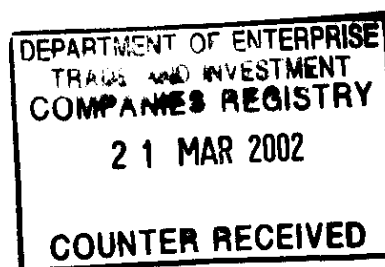


ULSTER BANK GROUP
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2001



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REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report, together with audited financial statements for the year ended 31 December 2001.

Business Review and Future Development

The Group profit before taxation was £217m compared to £254m (including £61m from the profit on disposal of businesses) from the previous year.

The Group operating profit before restructuring costs increased by 23% to £239m reflecting good growth across all the Group's businesses.

The Directors consider the Group to be in a strong financial position and confirm that the Group has adequate resources to continue in business for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements. The Group continues to review opportunities in the financial services sector.

The Directors recommend a second interim dividend of £29m (2000: £44m) on the ordinary shares which, together with the first interim dividend of £17m (2000: £15m), gives a total dividend of £46m (2000: £59m) (excluding a special dividend payment) for the financial year.

During the year the Directors paid a special dividend of £100m on the ordinary shares as part of a capital restructuring exercise (referred to under separate heading below) under which 160 million preference shares were issued. A dividend of £1m is payable on these preference shares for the financial year.

Activities

The Bank and its subsidiaries forming Ulster Bank Group provide an extensive range of banking and financial services in Ireland.

Retail Banking, which has branch networks in both Northern Ireland and the Republic of Ireland, operates in the personal and commercial sectors where it undertakes lending and deposit taking. It is also active in credit and debit card operations and in wealth management.

Corporate Banking and Financial Markets provides a wide range of investment banking products and services to the corporate and institutional markets, which include foreign exchange, money market services, lending, leasing and stockbroking.

Corporate Governance

In accordance with the Bank's status as a wholly owned subsidiary of The Royal Bank of Scotland Group plc, the Directors have adopted all appropriate aspects of The Combined Code (Principles of good governance and code of best practice) as recommended by the Committee on Corporate Governance (The Hampel Committee), and the guidance 'Internal Control: Guidance for Directors on the Combined Code' (the "Turnbull" guidance) issued by the Institute of Chartered Accountants in England and Wales.

The board of directors is responsible for the Group's system of internal control that is designed to facilitate effective and efficient operations and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. In devising internal controls, the directors have regard to the nature and extent of the risk, the likelihood of it crystallising and the cost of controls. It is possible for internal controls to be circumvented or overridden. Thus, a system of internal control can be designed to manage but not eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against the risk of material misstatement, fraud or losses.

The effectiveness of the Group's internal control system is reviewed regularly by the board and the Audit & Compliance Committee, all of whose members are non-executive directors. Executive Management Committees within the Group's businesses receive quarterly reports on significant risks facing their business and how they are being controlled. These reports are combined and submitted to the board as quarterly risk and control assessments. The Audit & Compliance Committee also receives regular reports from Group Risk, Group Finance, Group Internal Audit and Group Compliance. In addition, the Group's independent auditors present to the Audit & Compliance Committee reports that include details of any significant internal control matters which they have identified. The system of internal controls of the authorised institutions and other regulated entities in the Group are also subject to regulatory oversight in the United Kingdom, Republic of Ireland and Isle of Man.

REPORT OF THE DIRECTORS *(continued)*

Reorganisation

Ulster Bank Group has embarked on a transformation project called the Horizon Programme, the primary aim of which is to improve service to customers by removing a substantial amount of administration from branches. To process the administration removed, three centres have been set up: an Account Management Centre based in Northern Ireland and two Central Lending Units, one in Northern Ireland and the other in the Republic of Ireland.

The Programme is also designed to bring a more focused approach to dealings with specialist areas. Business centres are being created to service the needs of medium sized businesses which were formerly dealt with in branches. A private clients division has been set up to address the needs of affluent customers. The retail branch network will continue to service the needs of personal and small business customers and will be the principle delivery channel serving the needs of the community.

By 31 December 2001 approximately one third of branches and business centres had been converted to the Horizon model and it is planned to complete the Programme by the end of 2002.

Corporate Restructuring

During the year the Group undertook a corporate restructure to simplify the legal entity structure across the Group. On 1 October 2001, Ulster Bank Limited transferred its banking business in the Republic of Ireland to Ulster Bank Ireland Limited (formerly Ulster Bank Markets Limited), under a Scheme of Transfer in accordance with Part III of the Central Bank Act 1971. The fair value of the assets acquired, which was also their book value, was £174,551,414. Consideration was in the form of the issue of 15 million ordinary shares of €1.27 each issued at a premium of €17.43 per share. Certain assets were specifically excluded from the transfer scheme and remain in the books of Ulster Bank Limited.

On 1 October 2001, following the transfer of the banking business, Ulster Bank Limited exchanged this new shareholding in Ulster Bank Ireland Limited with Ulster Bank (Ireland) Holdings in return for 15 million new ordinary shares of €1.27 in Ulster Bank (Ireland) Holdings. These shares were issued at a premium of €17.43 per share.

Capital Restructuring

On 19 September 2001, a special resolution was passed by the members to increase the authorised share capital of Ulster Bank Limited by 200 million floating rate non-cumulative redeemable preference shares of €1 each (the "preference shares"). On 21 September 2001 the Directors approved and paid a special dividend of £100m on the ordinary shares and, on that date, issued 160 million preference shares at par.

Post Balance Sheet Event

On 1 January 2002, Ulster Bank Group disposed of its leasing and instalment credit operations with the sale of Lombard & Ulster Limited and Lombard & Ulster Banking Limited to Lombard North Central PLC, which is also part of The Royal Bank of Scotland Group. The businesses were disposed of at net book value of £115m.

Directorate

The current members of the Board are as shown on page 51. Mr T C Reid was appointed a director on 15 February 2001. Prof N Brennan, Lady B M McLaughlin, Mr P G Malone, Mr W J Burgess and Dr A R Gillespie were appointed directors on 1 June 2001. Mr R D Kells and Sir W G H Quigley retired as directors on 30 June 2001. Sir G R Mathewson resigned as a director on 1 June 2001. Mr P M McMahon retired as a director on 31 January 2002. On 18 September 2001, a special shareholders' resolution was passed to dispense with the requirement for directors to retire by rotation.

Directors' Interests

No director had an interest in the shares of the Bank.

A table showing the interests of Directors in the Ordinary Shares of The Royal Bank of Scotland Group plc is in the notes to the financial statements (note 41).

Employees

The average number of persons employed each week by the Group was 5,005. Of these, 2,882 worked wholly or mainly in the United Kingdom and the remuneration paid or payable to them was £77m.

REPORT OF THE DIRECTORS *(continued)*

Employment of Disabled Persons

The Group's policy is that disabled persons 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 other duties.

Equal Opportunities

Equal opportunities is a natural and integral part of good management practice, aimed at developing and treating people fairly and creating an environment within which staff can develop to their full potential. It is the Group's policy to comply with the relevant provisions of legislation and have regard to Codes of Practice affecting employment practices. Through our Managing Diversity Programme the Group is committed to offering equality of opportunity to all. The Group will recruit, retain, develop and promote people based solely on merit regardless of their disability, gender, political opinion, race, religious belief or any other characteristics.

Economic and Monetary Union (EMU)

During the year the Group continued to make preparations for the final phase of the EMU conversion programme in the Republic of Ireland, involving the introduction of Euro notes and coins. On 31 December 2001 all remaining Irish pound and legacy currency accounts were converted to Euro.

Euro notes and coins were introduced on 1 January 2002 and the Group has experienced no significant problems with the conversion.

The Group incurred costs of £4m in 2001 in respect of the final phase and the total cost incurred by the Group for this phase as at 31 December 2001 was £7m.

Health & Safety

The Bank's policy is to provide and maintain a safe and healthy work environment for its employees and customers. A Health & Safety Committee, on which all the Trade Unions recognised by the Bank are represented, meets to discuss matters of principle covering health and safety in the work environment and to identify training needs.

Suppliers

We are committed to establishing mutually beneficial relationships with our suppliers, based on the same high ethical standards that apply to all our dealings. It is the Group's policy to:

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

If such terms are not established when agreeing the terms of each transaction the Group will commit to paying suppliers within 30 days of receipt of a valid invoice.

At 31 December 2001, the amount owed to trade creditors by the Group and the Bank, expressed as a proportion of the amounts invoiced by suppliers during the year then ended, was 3 and 2 days' worth respectively.

Contributions

During the year the Group made donations totalling £139,000 (2000: £72,000) to charitable organisations in the United Kingdom.


Elective Regime

During the year the Bank elected to dispense with the holding of the annual general meeting in 2002 and subsequent years, and to dispense with the laying of accounts and reports before the shareholders' in general meeting.

REPORT OF THE DIRECTORS *(continued)*

Auditors

Pursuant to a shareholders' elective resolution, the company is not obliged to reappoint its auditors annually and Deloitte & Touche will therefore continue in office.


By Order of the Board

D J Peacock

Secretary

11-16 Donegall Square East
Belfast
BT1 5UB

14 February 2002

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 Bank and the Group as at the end of the financial year and of the profit or loss of the Group 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 accounts; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank and the Group 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 Group and to 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 Bank and the Group 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.



By order of the board

DJ Peacock
Secretary

14 February 2002

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ULSTER BANK LIMITED

We have audited the financial statements of Ulster Bank Limited for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheets, the statement of total recognised gains and losses and the related notes 1 to 43. 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 and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

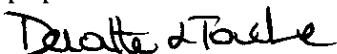
Basis of audit opinion

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 31 December 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
*Chartered Accountants and
Registered Auditors*
19 Bedford Street
Belfast
BT2 7EJ

14 February 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT - for the year ended 31 December 2001

	Notes	2001 £m	2000 £m
Interest receivable:			
- interest receivable and similar income arising from debt securities		56	51
- other interest receivable and similar income		637	560
		693	611
Interest payable		(342)	(317)
Net interest income		351	294
Fees and commissions receivable		146	142
Fees and commissions payable		(25)	(22)
Dealing profits	2	39	31
Other operating income		25	19
Operating income		185	170
Total income		536	464
Administrative expenses:	3		
- staff and other administrative expenses before restructuring costs		(234)	(220)
- restructuring costs		(22)	(2)
Depreciation and amortisation	4 (b) (iii)	(39)	(31)
Operating expenses		(295)	(253)
Group profit before provisions for bad and doubtful debts		241	211
Provisions for bad and doubtful debts	14	(24)	(18)
Group operating profit		217	193
Profit on disposal of businesses		-	61
Group profit on ordinary activities before taxation	4	217	254
Tax on group profit on ordinary activities	6	(44)	(63)
Group profit on ordinary activities after taxation		173	191
Minority interests – equity		(1)	(1)
Group profit attributable to the shareholders of Ulster Bank Limited	7	172	190
Dividends	8	(147)	(59)
Retained profit for the year	30	25	131

On 1 January 2002 Ulster Bank Group disposed of its leasing and instalment credit operations with the sale of the Lombard & Ulster businesses. These operations contributed £53m to total income and £13m to Group operating profit in 2001 (see note 32).

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2001

	Notes	2001 £m	2000 £m
Group profit for the financial year		172	190
Other recognised (losses)/gains:			
- exchange rate translation differences	1 (iii), 30	(10)	6
- surplus on revaluation of properties	1 (xi), 30	5	-
Total recognised gains for the year		167	196

NOTE OF HISTORICAL COST PROFITS AND LOSSES
for the year ended 31 December 2001

In 2001 and 2000, there was no material difference between profit on ordinary activities before taxation reported in the profit and loss account and profit on ordinary activities before taxation on an unmodified historical cost basis.

CONSOLIDATED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
for the year ended 31 December 2001

	Notes	2001 £m	2000 £m
Retained profit for the year		25	131
Exchange rate translation differences	1 (iii), 29, 30	(13)	6
Surplus on revaluation of properties	1 (xi), 30	5	-
New share capital subscribed	29	101	-
Net increase in shareholders' funds		118	137
Opening shareholders' funds:			
- equity interests		808	671
- non-equity interests		-	-
Closing shareholders' funds:			
- equity interests		828	808
- non-equity interests		98	-

CONSOLIDATED BALANCE SHEET OF ULSTER BANK GROUP - at 31 December 2001

	Notes	2001 £m	2000 £m
Assets			
Cash and balances at central banks	10	111	327
Treasury and other eligible bills	11	92	11
Loans and advances to banks	12	1,349	1,241
Items in the course of collection from other banks		156	104
Loans and advances to customers	13	8,556	7,561
Operating lease assets	16	51	39
Debt securities	17	881	1,140
Equity shares	18	5	3
Intangible fixed assets	20	13	15
Tangible fixed assets	21	189	180
Other assets	22	586	536
Prepayments and accrued income		82	87
Total Assets	9	12,071	11,244
Liabilities			
Deposits by banks	23	1,817	1,556
Items in the course of transmission to other banks		21	30
Customer accounts	24	7,807	7,326
Debt securities in issue	25	321	334
Other liabilities	26	943	960
Accruals and deferred income		128	121
Provisions for liabilities and charges:			
- deferred taxation	27	24	26
Subordinated liabilities:			
- undated loan capital	28	15	15
- dated loan capital	28	62	62
Minority interests – equity		7	6
Called up share capital	29	203	105
Revaluation reserve	30	52	47
Profit and loss account	30	671	656
Shareholders' funds :			
- equity interests		828	808
- non-equity interests		98	-
Total Liabilities	9	12,071	11,244
Memorandum Items	34		
Contingent liabilities:			
- acceptances and endorsements		4	3
- guarantees and assets pledged as collateral security		125	69
- other contingent liabilities		335	314
		464	386
Commitments:			
- other commitments		2,437	2,235

These financial statements were approved by the Board of Directors on 14 February 2002 and signed on its behalf by

A R Gillespie

M J Wilson

I J Laird

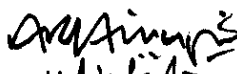


Chairman
Group Chief Executive
Group Finance Director

BALANCE SHEET OF ULSTER BANK LIMITED - at 31 December 2001

	Notes	2001 £m	2000 £m
Assets			
Cash and balances at central banks	10	38	327
Treasury and other eligible bills	11	-	1
Loans and advances to banks	12	1,483	1,197
Items in the course of collection from other banks		29	104
Loans and advances to customers	13	2,340	4,695
Debt securities	17	418	646
Equity shares	18	1	-
Shares in Group undertakings	19	833	595
Tangible fixed assets	21	102	163
Other assets	22	4	19
Prepayments and accrued income		27	56
Total Assets	9	5,275	7,803
Liabilities			
Deposits by banks	23	473	1,301
Items in the course of transmission to other banks		9	30
Customer accounts	24	3,245	5,073
Debt securities in issue	25	210	91
Other liabilities	26	322	348
Accruals and deferred income		33	49
Provisions for liabilities and charges:			
- deferred taxation	27	3	5
Subordinated liabilities:			
- undated loan capital	28	-	45
- dated loan capital	28	68	68
Called up share capital	29	203	105
Revaluation reserve	30	557	513
Profit and loss account	30	152	175
Shareholders' funds:			
- equity interests		814	793
- non-equity interests		98	-
Total Liabilities	9	5,275	7,803
Memorandum items			
Contingent liabilities:	34		
- acceptances and endorsements		2	3
- guarantees and assets pledged as collateral security		163	979
- other contingent liabilities		52	135
		217	1,117
Commitments:			
- other commitments		788	1,584

These financial statements were approved by the Board of Directors on 14 February 2002 and signed on its behalf by

A R Gillespie
M J Wilson
I J Laird

 Chairman
 Group Chief Executive
 Group Finance Director

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

1. Accounting Policies

The principal accounting policies are set out below.

(i) Accounting convention and bases of consolidation

The Bank and Group financial statements have been prepared under the historical cost convention supplemented by the revaluation of certain land and buildings and shares in Group undertakings and in compliance with the special provisions contained in Part VIII of, and Schedule 9 to, the Companies (Northern Ireland) Order 1986 relating to Banks and Banking groups and in accordance with applicable accounting standards in the UK and with the Statements of Recommended Accounting Practice issued by the British Bankers Association and the Irish Bankers Federation. The accounts are drawn up in sterling (£) and except where otherwise indicated are expressed in millions. To avoid undue delay in the presentation of the Group's accounts, the financial statements of certain subsidiary undertakings have been made up to 30 November. There have been no changes in respect of those subsidiary undertakings with 30 November year ends in the period between their balance sheet dates and 31 December that materially affect the view given by the Group's financial statements.

During the year a number of subsidiary companies changed their accounting date from 30 November to 31 December. Thirteen months' profits, in respect of these companies, have been included in the results of the Group for the current year. In addition the results of the Group include thirteen months' profits for Lombard & Ulster Limited and Lombard & Ulster Banking Limited in order to include results up to 31 December 2001, immediately prior to their sale. The operating profit of the Group includes £5m in relation to the inclusion of the thirteenth month for these subsidiary companies.

(ii) Goodwill

The excess of the cost of shares in subsidiary and associated undertakings over the fair value of underlying separable net assets at the date of acquisition and other purchased goodwill are capitalised as intangible assets and amortised over their useful economic lives. Capitalised goodwill is amortised over periods of up to 20 years. The gain or loss on the disposal of a subsidiary or associated undertaking is calculated by comparing the carrying value of the net assets sold and any unamortised goodwill with the proceeds received.

(iii) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated to sterling at rates of exchange ruling at the balance sheet date. Profit and loss accounts of overseas subsidiary and associated undertakings are translated at average rates of exchange for the period. Exchange differences arising from the application of closing rates of exchange to the opening net assets of overseas subsidiary and associated undertakings and from restating their results from average to year-end rates are taken to the reserves, together with exchange differences arising on related foreign currency borrowings.

(iv) Pension costs

The Group provides post-retirement benefits in the form of pensions to eligible employees. The cost of defined benefit pension schemes is assessed by independent professionally qualified actuaries and recognised on a systematic basis over employees' service lives. Contributions to defined contribution pension schemes are recognised in the profit and loss account when payable.

The Group has continued to account for pensions in accordance with Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for pension costs". Financial Reporting Standard ("FRS") 17 "Retirement Benefits", which is to replace SSAP 24, will be implemented as suggested in the standard over a transitional period (note 31).

(v) Lease income receivable

Total gross earnings under finance leases are allocated to accounting periods using the actuarial after tax method to give a constant periodic rate of return on the net cash investment. Finance leases receivable are stated in the balance sheet at the amount of the net investment in the lease. Progress payments made prior to the commencement of the lease are included at cost. Rental income from operating leases is credited to the profit and loss account on a receivable basis over the term of the lease.

(vi) Taxation

Provision is made for taxation at current rates on the taxable profits taking into account relief for overseas taxation where appropriate. Certain items of income and expenditure are accounted for in different periods for financial reporting purposes and taxation purposes. Deferred tax is provided on the liability method in respect of such timing differences to the extent that they are likely to crystallise in the foreseeable future. It is calculated at rates expected to be applicable when the liabilities or assets are expected to crystallise.

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

(vii) Loans and advances

Specific provisions are made against loans and advances when, as a result of a detailed appraisal of the portfolio, it is considered that recovery is doubtful. A general provision is made to cover bad and doubtful debts that have not been separately identified but are known from experience to be present in any portfolio of bank advances. Provisions made (less amounts released and recoveries of amounts written off in previous years) are charged against profits. Interest receivable on doubtful loans and 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 borrowers' accounts, the collectability of which is subject to significant doubt, is credited to an interest in suspense account that is netted off against loans and advances to customers. Loans and advances are written off in part or in whole when there is no realistic prospect of recovery.

(viii) Fees receivable

Fees receivable that represent a return for services provided are recognised in the profit and loss account so as to match the cost of providing the service. Certain front-end lending fees are recognised over the life of the loan.

(ix) Debt securities and equity shares

Debt securities and equity shares intended for use on a continuing basis in the Group's activities are classified as investment securities and are stated at cost less provision for any impairment in value. The cost of dated investment securities is adjusted for the amortisation of premiums or discounts over periods to redemption and the amortisation is included in interest receivable. Debt securities held for the purpose of hedging are carried at a value which reflects the accounting treatment of the items hedged. Debt securities and equity shares held for dealing purposes are carried at fair value, with changes in fair value recognised in the profit and loss account.

(x) Shares in Group undertakings and interests in associated undertakings

The Group's share of associated undertakings' results is included in the Group profit before taxation and interests in associated undertakings are included in the consolidated balance sheet at the Group's share of net assets. The Bank's interests in associated and Group undertakings are included in the balance sheet at its share of net tangible assets.

(xi) Tangible fixed assets

Freehold and long leasehold properties are revalued on a rolling basis, each property being revalued at least every five years. Other tangible fixed assets are stated at cost less depreciation and provisions for impairment. Costs of adapting premises for the use of the Group are separately identified and depreciated.

Tangible fixed assets are depreciated over their estimated economic lives on a straight-line basis, as follows:

Land	not depreciated
Freehold and long leasehold buildings	50 years
Short leaseholds	unexpired period of the lease
Computer and other equipment	4-10 years
Assets on operating leases are depreciated over their estimated useful lives on a straight-line basis.	

(xii) Derivatives

A description of the derivatives into which the Group enters for both trading and non-trading purposes is given in note 36. The accounting treatment for these instruments is dependent upon whether they are entered into for trading or non-trading (hedging) purposes.

Trading. Derivatives held for trading purposes are recognised in the accounts at fair value. Gains or losses arising from changes in fair value are included in dealing profits in the consolidated profit and loss account. Fair value is based on quoted market prices. Where representative market prices are not available, the fair value is determined from current market information using appropriate pricing or valuation models. Adjustments are made to quoted market prices where appropriate to cover credit risk, liquidity risk and future operational costs. In the consolidated balance sheet, positive fair values (assets) of trading derivatives are included in Other assets and negative fair values (liabilities) in Other liabilities. Positive and negative fair values of trading derivatives are offset where the contracts have been entered into under master netting agreements or other arrangements that give a legally enforceable right of set-off.

Non-trading. Non-trading derivatives are entered into by the Group to hedge exposures arising from transactions entered into in the normal course of banking activities. They are recognised in the accounts in accordance with the accounting treatment of the underlying transaction or transactions being hedged. To be classified as non-trading, a derivative must significantly reduce the risk inherent in the hedged item from potential movements in interest rates, exchange rates and market values. In addition, there must be a demonstrable link to an underlying transaction, pool of transactions or specified future transaction or transactions. Specified future transactions must be reasonably certain to arise for the derivative to be accounted for as a hedge. In the event that a non-trading derivative

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001
(xii) Derivatives (continued)

transaction is terminated or ceases to be an effective hedge, the derivative is remeasured at fair value and any resulting profit or loss amortised over the remaining life of the underlying transaction or transactions being hedged. If a hedged item is derecognised, or a specified future transaction is no longer likely to occur, the related non-trading derivative is remeasured at fair value and the resulting profit or loss taken to the profit and loss account.

(xiii) Sale and repurchase transactions

Securities which have been sold with an agreement to repurchase continue to be shown on the balance sheet and the sale proceeds recorded as a deposit. Securities acquired in reverse sale and repurchase transactions are not recognised in the balance sheet and the purchase price is treated as a loan. The difference between the sale price and the repurchase price is accrued evenly over the life of the transactions and charged or credited to the profit and loss account as interest payable or receivable.

(xiv) Cash flow statement

The Bank is a wholly owned subsidiary of The Royal Bank of Scotland Group plc and the cash flows of the Bank are included in the consolidated Group cash flow statement of The Royal Bank of Scotland Group plc. Consequently the Bank is exempt under the terms of Financial Reporting Standard No.1 from publishing a cash flow statement.

2. Dealing Profits

	2001 £m	2000 £m
Foreign Exchange (1)	26	22
Securities (2)	2	2
Interest Rate derivatives (3)	11	7
	39	31

Dealing profits include interest income and expense recognised on trading-related interest-earning assets and interest-bearing liabilities.

- (1) Includes spot and forward exchange contracts and currency swaps, futures and options and related hedges
- (2) Includes debt securities, equities and equity derivatives and related hedges
- (3) Includes interest rate swaps, forward rate agreements, interest rate options, futures and related hedges

3. Administrative Expenses

	Before restructuring 2001 £m	Restructuring 2001 £m	Total 2001 £m	Before restructuring 2000 £m	Restructuring 2000 £m	Total 2000 £m
Staff Costs:						
- wages and salaries	130	18	148	129	1	130
- social security costs	12	-	12	10	-	10
- other pensions costs	6	-	6	6	-	6
	148	18	166	145	1	146
Other administrative expenses	86	4	90	75	1	76
	234	22	256	220	2	222

Restructuring costs relate to a re-organisation of the Group's infrastructure.

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

4. Group Profit on Ordinary Activities before Taxation

	2001 £m	2000 £m
Is stated after:		
(a) INCOME		
(i) Aggregate amounts receivable, including capital repayments, under finance leases, hire purchase and conditional sale contracts	551	552
(ii) Aggregate amounts receivable under operating leases	18	11
(iii) Profit on disposal of fixed assets	-	2
(b) EXPENDITURE		
(i) Charges incurred with respect to subordinated liabilities	5	5
(ii) Operating lease rentals:		
- property	9	8
- hire of computers and equipment	1	1
(iii) Depreciation and amortisation		
- tangible fixed assets	24	22
- intangible fixed assets	2	1
- operating leased assets	13	8
(iv) Interest Payable		
- Deposit Interest Retention Tax	-	2

(c) AUDITORS REMUNERATION

The auditors' remuneration for statutory audit work was £75,000 for the Bank (2000: £64,000) and £254,000 for the Group (2000: £250,000). Remuneration paid to the auditors of the company for non-audit work for the Group was £125,000 for work in the United Kingdom (2000: £69,000) and £94,000 for work in the Republic of Ireland (2000: £160,000).

5. Emoluments of Directors

	2001 £	2000 £
Total emoluments received by directors	1,504,000	1,336,000
Compensation for loss of office	30,000	-

	2001	2000
Number of directors to whom retirement benefits are accruing under defined benefit schemes	6	5

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

The total emoluments of the highest paid director were £405,421 (2000: £392,895). At 31 December 2001 the accrued pension, under a defined benefit scheme, for the highest paid director was £140,778 (2000: £85,039). During the year the highest paid director exercised share options under the executive share scheme.

Details of share options exercised by directors, are separately disclosed in note 41.

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

6. Tax on Group Profit on Ordinary Activities

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

United Kingdom corporation tax at 30% (2000 – 30%):

- current year

- prior year

Relief for double taxation

Republic of Ireland corporation and capital gains tax

Deferred taxation:

- current year

- prior year

2001

£m

2000

£m

39

40

2

1

(12)

(16)

29

25

16

33

(1)

6

-

(1)

44

63

7. Profit dealt with in the Financial Statements of the Bank

Of the profit for the financial year, £102,547,000 (2000 £91,850,000) has been dealt with in the financial statements of the Bank. The profit and loss account of the Bank is not presented by virtue of the exemption contained within Article 238 of the Companies (Northern Ireland) Order 1986.

8. Dividends

Equity dividends on ordinary shares:

- first interim (paid)

- second interim (proposed)

- special (paid)

Non equity dividends on preference shares:

- interim (proposed)

2001
pence per
share

2000
pence per
share

2001

£m

2000

£m

16.67

14.29

17

15

27.22

41.90

29

44

95.24

100

-

1.40

1

-

147

59

On 21 September 2001 Ulster Bank Limited paid a special dividend to its parent undertaking of £100 million in cash.

9. Assets and Liabilities Denominated in Foreign Currency

	2001 Group £m	2001 Bank £m	2000 Group £m	2000 Bank £m
Denominated in sterling	4,760	4,409	4,634	4,307
Denominated in other currencies	7,311	866	6,610	3,496
Total assets	12,071	5,275	11,244	7,803
Denominated in sterling	4,871	4,405	4,793	4,283
Denominated in other currencies	7,200	870	6,451	3,520
Total liabilities	12,071	5,275	11,244	7,803

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001
10. Cash and Balances at Central Banks

Cash and balances at central banks include Bank of England notes held in respect of the note circulation in Northern Ireland.

11. Treasury and Other Eligible Bills

	2001 Group £m	2001 Bank £m	2000 Group £m	2000 Bank £m
Other Securities:				
- treasury bills and similar securities	92	-	11	1

12. Loans and Advances to Banks

	2001 Group £m	2001 Bank £m	2000 Group £m	2000 Bank £m
Repayable on demand or at short notice	431	19	230	70
Other loans and advances by remaining maturity:				
- 3 months or less	818	1,350	726	988
- 1 year or less but over 3 months	83	58	259	70
- 5 years or less but over 1 year	17	6	16	15
- over 5 years	-	50	10	54
	1,349	1,483	1,241	1,197
Amounts include:				
- subordinated loans	-	9	-	9
Due from parent and fellow subsidiary undertakings	89	8	114	4
Due from subsidiary undertakings:				
- subordinated		9		9
- unsubordinated		1,457		1,043
		1,466		1,052

Loans and advances to banks which have been offset with related borrowings amount to Group: £248,288,000, Bank: £248,288,000 (2000 Group: £238,342,000 Bank: £238,342,000). These amounts relate to transactions with the parent company.

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

13. Loans and Advances to Customers

	2001 Group £m	2001 Bank £m	2000 Group £m	2000 Bank £m
Repayable on demand or short notice	1,273	611	1,200	1,082
Other loans and advances by remaining maturity:				
- 3 months or less	1,468	364	1,163	676
- 1 year or less but over 3 months	1,289	171	1,315	572
- 5 years or less but over 1 year	2,248	453	1,925	842
- over 5 years	2,349	756	2,020	1,551
General and specific bad and doubtful debt provisions	(71)	(15)	(62)	(28)
	8,556	2,340	7,561	4,695
Amounts are unsecured and include:				
Due from parent and fellow subsidiary undertakings	119	47	55	54
Due from subsidiary undertakings		133		100

Group amounts of loans and advances to customers include £384,021,000 (2000: £397,497,000) receivable under finance leases and £465,698,000 (2000: £501,436,000) in respect of instalment credit agreements. Amounts in respect of finance lease receivables which have been offset with related borrowings amount to £72,794,000 (2000: £43,640,000).

14. Provisions for Bad and Doubtful Debts

	2001			2000		
Group	Specific £m	General £m	Total £m	Specific £m	General £m	Total £m
At 1 January	40	22	62	39	17	56
Exchange adjustments	(1)	-	(1)	-	-	-
Charge against profits	22	2	24	13	5	18
Amounts written off	(20)	-	(20)	(17)	-	(17)
Recoveries	6	-	6	5	-	5
At 31 December	47	24	71	40	22	62
Amounts held in respect of loans and advances to:						
- customers			71			62

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001
14. Provisions for Bad and Doubtful Debts (continued)

	2001			2000		
	Specific £m	General £m	Total £m	Specific £m	General £m	Total £m
Bank						
At 1 January	11	17	28	9	14	23
Charge against profits	8	1	9	8	3	11
Amounts written off	(10)	-	(10)	(10)	-	(10)
Recoveries	4	-	4	4	-	4
Intercompany transfer	(7)	(9)	(16)	-	-	-
At 31 December	6	9	15	11	17	28
Amounts held in respect of loans and advances to: - customers			15			28

15. Non Performing Advances

	2001 Group £m	2001 Bank £m	2000 Group £m	2000 Bank £m
Non performing advances to customers:				
Gross loans and advances	104	25	92	57
Provision	(36)	(6)	(34)	(11)
	68	19	58	46

Non performing advances are those on which interest is no longer being credited to the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

16. Operating Lease Assets

	Cost £m	Accumulated depreciation £m	Carrying value £m
Group			
At 1 January 2001	51	(12)	39
Additions	28	-	28
Disposals	(10)	7	(3)
Depreciation charge for the year	-	(13)	(13)
At 31 December 2001	69	(18)	51

17. Debt Securities

The carrying value of debt securities is as follows:

	2001 Group £m	2001 Bank £m	2000 Group £m	2000 Bank £m
Investment securities:				
Issued by public bodies				
- government securities	335	105	414	369
Issued by other issuers				
- other debt securities	153	148	123	117
	488	253	537	486
Other securities:				
Issued by public bodies				
- government securities	53	-	236	-
Issued by other issuers				
- bank and building society certificates of deposits	340	165	367	160
	393	165	603	160
	881	418	1,140	646
Debt securities becoming due:				
- within 1 year	492	197	469	241
- 1 year and over	389	221	671	405
	881	418	1,140	646

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001
17. Debt Securities (continued)

The market value of investment debt securities is as follows:

	2001 Group market value £m	2001 Bank market value £m	2000 Group market value £m	2000 Bank market value £m
Investment securities:				
Issued by public bodies				
- government securities	336	107	412	368
Issued by other issuers				
- other debt securities	153	148	123	117
	489	255	535	485
	2001 Carrying value £m	2001 Market value £m	2000 Carrying value £m	2000 Market value £m
Group				
Investment securities:				
- listed	488	489	536	535
- unlisted	-	-	1	-
	488	489	537	535
Other debt securities:				
- listed	47		236	
- unlisted	346		367	
	393		603	
Bank				
Investment securities:				
- listed	253	254	486	484
Other debt securities:				
- unlisted	165		160	

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

17. Debt Securities (continued)

Investment securities

	Cost	Amortised discounts/ (premiums)	Carrying value
	£m	£m	£m
Group			
At 1 January 2001	536	1	537
Exchange adjustments	(4)	-	(4)
Acquisitions	55	-	55
Securities sold or matured	(100)	-	(100)
At 31 December 2001	487	1	488

Bank			
At 1 January 2001	486	-	486
Acquisitions	55	-	55
Securities sold or matured	(61)	-	(61)
Amortisation of discounts and premiums	-	(1)	(1)
Intercompany transfer	(225)	(1)	(226)
At 31 December 2001	255	(2)	253

	2001 Group £m	2001 Bank £m	2000 Group £m	2000 Bank £m
Unamortised premiums on investment debt securities	(3)	(3)	(3)	(4)

Assets subject to sale and repurchase transactions

	2001 Group £m	2001 Bank £m	2000 Group £m	2000 Bank £m
Debt securities – carrying value	212	72	100	53

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

18. Equity Shares

	2001 Carrying value £m	2001 Market value £m	2000 Carrying value £m	2000 Market value £m
Group				
Investment securities:				
- listed	-	7	1	3
- unlisted	5	5	1	6
	5	12	2	9
Other securities:				
- listed	-	-	1	-
	5		3	
Bank				
Investment securities:				
- unlisted	1	1	-	-
	1	1	-	-
Investment securities		Cost	Provisions	Carrying value £m
		£m	£m	
Group				
At 1 January 2001		2	-	2
Acquisitions		4	-	4
Disposals		(1)	-	(1)
At 31 December 2001		5	-	5
Bank				
At 1 January 2001		-	-	-
Acquisitions		1	-	1
At 31 December 2001		1	-	1

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

19. Shares in Group Undertakings

	Share of net tangible assets	
	£m	
The Bank		
At 1 January 2001	595	
Exchange adjustments	(6)	
Investments	174	
Revaluation	70	
At 31 December 2001	833	
Subsidiary undertakings comprise:	2001	2000
	£m	£m
- banks	575	337
- other	258	258
Total – all unlisted	833	595

On the historical cost basis, shares in Group undertakings would have been included as follows:

	2001	2000
	£m	£m
Cost and net book value	300	129

(a) The principal subsidiary undertakings included in the consolidated accounts of Ulster Bank Limited are:

Undertaking	Nature of business	Incorporated in	Accounting date
Cunningham Coates Ltd	Stockbroking and investment management	Northern Ireland	30 November
Lombard & Ulster Banking Ltd	Banking services, credit finance and leasing	Republic of Ireland	30 November
Lombard & Ulster Ltd	Banking services, credit finance and leasing	Northern Ireland	30 November
NCB Group Ltd	Financial services	Republic of Ireland	30 November
Ulster Bank Commercial Services Ltd	Debtor finance	Republic of Ireland	31 December
Ulster Bank Commercial Services (NI) Ltd	Debtor finance	Northern Ireland	31 December
Ulster Bank Finance PLC	Issue of debt instruments	Republic of Ireland	31 December
Ulster Bank Holdings (ROI) Ltd	Investment company	Republic of Ireland	31 December
Ulster Bank (Ireland) Holdings	Holding company	Republic of Ireland	31 December
Ulster Bank Ireland Ltd	Banking services, corporate and investment banking, foreign exchange services	Republic of Ireland	31 December
Ulster Bank (Isle of Man) Ltd	Banking	Isle of Man	30 November
Ulster International Finance & Commercial Services Company	Asset financing	Northern Ireland	31 December

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

19. Shares in Group Undertakings (continued)

- (b) The bank holds 100% of the equity share capital of all subsidiary undertakings apart from Ulster Bank Commercial Services Ltd where the holding is 90.9%, JCB Finance Ltd where the holding is 75%, and Ulster Bank Insurance Services Ltd where the holding is 51%. In all cases, the holding is equal to the voting rights.

20. Intangible Fixed Assets	2001 £m	2000 £m
Goodwill		
Group		
Cost		
At 1 January and 31 December	22	22
Amortisation		
At 1 January	7	6
Charge for the year	2	1
At 31 December	9	7
Net book value at 31 December	13	15

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001
21. Tangible Fixed Assets

	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
Group					
Cost or valuation:					
At 1 January 2001	86	12	7	155	260
Exchange adjustments	(1)	-	-	(2)	(3)
Additions	1	-	1	29	31
Disposals	-	-	-	(15)	(15)
Revaluations	4	1	-	-	5
At 31 December 2001	90	13	8	167	278
Accumulated depreciation:					
At 1 January 2001	1	1	2	76	80
Exchange adjustments	-	-	-	(1)	(1)
Disposals	-	-	-	(14)	(14)
Charge for the year	1	-	1	22	24
At 31 December 2001	2	1	3	83	89
Net book value:					
At 31 December 2001	88	12	5	84	189
At 31 December 2000	85	11	5	79	180
Bank					
Cost or valuation:					
At 1 January 2001	86	12	4	118	220
Additions	-	-	-	23	23
Disposals	-	-	-	(13)	(13)
Revaluations	2	-	-	-	2
Intercompany transfer	(36)	(7)	(2)	(50)	(95)
At 31 December 2001	52	5	2	78	137
Accumulated depreciation:					
At 1 January 2001	1	1	1	54	57
Disposals	-	(1)	-	(12)	(13)
Charge for the year	1	-	-	16	17
Intercompany transfer	(1)	-	-	(25)	(26)
At 31 December 2001	1	-	1	33	35
Net book value:					
At 31 December 2001	51	5	1	45	102
At 31 December 2000	85	11	3	64	163

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

21. Tangible Fixed Assets (continued)

The Group's freehold and long leasehold properties are independently valued by professional valuers on a rolling basis, each property being revalued at least every five years, generally, on the basis of open market value for existing use. Northern Ireland properties are valued by The Whelan Partnership and the Republic of Ireland properties by GVA Donal O'Buachalla. The resulting surplus over the book value is credited to the Revaluation Reserve and the book values adjusted accordingly.

Cost or valuation of freehold and long leasehold premises at 31 December comprises:	2001 Freehold land and buildings £m	2001 Leases of 50 years or more unexpired £m	2000 Freehold land and buildings £m	2000 Leases of 50 years or more unexpired £m
Group				
At valuation	87	11	84	10
At cost	1	1	1	1
	88	12	85	11
Bank				
At valuation	50	5	84	10
At cost	1	-	1	1
	51	5	85	11
	2001 Group £m	2001 Bank £m	2000 Group £m	2000 Bank £m
On the historical cost basis, freehold and long leasehold premises would have been included as follows:				
Net book value	48	32	49	49
Land and buildings occupied for own activities:				
Net book value	96	52	88	86
Future capital expenditure:				
Contracted expenditure not provided in the accounts	2	2	3	3

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

22. Other Assets	2001	2001	2000	2000
	Group	Bank	Group	Bank
	£m	£m	£m	£m
Mark-to-market value of foreign exchange and interest rate contracts	190	3	255	4
Settlement balances	241	-	181	-
Other	155	1	100	15
	586	4	536	19
23. Deposits by Banks	2001	2001	2000	2000
	Group	Bank	Group	Bank
	£m	£m	£m	£m
Repayable on demand	65	12	55	25
With agreed maturity dates or periods of notice, by remaining maturity:				
- 3 months or less but not repayable on demand	1,716	417	1,453	1,196
- 1 year or less but over 3 months	36	44	42	59
- 5 years or less but over 1 year	-	-	6	18
- over 5 years	-	-	-	3
	1,817	473	1,556	1,301
Amounts include:				
Due to parent and fellow subsidiary undertakings	249	41	267	81
Due to subsidiary undertakings		369		987
24. Customer Accounts	2001	2001	2000	2000
	Group	Bank	Group	Bank
	£m	£m	£m	£m
Repayable on demand	3,784	1,324	3,206	2,898
With agreed maturity dates or periods of notice, by remaining maturity				
- 3 months or less but not repayable on demand	3,540	1,864	3,701	2,069
- 1 year or less but over 3 months	116	11	210	51
- 5 years or less but over 1 year	302	4	164	10
- over 5 years	65	42	45	45
	7,807	3,245	7,326	5,073
Amounts include:				
Due to parent and fellow subsidiary undertakings	97	13	271	195
Due to subsidiary undertakings		56		57

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

25. Debt Securities in Issue	2001 Group £m	2001 Bank £m	2000 Group £m	2000 Bank £m
Bonds and medium term notes, by remaining maturity:				
- 1 year or less or on demand	16	-	4	-
- 2 years or less but over 1 year	-	-	19	-
- 5 years or less but over 2 years	16	-	27	-
- over 5 years	2	-	3	-
	34	-	53	-
Other debt securities in issue, by remaining maturity:				
- 3 months or less	268	191	197	49
- 1 year or less but over 3 months	19	19	70	28
- 2 years or less but over 1 year	-	-	14	14
	287	210	281	91
	321	210	334	91
26. Other Liabilities	2001 Group £m	2001 Bank £m	2000 Group £m	2000 Bank £m
Short positions in securities	62	-	47	-
Mark-to-market value of foreign exchange and interest rate contracts	187	1	265	3
Settlement balances	220	-	214	-
Taxation, due within one year	25	6	48	27
Notes in circulation	272	272	229	229
Dividends payable	30	30	44	44
Other liabilities	147	13	113	45
	943	322	960	348
27. Deferred Taxation	2001 Group £m	2001 Bank £m	2000 Group £m	2000 Bank £m
The potential liability and amounts provided at the rates at which the liabilities are expected to crystallise are:				
Short term timing differences	(1)	-	-	2
Equipment held for leasing	22	-	22	-
Capital allowances	3	3	4	3
	24	3	26	5

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

27. Deferred Taxation (continued)

Full provision is made for all deferred taxation liabilities except for those which might arise in the event of:

- (i) the properties of the Group being realised at the balance sheet value. The Directors are of the opinion that the likelihood of any material liability arising in this respect is remote and that no useful purpose would be served by quantifying the potential liability.
- (ii) the reserves of Republic of Ireland subsidiary undertakings, a substantial proportion of which are required to be retained by these undertakings to meet their local regulatory requirements, being remitted.

Movements on the provisions:	Group £m	Bank £m
At 1 January 2001	26	5
Exchange adjustments	(1)	-
Released during the year	(1)	(2)
At 31 December 2001	24	3

28. Loan Capital	2001 Group £m	2001 Bank £m	2000 Group £m	2000 Bank £m
Undated:				
- held by fellow subsidiary undertaking	15	-	15	-
- held by subsidiary undertaking	-	-	-	45
	15	-	15	45
Dated:				
Repayable 2013:				
- held by fellow subsidiary undertaking	22	22	22	22
Repayable 2014:				
- held by immediate parent company	20	20	20	20
Repayable 2015:				
- held by immediate parent company	20	20	20	20
IR£ loan capital repayable 2003/7:				
- held by subsidiary undertaking	-	6	-	6
	62	68	62	68

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

Interest on the undated and dated loan capital held by fellow subsidiary undertakings and the immediate parent company is payable quarterly at a margin over London Interbank Offer rates. Interest on other dated loan capital is payable quarterly at a margin over Euro Interbank Offer rates. There is no coupon attaching to the undated loan capital held by the subsidiary undertaking.

Early repayment of the dated loan capital due 2013, 2014 and 2015 held by a fellow subsidiary undertaking and the immediate parent company may take place at any time with a notice period of at least 30 days. Dated loan capital held by a subsidiary undertaking is repayable in five equal annual tranches commencing 1 January 2003 and concluding on 1 January 2007.

Early repayment of loan capital is subject to the prior consent of the Financial Services Authority and, in the case of the undated loan capital held by a fellow subsidiary undertaking, prior consent of the Central Bank of Ireland is also required.

The Bank's undated loan capital of £45,000,000 was repaid during the year as part of the corporate restructure exercise.

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

29. Called Up Share Capital

	Authorised		Allotted, called up and fully paid	
	Number of shares in millions	£m	Number of shares in millions	£m
Equity Shares				
Ordinary Shares of £1 each				
At 1 January and 31 December 2001	150	150	105	105
Non-Cumulative Redeemable Preference Shares of €1 each				
At 1 January 2001	-	-	-	-
Issued during year	200	127	160	101
Exchange adjustments	-	-	-	(3)
At 31 December 2001	200	127	160	98
Share Capital as at 31 December 2001				203

On 21 September 2001, Ulster Bank Ltd issued 160 million non-cumulative redeemable preference shares of €1 each to its parent undertaking at par. Consideration was in the form of cash.

The non-cumulative redeemable preference shares entitle the holders thereof to receive periodic non-cumulative cash dividends at a specified floating rate payable out of distributable profits of the Bank. In a winding-up the holders of the preference shares have the right to repayment in priority to the holders of any other class of shares in the capital of the Bank. Any surplus assets available after repayment of the preference and ordinary shares will be distributable to the holders of the £1 ordinary shares.

The non-cumulative redeemable preference shares do not confer on the holder a right to attend or vote at general meetings of the Bank unless the business of the meeting includes the consideration of a resolution for winding up of the Bank or reducing its share capital or varying any of its special rights attached to the preference shares.

Subject to the provisions of the Companies (Northern Ireland) Order 1986 and to the consent of the Financial Services Authority, the Bank shall have the right to redeem the preference shares at any time by notice to the holders provided that no such notice may be issued in respect of any preference share prior to the day following the fifth anniversary of the date of its allotment.

30. Reserves

	Revaluation reserve £m	Profit and loss account £m	Total £m
Equity reserves are analysed below:			
Group			
At 1 January 2001	47	656	703
Exchange adjustments	-	(10)	(10)
Retained profit for the year	-	25	25
Revaluation in surplus – property	5	-	5
At 31 December 2001	52	671	723

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

30. Reserves (continued)

	Revaluation reserve £m	Profit and loss account £m	Total £m
Equity reserves are analysed below:			
Bank			
At 1 January 2001	513	175	688
Exchange adjustments	(4)	(2)	(6)
Loss for the year	-	(45)	(45)
Transfer of realised profit	(24)	24	-
Revaluation surplus - group undertakings	70	-	70
- property	2	-	2
At 31 December 2001	557	152	709

31. Other Pension Costs

The Group has continued to account for pensions in accordance with Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for Pension Costs" and the disclosures given in (a) are those required by that standard. Financial Reporting Standard ("FRS") 17 "Retirement Benefits" will not be mandatory for the Group until the year ended 31 December 2003. Prior to this, phased transitional disclosures are required by the standard and, to the extent not given in (a) are set out below in (b).

(a) SSAP 24 Disclosures

The Group operates a number of pension schemes which are defined benefit schemes, the assets of which are held in separate trustee administered funds. As at 1 October 1998, the date of the latest available valuation of the major schemes, the market value of the assets was £530,729,000 and the actuarial value was sufficient to cover the benefits that had accrued to members, after allowing for expected future increase in earnings. The valuation was carried out using the attained age method and the principal actuarial assumptions applied were that the real rate of return on new investments would exceed the annual increase in pensionable remuneration, and payments of current and future pensions, by 3.5% and that dividend growth would exceed price inflation by 0.5%.

The total pension cost for the Group is assessed in accordance with the advice of independent qualified actuaries, and amounted to £6,020,000 (2000: £5,531,000). Acting on the advice of the actuary for the principal schemes, the Bank contributions will reflect those paid by the members.

At the Balance Sheet date there were amounts of £238,317 (2000: £298,420) included in prepayments and accrued income and £12,057,000 (2000: £10,928,000) included in accruals and deferred income in respect of the major pension schemes operated by the Group.

(b) FRS 17 Disclosures

The surplus of the funds as calculated under FRS 17 by the independent qualified actuaries as at 31 December 2001 is £52,746,000. The valuations were carried out using the projected unit method and the principal actuarial assumptions were as follows:

	At December 2001
Rate of increase in salaries	3.5 %
Rate of increase in pensions in payments	3.5 %
Discount rate	6.0 %
Inflation assumption	2.5 %

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

31. Other Pension Costs (continued)

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

	Long-term rate of return expected at 31 December 2001	Value at 31 December 2001 £m
Equities	8.4 %	528
Bonds	5.0 %	75
Property	6.5 %	64
Cash	4.5 %	2

Total market value of assets	669
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Reconciliation of market value of assets and liabilities to the surplus of the funds:

	At December 2001 £m
Market value of assets	669
Present value of scheme liabilities	616
Surplus of the funds	53
Related deferred tax	14

Surplus net of deferred tax	39
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32. Profit analysis by continuing/discontinued operations

	2001			2000		
	Continuing £m	Dis-continued £m	Total £m	Continuing £m	Dis-continued £m	Total £m
Net Interest Income	313	38	351	259	35	294
Non-Interest Income	170	15	185	155	15	170
Total income	483	53	536	414	50	464
Operating expenses	(263)	(32)	(295)	(222)	(31)	(253)
Provisions for bad and doubtful debts	(16)	(8)	(24)	(11)	(7)	(18)
Operating Profit	204	13	217	181	12	193

The discontinued operations are in respect of the Lombard & Ulster businesses sold on 1 January 2002 and the investment management and services businesses which were disposed of during 2000. The net assets of the Lombard businesses at date of sale was £115m.

33. Segmental Reporting

The Group operates in the financial services industry in the United Kingdom and the Republic of Ireland and provides an integrated service to its customers.

Retail Banking, which has branch networks in both Northern Ireland and the Republic of Ireland, operates in the personal and commercial sectors where it undertakes lending and deposit taking. It is also active in credit and debit card operations and in wealth management.

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

33. Segmental reporting (continued)

Corporate Banking and Financial Markets provides a wide range of investment banking products and services to the corporate and institutional markets, which include foreign exchange, money market services, lending, leasing and formerly fund management and administration.

Segmental information by geographical area and class of business is set out below:

Geographical segments	United Kingdom £m	Republic of Ireland £m	Total £m
Group profit on ordinary activities before tax (note a)			
2001	71	146	217
2000	73	181	254
Net assets (note b)			
2001	508	502	1,010
2000	218	673	891
Total assets (note b)			
2001	3,405	8,666	12,071
2000	3,572	7,672	11,244
Average assets (note c)			
2001	3,592	8,786	12,378
2000	3,545	6,904	10,449
Class of business	Retail Banking £m	Corporate Banking and Financial Markets £m	Total £m
Group profit on ordinary activities before tax (note a)			
2001	135	82	217
2000	125	129	254
Net assets (note b)			
2001	513	497	1,010
2000	471	420	891
Total assets (note b)			
2001	5,171	6,900	12,071
2000	5,153	6,091	11,244
Average assets (note c)			
2001	5,303	7,075	12,378
2000	4,788	5,661	10,449

Notes

- Interest on loan capital, central services costs and earnings on shareholders' funds is apportioned segmentally on appropriate bases.
- In view of the nature of the financial services business it is appropriate to analyse total assets by segment in addition to net assets, which comprise shareholders' funds, loan capital and minority interests.
- Average total assets attributed to segments are derived from a combination of daily, monthly and quarterly balances.
- Particulars of gross income are not disclosed.

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

34. Memorandum Items

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

Group	2001 Contract amount £m	2001 Risk weighted amount £m	2000 Contract amount £m	2000 Risk weighted amount £m
Contingent liabilities:				
- Acceptances and endorsements	4	4	3	3
- Guarantees and assets pledged as collateral security:				
- guarantees	125	125	69	68
- Other contingent liabilities	335	221	314	201
	464	350	386	272
Commitments:				
- Documentary credits and other short term trade-related contingent obligations	14	3	21	4
- Forward asset purchases	6	6	6	6
- Formal standby facilities, credit lines and other commitments to lend with a maturity of:				
- less than one year or unconditionally cancellable at any time	2,067	-	1,892	-
- one year and over	350	145	316	127
	2,437	154	2,235	137
Bank				
Contingent liabilities:				
- Acceptances and endorsements	2	2	3	3
- Guarantees and assets pledged as collateral security:				
- guarantees	163	52	979	293
- Other contingent liabilities	52	25	135	66
	217	79	1,117	362
Commitments:				
- Documentary credits and other short term trade-related contingent obligations	3	1	21	4
- Forward asset purchases	1	1	3	3
- Formal standby facilities, credit lines and other commitments to lend with a maturity of:				
- less than one year or unconditionally cancellable at any time	778	-	1,515	-
- one year and over	6	3	45	22
	788	5	1,584	29

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

34. Memorandum Items (continued)

Risk weighted amounts have been calculated in accordance with the Financial Services Authority's guidelines implementing the EC solvency ratio directive.

Acceptances are obligations to pay on maturity the face value of a bill of exchange to a third party. Most acceptances are short-term and extend for one year or less. By endorsing a document, the Group accepts liability for payment if it is dishonoured.

Commitments to lend include commitments which are unconditionally cancellable and agreements to lend to a customer so long as all conditions established have been satisfied or waived. A substantial proportion of the Group's loans is by way of overdrafts. Unutilised overdraft facilities constitute commitments to lend which, although unconditionally cancellable, are normally granted for a specific period of time. Unutilised overdraft facilities are included in commitments to lend.

Documentary credits are commercial letters of credit providing for payment by the Group to a named beneficiary, against delivery of specified documents.

Other commitments and contingent obligations usually have fixed expiry dates or other termination clauses.

These transactions, which have been entered into on behalf of customers and for which there are corresponding obligations by counterparties, are not included on the Group's or the Bank's Balance Sheets. The Group's maximum exposure to credit loss, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual notional amount of those instruments. Many commitments are expected to expire without being drawn and do not necessarily represent future cash requirements.

Contingent liabilities and commitments incurred by the Bank on behalf of subsidiary undertakings, included in the above, amounted to £22,402,000 (2000: £232,639,000) for which there are corresponding obligations by counterparties.

35. Risk Management

The major risks associated with the Group's businesses are market risk, liquidity risk, credit risk and operational 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 both Executive and Board Committees.

Market Risk

Market risk is the risk that changes in interest rates, foreign exchange rates, equity prices 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 risks to which the Group is exposed are interest rate risk and foreign exchange risk. Activity in debt securities, interest-rate derivatives and money-market instruments is the primary source of interest rate risk in the Group's dealing, money-market and debt investment portfolios. 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.

For notes on the Group's accounting policies for, and information with respect to its exposures to, derivative financial instruments, see notes 1(xii) and 36.

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001**35. Risk Management (continued)****(i) Trading**

The Group's dealing, money-market and debt investment portfolios comprise derivative financial instruments (futures, forwards, swaps and options), debt and equity securities, loans, deposits and other debt obligations. So as to be able to meet customer demand, the Group carries portfolios of cash, marketable financial instruments and derivative instruments, and, by continuously quoting bid and offer prices, maintains access to market liquidity. Its proprietary activities involve taking positions as principal in the interest rate, exchange rate and securities markets to take advantage of anticipated market conditions.

The Group manages the market risk in these portfolios through position and sensitivity limits as well as value-at risk (VaR) limits. The VaR limits are approved by the Board. The Group supplements its daily VaR calculations with stress testing which measures the impact of abnormal changes in market rates and prices on the fair value of the Group's trading portfolios. The portfolios are also subject to scenario analyses. Option risk is modelled using simulation and revaluation of the variables determining the option's value and further analyses are performed on instruments with discontinuous payoffs.

VaR is a technique that produces a single estimate of the potential negative change in the market value of a portfolio over a specified time horizon at a given confidence level. The Group's VaR assumes a time horizon of one day and a confidence level of 95%. In other words, the Group expects to suffer a one-day loss greater than VaR only 5% of the time, i.e. one day in twenty. The Group has made use of historical simulation models for its VaR assessment.

Historical simulation models assume that risk factor changes observed in the past are a good estimate of those likely to occur in the future. The method is limited by the relevance of the historical data used. The Group typically uses the last two years of market data. The independent market risk function will modify the historically derived estimates of likely risk factor changes to reflect prevailing market conditions. These modified estimates use other market information, eg, the implied volatility of traded options. The method of aggregation used assumes that the profit and loss of each sub-portfolio is normally distributed and that the exposures of each sub-portfolio is independent of the others.

The Group's VaR should be interpreted in light of the limitations of the methodologies used which include:

- Changes in risk factors may not have a normal distribution. In particular such an assumption may underestimate the probability of extreme market movements.
- Historical data used may not provide the best estimate of the joint distribution of risk factor changes in the future, and any modifications to these data may be inadequate. In particular VaR using only two years of historical data may fail to capture the risk of possible extreme adverse market movements.
- VaR using a one-day horizon does not fully capture the market risk of positions that cannot be liquidated or hedged within one day.
- VaR using a 95% confidence level does not reflect the extent of potential losses beyond that percentile.
- At present the Group only computes the VaR of trading portfolios at the close of business and positions may change substantially during the course of the trading day. Controls are in place to limit the Group's intra-day exposure but it does not yet compute VaR intra-day.

VaR should, therefore, not be viewed as a guarantee of the Group's ability to limit its market risk. The Group cannot be certain that losses will not exceed the VaR amounts indicated nor that losses in excess of the VaR amounts will not occur more frequently than once in 20 trading days.

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

35. Risk Management (continued)

The VaR for the Group's dealing, money-market and debt investment portfolios is presented in the table below.

	31 December 2001	Maximum	Minimum	Average
Value at Risk	£239,109	£780,038	£191,591	£409,414

(ii) Non-trading

The Group's portfolios of non-trading financial instruments principally comprise loans (including finance leases), debt securities, deposits, certificates of deposit and other debt securities issued, loan capital and derivatives. Non-trading market risk in respect of interest rate and currency risk is discussed below.

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 all significant non-trading interest rate risk to be transferred to units whose market risks are included within trading referred to above. Non-trading interest rate risk is measured using VaR and its potential effect on short-term earnings. Risk transfers to the trading units are arranged through arm's length cash transactions and derivatives, principally interest rate swaps.

The VaR of any non-trading interest rate exposures that are not so transferred is measured using the same methodology that is used for trading portfolios. VaR for the Group's commercial banking activities is calculated quarterly. At 31 December 2001, it was calculated to be £853,000 of which £481,000 relates to the structural foreign currency exposures.

In computing the VaR, all on-balance sheet assets and liabilities (other than those which are match funded and therefore have no interest rate risk) and off-balance sheet derivatives products in each of the non-trading businesses are categorised by product or asset/liability type and included in an interest rate ladder at the appropriate repricing maturity band. The maturity bands are monthly for the first 24 months, quarterly from 24 months to 72 months and annually thereafter.

For the principal non-trading business units, when 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. Non-interest bearing current accounts are behaviouralised on the basis of their inherent stability and fixed rate characteristics and included at the corresponding maturity in the gap report. The Group policy is also to include non-financial assets and liabilities.

Principal amounts only are included. Average balances are used for products where this is considered to provide a more accurate representation of the exposure. A separate ladder is produced for each material currency. Interest rate movements between currencies are assumed to be zero-correlated.

Option risk in the non-trading businesses principally occurs in certain fixed rate assets and liabilities. It arises where businesses undertake to provide funding to, or to accept deposits from, customers at a future date at a pre-determined fixed interest rate. Derivatives are used to manage the risk of interest rate movements from the date a commitment is made to a customer to the date the transaction closes. Option risk also arises where customers can repay fixed rate loans or withdraw fixed rate deposits prior to their maturity. In managing this risk, historic early repayment rates are taken into account. The Group generally seeks to protect itself from early repayment risk through the imposition of contract breakage fees.

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001
35. Risk Management (continued)

The table below summarises the contractual interest rate sensitivity gap for the Group's non-trading book as at 31 December 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.

	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
	£m	£m	£m	£m	£m	£m	£m
Assets							
Loans and advances to banks	771	91	-	7	-	23	892
Loans and advances to customers	6,230	427	368	1,132	221	10	8,388
Treasury and debt securities	299	169	220	203	14	-	905
Other assets	4	2	13	33	-	608	660
Internal funding of the trading book	262	-	-	2	-	-	264
Total Assets	7,566	689	601	1,377	235	641	11,109
Liabilities							
Deposits by banks	1,282	204	20	-	-	3	1,509
Customer accounts	5,562	68	44	120	65	1,870	7,729
Debt securities in issue	274	24	4	16	3	-	321
Subordinated liabilities	77	-	-	-	-	-	77
Other liabilities	-	-	-	-	-	565	565
Shareholders' funds	-	-	-	-	-	908	908
Total liabilities	7,195	296	68	136	68	3,346	11,109
Off-balance sheet items	(181)	128	(75)	(224)	352	-	-
Interest rate sensitivity gap	190	521	458	1,017	519	(2,705)	-
Cumulative interest rate sensitivity gap	190	711	1,169	2,186	2,705	-	-

Currency Risk

The Group does not maintain material non-trading open currency positions other than the structural foreign currency translation exposures arising from its investments in overseas subsidiary undertakings and their currency funding. Such exposures are hedged to the extent that movements in exchange rates would not excessively impact the Group's risk asset ratio.

The table below sets out the Group's structural currency exposures as at 31 December 2001.

Functional currency of the net investment	Foreign currency net investments	Foreign currency liabilities hedging net investments	Structural foreign currency exposures
	£m	£m	£m
Euro	636	104	532

Changes in foreign exchange rates affect the Group's earnings and equity through differences on the retranslation of the net assets and related funding of overseas subsidiaries from the local functional currency to sterling. Gains or losses on foreign currency investments in subsidiary and associated undertakings, net of any losses or gains on related foreign currency funding, are recognised in reserves. In 2001 exchange losses of £9,996,000 were debited to reserves.

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

35. Risk Management (continued)

Liquidity Risk

The liquidity standard introduced in January 1996 by the Financial Services Authority for sterling operations requires the Group to maintain at all times sufficient high-quality liquid assets to cover the net sterling cash outflow from UK banking operations over the next five business days. This standard operates at a Royal Bank of Scotland Group level, including Ulster Bank Group.

The Ulster Bank Group's liquidity policy covers both sterling and currency activities. A portfolio of liquid assets is held against the Group's currency obligations, in addition to those required by the Financial Services Authority for sterling. The policy also requires expected cash outflows for both sterling and currency to be managed within prescribed limits for the next working day, week and thirty days.

Sterling and foreign currency deposits (principally current accounts and savings deposits repayable on demand or at short notice) form an important part of the Group's liability base. These deposits represent a stable source of funding due to the number and diversity of depositors.

Liquidity is actively managed through dealings in the major markets, thereby enabling ready access to wholesale funding.

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 (including securities, transactions and derivatives), for monitoring geographic, product and market sector concentrations within the Group's portfolio of credit risks and for managing the Group's most significant credit risk exposures and special situations. Day to day credit management is conducted by 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 assessed, 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.

Credit quality remains a high priority for Ulster Bank Group.

Operational risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, external events, 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.

36. Derivatives

The Group uses derivatives as an integral part of its trading activities and to manage its own interest and exchange rate position. Trading derivatives are carried at fair value with gains and losses recognised currently in dealing profits. For balance sheet purposes, positive and negative market values are set-off where the contracts have been entered into under master netting agreements or other arrangements that give a legally enforceable right of set-off. 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.

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

36. Derivatives (continued)

The following table provides an overview of the Group's exchange rate related, interest rate related and equity and commodity related derivative portfolios at the year end. It includes all trading and non-trading contracts with third parties. Notional principal amounts are the amounts of the underlying physical or 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 with positive value. This measure makes no allowance for netting arrangements.

	2001			2000		
	Exchange rate related £m	Interest rate related £m	Equity and commodity related £m	Exchange rate related £m	Interest rate related £m	Equity and commodity related £m
Principal amounts	5,076	13,900	8	7,603	13,483	20
Gross replacement cost	56	134	3	163	89	5

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.

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

36. Derivatives (continued)

Derivatives held for trading purposes

At the year end the notional principal amounts and fair values (which are the carrying values) of trading instruments entered into with third parties were:

	2001			2000		
	Notional principal amounts £m	Asset £m	Fair values Liability £m	Notional principal amounts £m	Asset £m	Fair values Liability £m
Exchange rate related contracts						
Spot, forwards and futures	4,609	49	39	6,844	133	97
Currency swaps	464	7	38	743	29	77
Options purchased	3	-	-	8	1	-
Options written	-	-	-	8	-	-
	5,076	56	77	7,603	163	174
Interest rate related contracts						
Interest rate swaps	8,433	129	105	5,904	81	84
Options purchased	74	-	-	121	1	-
Options written	117	-	1	161	-	-
Futures and forward rate agreements	5,148	5	4	7,116	5	6
	13,770	134	110	13,302	87	90
Equity and commodity related contracts	8	3	3	20	5	-
		193	189		255	264
Average fair value						
Exchange rate related contracts		124	137		160	152
Interest rate related contracts		132	119		64	84
Equity and commodity related contracts		5	-		8	-
		261	256		232	236

Averages are calculated from a combination of monthly and quarterly balances. There are no netting arrangements in place at the year end (2000: £nil).

Gains and losses on exchange-traded contracts subject to daily margining requirements are settled daily. The fair value of such contracts included above reflects the last day's variation margin.

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

36. Derivatives (continued)

At the year end, the maturity of the notional principal amounts of trading contracts entered into with third parties was:

	1 year or less £m	2 years or less but over 1 year £m	5 years or less but over 2 years £m	Over 5 years £m	Total £m
Exchange rate related contracts					
Spot, forwards and futures	4,478	99	29	3	4,609
Currency swaps	87	30	86	261	464
Options purchased	3	-	-	-	3
At 31 December 2001	4,568	129	115	264	5,076
At 31 December 2000	7,046	214	94	249	7,603
Interest rate related contracts					
Interest rate swaps	4,920	1,462	1,006	1,043	8,431
Options purchased	30	44	-	-	74
Options written	43	67	7	-	117
Futures and forward rate agreements	3,981	1,086	35	46	5,148
At 31 December 2001	8,974	2,659	1,048	1,089	13,770
At 31 December 2000	5,486	4,610	1,819	1,387	13,302
Equity and commodity related contracts					
At 31 December 2001	3	5	-	-	8
At 31 December 2000	14	1	5	-	20

Derivatives held for purposes other than trading

The Group uses derivative contracts including interest rate and currency swaps, futures, forwards and options to control its interest rate risk that arises as a result of timing differences in the repricing of interest-earning assets and interest-bearing liabilities and exchange rate risk. The Group establishes non-trading derivatives positions with third parties and through intra-company and intra-group transactions with the Group's independent trading operations. At the year end, the notional principal amounts, fair values and carrying values, of the Group's non-trading derivatives (third party, intra-company and intra-group) were:

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

36. Derivatives (continued)

	Notional principal amount £m	2001			
		Fair values		Carrying values	
		Asset £m	Liability £m	Asset £m	Liability £m
Exchange rate related contracts					
Spot, forwards and futures	351	3	1	3	-
	351	3	1	3	-
Interest rate related contracts					
Interest rate swaps	2,206	16	18	4	2
	2,206	16	18	4	2

Notional principal amounts - maturity

	1 year or less £m	2 years or less but over 1 year £m	5 years or less but over 2 years £m	Over 5 years £m	Total £m
Exchange rate related contracts					
Spot, forwards and futures	351	-	-	-	351
At 31 December 2001	351	-	-	-	351
At 31 December 2000	48	-	2	-	50
Interest rate related contracts					
Interest rate swaps	729	567	476	434	2,206
At 31 December 2001	729	567	476	434	2,206
At 31 December 2000	696	365	607	50	1,718

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

36. Derivatives (continued)

The notional principal amount of contracts held for purposes other than trading which were entered into with third parties amounted to:

	2001 £m	2000 £m
Exchange rate related contracts	-	-
Interest rate related contracts	130	181

Unrecognised Gains and Losses on Derivative Hedges

The unrecognised net losses on off balance sheet derivative instruments used for hedging on balance sheet positions as at 31 December 2001 were £2,739,000.

The net losses on these instruments expected to be recognised in the profit and loss account in the next year are £2,966,000.

The net losses recognised in the current reporting period's profit and loss account that arose in previous years and were unrecognised at 31 December 2000 were £3,421,000.

Non-trading Derivative Deferred Gains and Losses

At the year end the Group had no deferred gains or losses.

Maturity analysis of replacement cost of OTC contracts:

	2001				2000
	1 year or less £m	2 years or less but over 1 year £m	5 years or less but over 2 years £m	Over 5 years £m	Total £m
By remaining maturity:					
Exchange rate related contracts	52	2	1	1	56
Interest rate related contracts	31	33	29	41	134
Equity and commodity related contracts	1	2	-	-	3
	84	37	30	42	193
By counterparty exposure:					
Financial institutions					149
Other					44
					193
					257

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

36. Derivatives (continued)

Glossary of terms on derivatives

Derivative	A derivative is a contract whose value is derived from an underlying physical or financial commodity.
Fair value	Fair value is the amount for which a derivative could be exchanged in an arm's length transaction between informed and willing parties. It is based on quoted market prices where available. If no quoted price exists for a particular instrument, fair value is determined from market prices for its components using appropriate models.
Forward	A forward agreement is a contract to buy (or sell) a specified amount of the physical or financial commodity, at an agreed price, at an agreed date.
Forward foreign exchange contract	A contract to pay or receive specific amounts of a currency at a future date in exchange for another currency at an agreed exchange rate.
Forward rate agreement	An agreement to pay or receive the difference between a specified interest rate and a reference rate on a notional deposit at a specified future date.
Future	A future is an exchange traded contract to buy (or sell) a standardised amount of the underlying physical or financial commodity at an agreed price on a set date.
Gross replacement cost	This represents the sum of the positive replacement values for a portfolio of trades.
Notional principal amount	The notional principal amount is the amount of the underlying physical or financial commodity on which the derivative contract is based.
Option	An option is a contract that gives the holder the right but not the obligation to buy (or sell) a specified amount of the underlying physical or financial commodity, at a specific price, at an agreed date or over an agreed period.
OTC contract	An 'over the counter' contract with terms that are specific to customer requirements.
Proprietary trading	Proprietary trading is the deliberate taking of a position in anticipation of price movements rather than to meet customer demand or to hedge position.
Swap	A swap is an agreement to exchange cashflows in the future according to a pre-arranged formula.
Value-at-risk	The value-at-risk (VaR) is the range of profit/loss that a particular deal or group of deals is likely to face given defined fluctuations in variables such as interest rates or exchange rates. Changes in each of these are determined by statistical analyses of historic market movements.

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

37. Fair Values of financial assets and financial liabilities

Most of the Group's asset and liabilities are considered to be financial instruments. Many of these do not trade regularly and no market for them exists. Where quoted market prices are not available, fair values have been estimated based on discounted anticipated cash flows. The fair values estimated are influenced by the valuation method used and reflect the underlying subjective assumptions made about the discount rate and estimates of the current and timing of anticipated future cash flows. Changes in these assumptions would materially affect estimated fair values.

The following table represents the carrying amount and the fair values of both the trading and non-trading financial instruments, for which a liquid or active market exists, as at 31 December 2001.

	Carrying value £m	Fair value £m
Financial Instruments for Trading		
Assets		
Debt securities	67	67
Loans and advances to banks	457	457
Loans and advances to customers	169	169
Liabilities		
Deposits by banks	309	309
Customer accounts	77	77
Derivatives (note 36)		
Asset	193	193
Liability	189	189
Non Trading Financial Instruments		
Assets		
Treasury and other eligible bills	91	91
Debt securities	814	815
Equity shares	5	12
Liabilities		
Debt securities in issue	321	323
Derivatives (note 36)		
Asset	7	19
Liability	2	19

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

38. General

(i) Operating lease commitments	2001 Group £m	2001 Bank £m	2000 Group £m	2000 Bank £m
Annual commitments under operating leases, which relate solely to land and buildings, were as follows:				
Operating leases which expire:				
- Within 1 year	-	-	1	-
- Between 1 and 5 years	-	-	1	-
- In 5 years or more	4	2	3	2
	4	2	5	2

(ii) Lease and similar finance arrangements
Group amounts financed under finance lease and instalment credit agreements entered into during the year were £542,505,000 (2000: £546,821,000).

(iii) Average number of employees
The average number of persons employed by the Group during the year was as follows:

	2001	2000
Managerial	1,698	1,746
Clerical staff	3,204	3,213
Others	103	116
	5,005	5,075

(iv) Assets pledged as security for liabilities

	Amount of Liability Secured			
	2001 Group £m	2001 Bank £m	2000 Group £m	2000 Bank £m
Deposits by banks	212	72	100	53
Participation in real time settlement system - contingent	87	-	108	108
	299	72	208	161

The secured deposits by banks and customer accounts include amounts of £212,352,000 (2000: £100,088,000), representing sale and repurchase liabilities.

These liabilities were secured on debt securities held by Group companies with a carrying value of £nil (2000: £108,294,000) and lendings to banks of £86,982,000 (2000: £nil).

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

39. General (continued)

(v) **Litigation**

The Bank and subsidiaries of the Group are involved in litigation in the United Kingdom and Republic of Ireland. 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.

(vi) **Registered Charges**

A registered charge exists over the assets of the Group securing all borrowings and other obligations, in whatever form that relate to the Group's use of the Euroclear system, that are outstanding to Morgan Guaranty Brussels and to any other office of Morgan Guaranty Trust Company of New York.

40. Transactions Involving Directors and Others

- (a) The aggregate amounts outstanding at 31 December 2001 under transactions, arrangements and agreements made by authorised institutions within the Group for persons who are, or were, directors of the Bank during the year or who are, or were, connected with a director of the Bank during the year, relating to loans, quasi loans and credit transactions were:

	Number of directors	Number of connected persons	Amount £
Loans	7	14	7,995,000
Quasi loans	3	1	21,000

- (b) There were no amounts outstanding at 31 December 2001 (2000: £nil) in respect of loans made to directors by subsidiary undertakings which were not authorised institutions.

- (c) The aggregate amounts outstanding at 31 December 2001 under transactions, arrangements and agreements made by authorised institutions within the Group for persons who are, or were, officers during the year relating to loans, quasi loans and credit transactions were:

	Number of officers	Amount £
Loans	17	1,642,000
Quasi loans	16	30,000

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001
41. Directors' Interests in Shares

No Director had an interest in the shares of the company.

The interests, all beneficial, of those who were Directors at 31 December 2001 in the ordinary shares of The Royal Bank of Scotland Group plc are shown below.

Ordinary Shares of £0.25 each

	Ordinary Shares		Additional Value Shares ("AVS")		Loan Notes	
	As at 1 January 2001 (or date of appointment if later)	As at 31 December 2001	As at 1 January 2001 (or date of appointment if later)	As at 31 December 2001	As at 1 January 2001 (or date of appointment if later)	As at 31 December 2001
T C Reid	10,643	12,051	10,643	10,643	40,636	40,636
Prof P McKie	-	165	-	-	-	-
I J Laird	32,247	66,700	32,247	32,247	5,256	5,256
P A McArdle	6,744	10,573	6,716	6,716	-	-
M R McLean	155,617	157,734	141,545	141,545	-	-
P M McMahon	13,730	10,379	13,730	6,837	56,736	53,112
J J McNally	6,721	18,478	6,719	6,719	21,104	21,104
M J Wilson	2,218	3,305	23,078	23,078	86,216	86,216

		Share Options (notes a and b)				
	As at 1 January 2001 (or date of appointment if later)	Granted during the year (exercisable between 2003 and 2010)		Exercised during the year		As at 31 December 2001
		Options	Weighted Price (p)	Options	Weighted Price (p)	
T C Reid	64,648	6,650	1,715	12,003	378	59,295
I J Laird	96,241	6,650	1715	33,971	331	68,920
P A McArdle	31,662	8,716	1709	11,676	678	28,702
M R McLean	176,509	19,489	1711	1,539	319	194,459
P M McMahon	27,993	534	1420	-	-	28,527
J J McNally	86,309	9,050	1715	26,906	539	68,453
M J Wilson	132,161	16,150	1717	78,615	504	69,696

Mr FA Goodwin is a director of The Royal Bank of Scotland plc and his interests in the share and loan capital of the Royal Bank of Scotland Group plc are disclosed in the report of the Remuneration Committee of that company contained in its annual report and accounts for 2001.

Notes:

- Options outstanding are exercisable at prices between 312p and 1718p per share. Options granted under the Executive Share Option Scheme are exercisable subject to the achievement of performance conditions.
- Details of the Share Option Schemes are contained in the financial statements of The Royal Bank of Scotland Group plc. The middle market price of that Bank's Ordinary Shares of £0.25 each at 31 December 2001 was 1672p per share and, during the year, the price has ranged from a low of 1256p to a high of 1782p.
- There were no directors interests in any other group companies.

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2001

42. Related Party Transactions

During the year the Group had the following transactions with related parties:

(a) Directors and key managers

The aggregate transactions between Ulster Bank Limited and its directors, key managers, their close families and companies which they control were:

	Number of directors	Number of key managers	Connected parties	Transaction amount £
Transactions during the year				
Bridging facilities granted during the year:				
- at a commercial rate	1	-	1	400,000
Loans made during the year:				
- at a commercial rate	2	-	2	170,000
Balances outstanding at the end of the year				
Loans:				
- at a preferential rate	-	4	4	325,000
- at a commercial rate	7	4	17	8,334,000

(b) Other

- (i) Fee income of £71,000 was receivable by the Group during the year from Metzler Ulster International Finance Ltd, a company in which the group has a 50% joint venture investment.

43. Ultimate Parent Company

The smallest and largest group in which the financial statements of the company are consolidated are National Westminster Bank Plc and The Royal Bank of Scotland Group plc (both incorporated in Great Britain) respectively. The financial statements of both companies may be obtained from The Secretary, 42 St Andrew Square, Edinburgh, EH2 2YB.

DIRECTORS AND EXECUTIVES

Chairman

A R Gillespie

Group Chief Executive

M J Wilson

Directors

Frederick Anderson Goodwin • Niamh Brennan (appointed 1 June 2001) • William James Burgess (appointed 1 June 2001) • Alan Raymond Gillespie (appointed 1 June 2001) • Ivan James Laird • Patrick Anthony McArdle • Peter Halliday McKie, CBE • Lady Brenda Mary McLaughlin (appointed 1 June 2001) • Miller Roy McLean • John Joseph McNally • Peter Gerard Malone (appointed 1 June 2001) • William Patrick O'Kane, OBE • Martin Rafferty • Thomas Carlisle Reid (appointed 15 February 2001) • Martin Joseph Wilson

Audit & Compliance Committee

P H McKie, CBE, Chairman
N Brennan • A R Gillespie • W P O'Kane, OBE

Divisional Heads

J J McNally	<i>Corporate Banking and Financial Markets</i>
P A McArdle	<i>Retail Banking</i>
G J Lee	<i>Group Human Resources</i>
I J Laird	<i>Group Finance</i>
J West	<i>Manufacturing</i>
T C Reid	<i>Change Management</i>

Secretary

D J Peacock

Head Office

11-16 Donegall Square East, Belfast, BT1 5UB