relating to the previous year. The fees relating to the current period are to be charged in the accounts of the immediate parent undertaking.

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4 Emoluments of directors

	13 months ended 31 December 2002 £000	Year ended 30 November 2001 £000
Total emoluments received by directors	**85**	171

The above emoluments are now provided to the relevant director by another RBS group undertaking in relation to the respective director's services to the company.

Pension benefits are accruing to directors under schemes as follows:

	Number of Directors	
	13 months ended 31 December 2002 £000	Year ended 30 November 2001 £000
Defined benefit scheme	**1**	3

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5 *Tax on profit on ordinary activities*

A) Analysis of charge in the period

	13 months ended 31 December 2002 £000	Year ended 30 November 2001 £000
Current taxation:		
UK corporation tax receivable at 30% (2001- 30%)	-	728
Group relief payable (see below)	95	-
Over provision in respect of prior periods	(24)	-
	71	728
Deferred taxation:		
Originating and reversing of timing differences	940	-
Over provision in respect of prior periods	(737)	-
	274	728

Provision for group relief is made on the assumption that the claimant companies will make payment to the surrendering companies at rates appropriate to the periods in which the losses claimed are utilised.

B) Factors affecting the tax charge in the period

The actual tax charge differs from the expected tax charge computed by applying the standard UK corporation tax rate of 30% as follows:

	13 months ended 31 December 2002 £000	Year ended 30 November 2001 £000
Expected tax charge	1,026	1,819
Non-deductible items	9	17
Non-taxable items	-	(1,200)
Capital allowances in excess of depreciation	38	12
Current taxation adjustments relating to prior periods	(24)	
Other (including other short term timing differences)	(978)	80
Current tax charge for the year	71	728
Deferred taxation-originating and reversal of timing differences	940	-
Deferred taxation- adjustments in respect of previous periods	(737)	-
Actual tax charge	274	728

6 *Dividends*

	13 months ended 31 December 2002 £000	Year ended 30 November 2001 £000
Ordinary shares:-		
Interim dividend – £3.25 per ordinary share (2001 – nil)	13,000	-
	13,000	-

7 Loans and advances to banks

	31 December 2002 £000	30 November 2001 £000
Remaining maturity:		
- 3 months or less	-	37
	-	37
Due from RBS group undertakings - unsubordinated	-	37

8 Loans and advances to customers

	31 December 2002 £000	30 November 2001 £000
Remaining maturity:		
- over 5 years	247	694
- 5 years or less but over 1 year	25,574	90,749
- 1 year or less but over 3 months	27,646	55,230
- 3 months or less	24,454	178,219
Bad and doubtful debt provisions (note 9)	(3,805)	(5,179)
	74,116	319,713
Of which repayable on demand or at short notice	-	-
Due from RBS group undertakings - unsubordinated	9,766	180,567
Loans and advances to customers on which interest is being placed in suspense:		
Gross loans and advances	4,229	5,194
Provisions	(3,500)	(3,079)
	729	2,115

Loans and advances to customers include £49,652,000 (2001 £110,269,000) net investment in hire purchase contracts.

9 Provisions for bad and doubtful debts

Total Provisions	31 December 2002 £000	30 November 2001 £000
At beginning of period	5,179	4,716
(Credit)/charge against profits	(1,240)	1,796
Amounts written off	(165)	(1,333)
Recoveries	31	-
At end of period	3,805	5,179

Included in the above table are movements in respect of general provisions as follows:

General Provisions	2002 £000	2001 £000
At beginning of period	2,100	1,630
(Credit)/charge against profits	(1,795)	470
At end of period	305	2,100

The provisions relate entirely to loans and advances to customers.

10 Shares in group undertakings

	Carrying value £000
Cost at 1 December 2001 and 31 December 2002	739

The principal subsidiary undertakings are shown below. All subsidiary undertakings are wholly owned.

Owned by the company:	Nature of business	Country of incorporation or registration
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	England & Wales

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

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11 Tangible fixed assets

	Short leasehold land and buildings	Motor cars and office equipment	Total
	£000	£000	£000
Cost			
At 1 December 2001	343	1,847	2,190
Disposals	-	(31)	(31)
At 31 December 2002	343	1,816	2,159
Accumulated depreciation			
At 1 December 2001	343	1,471	1,814
Disposals	-	(29)	(29)
Charge for the period	-	252	252
At 31 December 2002	343	1,694	2,037
Net book value at 31 December 2002	-	122	122
Net book value at 30 November 2001	-	376	376

There is no future capital expenditure contracted for but not provided in the accounts.

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12 Other assets

	31 December 2002 £000	30 November 2001 £000
Dividends receivable	**4,000**	4,000
Deferred tax (note 16)	**174**	377
Other	**592**	1,318
	4,766	5,695

13 Deposits by banks

	31 December 2002 £000	30 November 2001 £000
With agreed maturity dates or periods of notice, by remaining maturity:		
- 3 months or less but not repayable on demand	**40,986**	291,598
	40,986	291,598
Repayable on demand	**-**	-
	40,986	291,598
Amounts include:		
Due to RBS group undertakings	**40,986**	289,901

14 Customer accounts

	31 December 2002 £000	30 November 2001 £000
With agreed maturity dates or periods of notice, by remaining maturity:		
3 months or less but not repayable on demand	**-**	983
Repayable on demand	**705**	-
	705	983

15 Other liabilities

	31 December 2002 £000	30 November 2002 £000
Taxation	**-**	2
Dividends payable	**13,000**	-
Other liabilities	**3,650**	571
	16,650	573

16 Deferred taxation asset

	31 December 2002 £000	30 November 2001 £000
Provision has been made for:		
Capital allowances	**83**	-
Other	**91**	377
	174	377
At 1 December 2001	**377**	377
Arising during the period	**(203)**	-
At 31 December 2002	**174**	377

The provision for UK deferred taxation relating to capital allowances has been made at 30% being the rate of corporation tax at which the liability is expected to crystallise. The company's deferred tax asset is included in "Other assets".

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17 Subordinated liabilities

	31 December 2002 £000	30 November 2001 £000
Subordinated unsecured loan capital	**8,500**	8,500
Repayable:		
- within 1 year	**8,500**	-
- in more than 1 year but not more than 5 years	**-**	8,500
	8,500	8,500

The above maturities are based on the earliest possible maturity dates of the respective tranches of loan capital. These dates are set out in the respective loan stock instruments as follows:

Amount £000	**Earliest date repayable**
3,500	23 November 2003
5,000	11 July 2003

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

Claims in respect of the 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.

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18 Called up share capital

	31 December 2002 £000	30 November 2001 £000
Authorised:		
6,000,000 Ordinary shares of £1.00 each	**6,000**	6,000
Allotted, called up and fully paid:		
4,000,000 Ordinary shares of £1.00 each	**4,000**	4,000

19 Reserves

	£000
Profit and loss account	
At 1 December 2001	**18,182**
Retained loss for the period	**(9,855)**
At 31 December 2002	**8,327**

20 Reconciliation of movements in shareholders' funds

	13 months ended 31 December 2002 £000	Year ended 30 November 2001 £000
Profit attributable to the shareholders of the company	**3,145**	5,335
Dividends	**(13,000)**	-
Net movement in shareholders' funds	**(9,855)**	5,335
Opening shareholders' funds	**22,182**	16,847
Closing shareholders' funds (equity interests)	**12,327**	22,182

21 Memorandum items and interest rate contracts

The company had no commitments to lend or contingent liabilities at the period end (2001 – Nil).

22 Financial Instruments and Risk Management

The company's portfolios of financial instruments principally comprise loans, deposits and loan capital. The company has previously entered into derivatives, being mainly interest rate swaps. Applying Financial Reporting Standard 13, 'Derivatives and other financial instruments', all portfolios are considered to be held for non-trading purposes and all off-balance sheet financial instruments have been previously entered into solely for hedging purposes.

Following the acquisition of the company by Lombard, all derivative positions were novated to another RBS group undertaking at nil gain or loss. The company no longer has any open derivative positions. Details of the company's use of derivatives in the period prior to novation are set out below. The major risks associated with the company's businesses are market risk, liquidity risk, credit risk and operational risk. The company established a comprehensive framework for managing these risks which continually evolved as the company's business activities changed in response to market, credit, product and other developments.

Subsequent to the acquisition of the company by Lombard, responsibility for managing these risks is controlled within the Lombard Group where the Lombard Asset and Liability Committee ('ALCO') has been established to consider risk management issues that arise across the Group's financial instrument portfolios. ALCO operates within a framework established by the RBS group.

Market risk
Market risk is the risk that changes in interest rates or other market conditions will have an adverse impact on the company's financial condition or results.

Interest rate risk
Structural interest rate risk arises where assets and liabilities have different repricing maturities. RBS group policy requires all material non-trading interest rate risk positions to be addressed and this has previously principally been effected using interest rate swaps. Following the novation of derivative contracts out of the company during the period, interest rate risk has been addressed by matching cash funding requirements to asset repricing maturities.

The company follows RBS group conventions in hedging net mismatch gaps. Behaviouralised maturities are constructed having regard to the anticipated maturity profile of assets and liabilities, thereby taking account of possible early terminations ahead of contractual maturity dates.

An interest rate repricing table, based on contractual data, is shown in note 23.

Liquidity risk
The RBS group is required under the liquidity standard introduced by the Bank of England in 1996 to maintain high-quality liquid assets to cover contingent sterling cash outflow. The company and Lombard Group monitor liquidity positions within this framework.

Credit risk
Credit risk is the risk that companies, financial institutions, individuals and other counterparties will be unable to meet their obligations to the company. Credit risk arises principally from the company's lending activities.

Day to day management of credit risk is devolved to specialist credit functions which perform regular appraisals of counterparty credit quality. Credit authority is based upon defined limits with responsibility for significant transactions resting with appropriate credit committees.

The Lombard Group Risk function has specific responsibility for establishing credit risk principles, for the implementation of credit policy for all activities, for monitoring sector concentrations and managing significant credit risk exposures. Credit control practices and procedures are the subject of continual review.

Operational risk

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

Derivatives

The company has previously entered into various off-balance sheet financial instruments (derivatives) to manage on-balance sheet interest rate risk. All derivatives were considered to be non-trading.

Interest rate swap transactions generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying notional principal amounts.

The company has previously used derivatives to manage specified interest rate positions relating to assets and liabilities including positions existing in relation to subsidiary undertakings of the company. The company established these non-trading derivatives positions principally through transactions with RBS group operations.

Fair values are calculated by discounting expected future cash flows at prevailing interest rates. As set out above, following the acquisition of the company by Lombard, all derivative positions were novated to another RBS group undertaking and the company no longer has any open derivative positions.

The notional principal amounts, fair values and carrying values, of the company's non-trading derivatives are as follows:

		Fair value		Carrying value	
	Notional principal amount £000	**Asset £000**	**Liability £000**	**Asset £000**	**Liability £000**
Interest rate related contracts					
Interest rate swaps					
At 31 December 2002	-	-	-	-	-
At 30 November 2001	359,830	64	4,505	2,541	3,140

Notional principal amounts – maturity	**1 year or less £000**	**5 years or less but over 1 year £000**	**Over 5 years £000**	**Total £000**
Interest rate related contracts				
Interest rate swaps				
At 31 December 2002	-	-	-	-
At 30 November 2001	142,337	212,493	5,000	359,830

Unrecognised gains and losses	**Gains £000**	**Losses £000**	**Total net gains/ (losses) £000**
As at 1 December 2001 unrecognised gains/(losses)	**64**	**(4,505)**	**(4,441)**
Gains & losses relating to financial instruments transferred out of the company during the period	**(64)**	**4,505**	**4,441**
As at 31 December 2002	-	-	-

22 Financial Instruments and Risk Management (continued)

The unrecognised gains and losses quoted above arose in respect of off-balance sheet financial instruments entered into as hedges in respect of on-balance sheet assets and liabilities, with the objective of minimising market risk exposure.

Replacement cost represents contracts with a positive mark to market value. The maturity of replacement cost of interest rate related contracts was as follows:

	1 year or less £000	5 years or less but over 1 year £000	Over 5 years £000	Total £000	2001 Total £000
Interest rate related contracts	-	-	-	-	64

23 Interest rate repricing table

The tables that follow summarise the interest rate sensitivity gap for the company's non-trading book at 31 December 2002 and 30 November 2001. The tables are based on contractual maturities and are 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 rate environment.

As set out in note 22, derivatives have previously been used to establish off-balance sheet positions in respect of hedging activities.

At 31 December 2002

	Within 3 months £000	After 3 months but within 6 months £000	After 6 months but within 1 year £000	After 1 year but within 5 years £000	After 5 years £000	Non-interest bearing funds £000	Total £000
Assets							
Loans and advances to customers	26,798	9,779	14,305	23,188	25	21	74,116
Other assets	-	-	-	-	-	5,989	5,989
Total assets	**26,798**	**9,779**	**14,305**	**23,188**	**25**	**6,010**	**80,105**
Liabilities							
Deposits by banks	40,986	-	-	-	-	-	40,986
Customer accounts	705	-	-	-	-	-	705
Subordinated liabilities	8,500	-	-	-	-	-	8,500
Other liabilities	-	-	-	-	-	17,587	17,587
Shareholders' funds	-	-	-	-	-	12,327	12,327
Total liabilities	**50,191**	**-**	**-**	**-**	**-**	**29,914**	**80,105**
Interest rate sensitivity gap	(23,393)	9,779	14,305	23,188	25		
Cumulative interest rate sensitivity gap	(23,393)	(13,614)	691	23,879	23,904		

23 Interest rate repricing table (continued)

At 30 November 2001

	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	Total
	£000	£000	£000	£000	£000	£000	£000
Assets							
Loans and advances to customers	182,731	19,683	32,448	82,484	694	1,673	319,713
Other assets	-	-	-	-	-	8,169	8,169
Total assets	**182,731**	**19,683**	**32,448**	**82,484**	**694**	**9,842**	**327,882**
Liabilities							
Deposits by banks	291,598	-	-	-	-	-	291,598
Customer accounts	983	-	-	-	-	-	983
Subordinated liabilities	8,500	-	-	-	-	-	8,500
Other liabilities	-	-	-	-	-	4,619	4,619
Shareholders' funds	-	-	-	-	-	22,182	22,182
Total liabilities	**301,081**	**-**	**-**	**-**	**-**	**26,801**	**327,882**
Off-balance sheet items	313,233	(39,858)	(55,882)	(212,493)	(5,000)		
Interest rate sensitivity gap	194,883	(20,175)	(23,434)	(130,009)	(4,306)		
Cumulative interest rate sensitivity gap	194,883	174,708	151,274	21,265	16,959		

24 Retirement Benefits

The company operates a pension scheme which is a defined benefit scheme, the assets of which are held in a trust fund separate from the company. At the date of the latest full actuarial valuation as at 31 December 2001, the market value of the assets was £17,300,000. The valuation was carried out using the attained age method. The principal actuarial assumptions adopted were 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).

The total pension cost for the company is assessed in accordance with the advice of qualified actuaries, and amounted to £290,000 (2001: £227,000). At 31 December 2002 there was a pension accrual of £nil (2001: £1,462,000).

As at 31 December 2002 there was a gross deficiency of funds as calculated under FRS17, "Retirement benefits", by the independent qualified actuaries of £5,300,000. This is represented by scheme assets with a market value of £13,500,000 net of scheme liabilities with a present value of £18,800,000.

24 Retirement Benefits (continued)

The market value of the assets and liabilities of the scheme, the expected average rates of return and the effect on the company's reserves if they were to be incorporated in the balance sheet were as follows:

	Long-term rate of return expected at 31 December 2002	Value at 31 December 2002 £000	Long-term rate of return expected at 30 November 2001	Value at 30 November 2001 £000
Equities	8.4%	11,000	8.4%	13,100
Bonds	4.5%	1,700	5.0%	2,000
Property	6.5%	600	6.5%	600
Cash	4.0%	200	4.5%	1,600
Total market value of assets		13,500		17,300
Actuarial value of liability		(18,800)		(18,900)
Net unrecognised deficit		(5,300)		(1,600)
		-		-
Effect on company profit and loss reserves		(5,300)		(1,600)

The following amounts would be reflected in the profit and loss account and statement of total recognised gains and losses on implementation of FRS17:

	Period to 31 December 2002 £000
Amount that would be charged to profit and loss account	
Expected return on pension scheme assets	1,300
Interest on pension liabilities	(1,100)
Net return	200
Current service cost	(600)
Total pension cost	(400)
Amount that would be recognised in the statement of total recognised gains and losses	
Actual return less expected return on pension scheme assets	(5,300)
Experience gains and losses arising on scheme liabilities	2,400
Changes in assumptions	(900)
Actuarial loss	(3,800)
Movement in pension scheme deficit during the period	
Deficit at beginning of period	(1,600)
Movement in year:	
Current service cost	(600)
Contributions	500
Net return on assets/(interest cost)	200
Actuarial loss	(3,800)
Deficit at end of period	(5,300)

24 Retirement Benefits (continued)

History of experience gains and losses	**Period to 31 December 2002 £000**
Difference between expected and actual return on scheme assets:	
Amount	(5,300)
Percentage of scheme assets	39.3%
Experience gains and losses on scheme liabilities:	
Amount	2,400
Percentage of scheme liabilities	12.8%
Total amount recognised in statement of total recognised gains and losses:	
Amount	(3,800)
Percentage of scheme liabilities	20.2%

25 Transactions involving directors and others

a) The aggregate amounts outstanding at 31 December 2002 under transactions, arrangements and agreements for persons who are, or were, directors of the company during the period or who are, or were, connected with a director of the were:

	Number of directors	Amount (£)
Mortgages	1	67,947

There were no quasi-loans or credit transactions.

b) There were no amounts outstanding at 31 December 2002 under transactions, arrangements and agreements for persons who are, or were previously, approved persons of the company as notified to the Financial Services Authority during the period.

26 General

(i) Lease and similar finance arrangements	**13 months ended 31 December 2002 £000**	Year ended 30 November 2001 £000
Amounts financed under all forms of financial agreements entered into during the year were:		
- hire purchase and conditional sale	-	2,795

(ii) Average number of employees	**13 months ended 31 December 2002**	Year ended 30 November 2001
The average number of persons employed by the company during the period was made up as follows:		
FSA approved persons	**1**	10
Others	**6**	71
	7	81

On 1 January 2002 the company became a wholly owned subsidiary of Lombard. The operations of the company have now been integrated with those of the Lombard Group. Lombard has taken on responsibility for staff matters in relation to the company and the calculation of average number of employees reflects this.

27 Directors' interests

According to the register kept by the company, the interests of those who were directors at the end of the financial period, and who were not also directors of the immediate parent undertaking, in the share and loan capital of The Royal Bank of Scotland Group plc were as follows:

	25p Ordinary Shares		**Additional Value Shares**	
	31 December 2002	30 November 2001	**31 December 2002**	30 November 2001
D J Burgess	**857**	412	-	-
J J Conn	**9,538**	5,060	**9,171**	6,087

The following director had holdings in Floating Rate Unsecured Loan Notes 2005, issued by The Royal Bank of Scotland Group plc:

	Floating Rate Unsecured Loan Notes 2005	
	31 December 2002	30 November 2001
J J Conn	**2,256**	1,328

Details of the terms and conditions appropriate to the respective option schemes are given in the 2002 accounts of The Royal Bank of Scotland Group plc. The options outstanding at 31 December 2002 are potentially exercisable between various future points in time with respective weighted average exercise prices as shown:

	Share Option Schemes Number of Options				Weighted average option exercise price (£)
	As at 1 December 2001	Granted	Exercised	As at 31 December 2002	
D J Burgess	2,019	-	-	2,019	8.33
J J Conn	2,766	92	515	2,343	7.84

28 Ultimate parent undertaking

The immediate parent company is Lombard North Central PLC, incorporated in Great Britain and registered in England and Wales.

The ultimate parent undertaking and ultimate controlling party is The Royal Bank of Scotland Group plc, incorporated in Great Britain and registered in Scotland.

Copies of the group accounts of Lombard North Central PLC can be obtained from:
The Secretary, Lombard North Central PLC, 3 Princess Way, Redhill, Surrey, RH1 1NP.

Copies of the group accounts of The Royal Bank of Scotland Group plc can be obtained from:
The Secretary, The Royal Bank of Scotland Group plc, 42 St. Andrew Square, Edinburgh, EH2 2YE.