Registered Number R733

ULSTER BANK GROUP

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

ULSTER BANK GROUP

CONTENTS

DIRECTORS AND OTHER INFORMATION	1
REPORT OF THE DIRECTORS	2
STATEMENT OF DIRECTORS' RESPONSIBILITIES	6
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ULSTER BANK LIMITED	7
CONSOLIDATED INCOME STATEMENT	9
BALANCE SHEETS	10
STATEMENTS OF RECOGNISED INCOME AND EXPENSE	11
CASH FLOW STATEMENTS	12
ACCOUNTING POLICIES	13
NOTES TO THE FINANCIAL STATEMENTS	25
DIRECTORS AND EXECUTIVES	81

ULSTER BANK GROUP

DIRECTORS AND OTHER INFORMATION

Directors	M Bamber T Bowen N Brennan S Dorgan (Chair) R Gallagher E Gleeson C Mills C McCarthy B McLaughlin M McLean S Murphy P Nolan I Webb
Registered Office	11-16 Donegall Square East Belfast BT1 5UB
Secretary	J Collister
Auditors	Deloitte LLP Chartered Accountants & Registered Auditors 19 Bedford Street Belfast BT2 7EJ
Solicitors	L'Estrange & Brett Solicitors Arnott House 12/16 Bridge Street Belfast BT1 1LS

ULSTER BANK GROUP

REPORT OF THE DIRECTORS

The Directors of Ulster Bank Limited ("the Bank") have pleasure in presenting their report, together with audited financial statements of the Bank and its subsidiaries (together "the Group") for the year ended 31 December 2008 The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS")

ACTIVITIES AND BUSINESS REVIEW

Activity

Ulster Bank Group is a leading player in the Irish banking market operating through its extensive branch and business centre network across the island of Ireland Serving personal customers, Ulster Bank Retail Markets provides branch banking, Bankassurance and direct banking throughout Northern Ireland and the Republic of Ireland and mortgage and investment services through its First Active subsidiary Corporate Markets provide a wide range of banking products and services including corporate and business banking facilities, foreign exchange, money market services, international trade finance and fixed income

Review of the year

Business review

The significant deterioration in global and local market conditions gave rise to a very difficult trading environment for the Group in 2008 with operating performance falling to a loss before tax of £694m compared to an operating profit before tax of £487m in 2007 In common with all lenders across the Irish banking market the Group experienced a significant increase in its impairment charge arising from deteriorating credit conditions in the loan portfolio

In accordance with IFRS, the Group must undertake an annual impairment test on goodwill and other intangible assets Given the significant deterioration in the short term performance of the Bank and the reduced profit outlook over the planning horizon, the Group has written down the value of its investments in First Active plc and Easycash (Ireland) Limited The Group has also booked an impairment charge on other intangibles representing internally capitalised software due to reduced income streams capable of supporting an adequate value in use test

Despite these difficult trading difficulties the Group continued to enhance and develop both its retail and corporate product offerings including a new Private Banking service for retail customers in Northern Ireland and the introduction of many market leading products following the completion of our Corporate Markets migration to the RBS operating platform In addition, and recognising the difficult market conditions generally, the Group is in the process of introducing a range of support and advice services for its customers Support for retail customers includes the Money Sense advisory programme and longer grace periods before mortgage repossessions are initiated whilst the business sector is benefiting from a variety of support services including commitments around the availability of finance

Financial performance

The Group's financial performance is presented in the Income Statement on page 9

Net interest income at £926m increased over 2007 levels mainly as a result of currency movements but decreased when taken on a constant currency basis The impact of lending growth, particularly in the first half of the year, as well as the positive impact of certain pricing changes was substantially offset by increased funding costs in the retail and wholesale markets

Non interest income fell to £111m from £343m as a result of reduced activity levels in the Bankassurance and Wealth management businesses and was also adversely impacted by accounting volatility arising on interest rate hedges

Operating expenses increased by 9% reflecting the full year impact of the investment programme completed in 2007, cost growth in the second half of 2008 was significantly lower reflecting disciplined management of the cost base

Loan impairment losses have increased to £414m from £78m in 2007 This reflects the deterioration in credit metrics and impairments driven by the slowdown in the Irish economy throughout 2008

At the end of the year total assets were £69,685m

REPORT OF THE DIRECTORS (continued)

Accounting Policies

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements Details of the Group's critical accounting policies and key sources of accounting judgements are included in the Accounting policies on pages 13 to 24

Risk management

The major risks associated with the Group's businesses are Market, Currency, Liquidity, Credit and Operational risks The Group has established a comprehensive framework for managing these risks, which is centrally evolving as the Group's business activities change in response to market, credit, product and other developments The Group's policies for managing each of these risks and its exposure thereto are detailed in Note 27 to the financial statements

Share Capital

Analysis of the changes to the share capital can be found in Note 22 to the financial statements

Directorate

The names of the current members of the Board of Directors are shown on page 1 and brief biographical details are shown on pages 81 to 82 From 1 January 2008 to date the following changes have taken place

	Appointed	Resigned
Directors		
Alan Gillespie		4 September 2008
Senan Murphy	4 February 2008	
Sean Dorgan	1 July 2008	
Michael Torpey		4 February 2008
Assistant Secretary		
David Peacock	24 December 2008	
Rachel Curran	24 December 2008	

Pursuant to a resolution of the Board of Directors passed on 10 December 2008, the appointment of Sir Nigel Hamilton as an additional non executive Director of the Bank, is subject to regulatory approval

Directors' Indemnities

In terms of Section 236 of the Companies Act 2006, all Directors have been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc ("RBS Group")

Employees

The average number of persons employed by the Group was 6,668 Of these 2,599 worked wholly or mainly in the United Kingdom and the remuneration paid or payable to them was £94 1m in total (2007 £89 5m) Employees are split by Retail Markets 3,076 and Corporate Markets/Others 3,525

Staff Involvement

In 2007 the Group embarked on a cultural change programme which defines clear goals and strategies to accelerate the pace towards becoming the Number One Banking Group in Ireland In 2008 progress on this programme has continued In support of this, the Group launched a cross business programme called 'One Achievers' which enables employees to nominate colleagues who have lived our organisational values, resulting in a total of 2,551 nominations group-wide

The Group conducts an annual survey of employee opinions known as Yourfeedback The survey results provide valuable data to decision makers across the Group in support of improving employee engagement and satisfaction

Employees across the Group continued to give generously, both financially and through volunteering, to many community and other worthy causes Such giving is encouraged by the Group with its use of matched funding and staff charity funds which support worthy causes at local, national and international level

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

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 suitable alternative duties

Diversity

The attainment of an effective equal opportunities policy is a natural and integral part of good management practice Key elements of our policy are an intention to develop and treat people fairly and create 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, we aim to value and engage individual difference and maximise inclusion to create a positive experience for our people and our customers

Our commitment to diversity underpins our desire to be the financial services provider of choice for our customers and to be the employer of choice for our people 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

Health and Safety

The Group is committed to ensuring the safety, health and wellbeing of its employees and customers There is an ongoing programme of review that monitors and evaluates existing policies and procedures to ensure that they comply with legislation and best practice, whilst ensuring they meet operational business requirements

Policy and Practice on Payment of Creditors

The Group is committed to maintaining a normal commercial relationship with its suppliers Consequently, it is the Group's policy to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking to pay suppliers within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract or such other payment period as may be agreed

At 31 December 2008, the amount owed to trade creditors by the Group, expressed as a proportion of the amounts invoiced by suppliers during the year then ended, was 30 days (2007 30 days)

Charitable Contributions

During the year the Group made charitable and community investment donations in the United Kingdom and the Republic of Ireland totalling £809,514 (2007 £539,581)

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, including potential risks and uncertainties, are set out in the Business Review on page 2

The financial position of the Group, its cash flows, liquidity position, capital and funding sources are set out in the financial statements In addition, Note 27 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk

The Group is part of the RBS Group and receives ongoing capital, funding and liquidity resources which, coupled with other sources of funding and liquidity, enable the Group meet its obligations as they fall due Other sources of funding and liquidity include retail, wholesale and central bank liquidity

The Directors are satisfied that the Group will continue to enjoy the ongoing support of RBS Group by way of capital, funding and liquidity facilities After considering the Group's financial outlook and related funding and capital needs, the Directors are confident that the Group has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

REPORT OF THE DIRECTORS (continued)

Events since the year end

In January 2009, Ulster Bank announced details of a restructuring programme that will see the merger of the operations of Ulster Bank Ireland Limited and First Active plc in the Republic of Ireland, as well as a series of cost management initiatives across the Ulster Bank Group This action is being taken to further strengthen the Ulster Bank Group franchise by positioning it to best deal with the prevailing local and global market conditions

Auditors

The auditors, Deloitte LLP, have indicated their willingness to continue in office

By order of the Board

Secretary

11-16 Donegall Square East
Belfast
BT1 5UB

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare a Directors' report and financial statements for each financial year and have elected to prepare them in accordance with International Financial Reporting Standards, as adopted by the European Union ("EU") They are responsible for preparing financial statements that present fairly the financial position, financial performance and cash flows of the Group and the Bank In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Bank 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 the Bank and to enable them to ensure that the Directors' report and financial statements comply with the Companies (Northern Ireland) Order 1986 They are also responsible for safeguarding the assets of the Group and the Bank 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

Secretary

11-16 Donegall Square East
Belfast
BT1 5UB

25 February 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ULSTER BANK LIMITED

We have audited the Group and Bank financial statements (the "financial statements") of Ulster Bank Limited (the "Bank") for the year ended 31 December 2008 which comprise the Accounting Policies, the Consolidated Income Statement, the Consolidated and Bank Balance Sheets, the Consolidated and Bank Statements of Recognised Income and Expense, the Consolidated and Bank Cash Flow Statements and the related Notes 1 to 39 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Bank's members, as a body, in accordance with Section 243 of the Companies (Northern Ireland) Order 1986 Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements In addition we report to you if, in our opinion, the Bank 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 other transactions is not disclosed

We read the Directors' Report and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Bank's circumstances, 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ULSTER BANK LIMITED (continued)

Opinion

In our opinion

- the *Group financial statements* give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended,
- the Bank financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies (Northern Ireland) Order 1986, of the state of the Bank's affairs as at 31 December 2008,
- the financial statements have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986, and
- the information given in the Directors' Report is consistent with the financial statements

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
Belfast, United Kingdom

24 March 2009

ULSTER BANK GROUP

CONSOLIDATED INCOME STATEMENT *for the year ended 31 December 2008*

	Note	**2008 £m**	2007 £m
Interest receivable		**3,647**	3,256
Interest payable		**(2,721)**	(2,426)
Net interest income	1	**926**	830
Fees and commission receivable		**236**	187
Fees and commission payable		**(23)**	(31)
Income from trading activities		**(148)**	98
Other operating income		**46**	89
Non interest income	2	**111**	343
Total income		**1,037**	1,173
Operating expenses	3	**(660)**	(608)
Operating profit before impairment losses		**377**	565
Impairment loss on loans	11	**(414)**	(78)
Impairment on intangibles	15	**(657)**	-
Operating (loss)/profit before tax		**(694)**	487
Tax	6	**5**	(118)
(Loss)/profit for the year		**(689)**	369
(Loss)/profit attributable to			
Minority interests	23	**45**	38
Equity preference shareholders	7	**60**	57
Ordinary shareholders	23	**(794)**	274
		(689)	369

The financial statements were approved by the Board of Directors on 25 February 2009 and signed on its behalf by

S Dorgan
Chairman

C McCarthy
Group Chief Executive

S Murphy
Group Finance Director

R733

ULSTER BANK GROUP

BALANCE SHEETS *as at 31 December 2008*

		Group		Bank	
		2008	2007	**2008**	2007
	Note	**£m**	£m	**£m**	£m
Assets					
Cash and balances at central banks	9	**346**	290	**103**	74
Treasury and other eligible bills	9	**-**	1	**-**	-
Loans and advances to banks	9	**5,157**	7,585	**6,389**	6,726
Loans and advances to customers	9	**59,566**	45,735	**8,132**	8,255
Debt securities subject to repurchase agreements		**98**	21	**98**	-
Other debt securities		**1,430**	2,065	**321**	815
Debt securities	9,12	**1,528**	2,086	**419**	815
Equity shares	9,13	**13**	10	**-**	-
Investments in Group undertakings	9,14	**-**	-	**1,333**	1,608
Derivatives	9,17	**2,329**	1,422	**47**	89
Intangible assets	9,15	**11**	526	**-**	31
Property, plant and equipment	9,16	**415**	321	**125**	117
Prepayments, accrued income and other assets	9,18	**252**	218	**120**	87
Deferred taxation	9,20	**68**	50	**38**	37
Total assets		**69,685**	58,244	**16,706**	17,839
Liabilities					
Deposits by banks	9	**22,957**	10,051	**7,565**	4,054
Customer accounts	9	**24,791**	21,901	**4,974**	6,659
Debt securities in issue	9	**14,194**	19,300	**955**	3,339
Derivatives	9,17	**2,205**	1,565	**69**	53
Accruals, deferred income and other liabilities	9,19	**987**	867	**616**	583
Retirement benefit liabilities	4,9	**212**	197	**101**	110
Deferred taxation	9.20	**34**	37	**15**	16
Subordinated liabilities	9,21	**1,318**	1,062	**1,077**	860
Total liabilities		**66,698**	54,980	**15,372**	15,674
Equity					
Minority interests	23	**562**	494	**-**	-
Shareholders' equity					
Called up share capital	22,23	**717**	717	**717**	717
Reserves	23	**1,708**	2,053	**617**	1,448
Total equity		**2,987**	3,264	**1,334**	2,165
Total liabilities and equity		**69,685**	58,244	**16,706**	17,839

The financial statements were approved by the Board of Directors on 25 February 2009 and signed on its behalf by

S Dorgan
Chairman

C McCarthy
Group Chief Executive

S Murphy
Group Finance Director

ULSTER BANK GROUP

STATEMENTS OF RECOGNISED INCOME AND EXPENSE *for the year ended 31 December 2008*

	Group		Bank	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Available-for-sale investments				
Net valuation gains/(losses) taken direct to equity	**4**	(9)	**(23)**	(3)
Cash flow hedges				
Net (losses) taken direct to equity	**(1)**	(5)	**-**	-
Exchange differences on translation of foreign operation	**632**	63	**(249)**	37
Actuarial gains and other movements	**(20)**	(6)	**(1)**	-
Income/(expense) before tax on items recognised direct in equity	**615**	43	**(273)**	34
Tax on items recognised direct in equity	**3**	3	**7**	1
Net income/(expense) recognised direct in equity	**618**	46	**(266)**	35
(Loss)/profit for the year	**(794)**	369	**(412)**	678
Total recognised income and expense for the year	**(176)**	415	**(678)**	713
Attributable to				
Equity shareholders	**(343)**	377	**(678)**	713
Minority interest	**167**	38	**-**	-
	(176)	415	**(678)**	713

ULSTER BANK GROUP

CASH FLOW STATEMENTS *for the year ended 31 December 2008*

		Group		Bank	
		2008	2007	**2008**	2007
	Note	**£m**	£m	**£m**	£m
Operating activities					
Operating (loss)/profit before tax		**(694)**	487	**(415)**	750
Adjustments for					
Depreciation and amortisation		**52**	62	**20**	27
Interest on subordinated liabilities		**63**	35	**50**	23
Charge for defined benefit pension schemes		**52**	37	**19**	14
Cash contribution to defined benefit pension schemes		**(71)**	(35)	**(28)**	(14)
Elimination of foreign exchange differences		**476**	5	**(35)**	25
Other non-cash items		**(33)**	(162)	**57**	(152)
Net cash flows from trading activities	30	**(155)**	429	**(332)**	673
Changes in operating assets and liabilities		**(4,751)**	2,120	**(400)**	(1,044)
Net cash flows from operating activities before tax		**(4,906)**	2,549	**(732)**	(371)
Income taxes (paid)		**(62)**	(192)	**(38)**	(70)
Net cash flows from operating activities	30	**(4,968)**	2,357	**(770)**	(441)
Investing activities					
Sale and maturity of securities		**833**	337	**362**	-
Purchase of securities		**(16)**	(595)	**-**	(269)
Sale of property, plant and equipment		**1**	36	**-**	18
Purchase of property, plant and equipment		**(60)**	(30)	**(21)**	(3)
Net investment in business interests and intangible assets		**-**	-	**(236)**	(319)
Impairment of investments in Group undertakings		**-**	-	**418**	-
Impairment of intangible assets		**657**	-	**23**	-
Net cash flows from investing activities		**1,415**	(252)	**546**	(573)
Financing activities					
Issue of subordinated liabilities		**-**	584	**-**	511
Net equity minority interest (withdrawn)/acquired		**(72)**	324	**-**	-
Repayment of subordinated liabilities		**-**	(22)	**-**	-
Dividends paid		**(87)**	(651)	**(60)**	(630)
Interest on subordinated liabilities		**(63)**	(35)	**(50)**	(23)
Net cash flows from financing activities		**(222)**	200	**(110)**	(142)
Effect of exchange rate changes on cash and cash equivalents		**449**	270	**25**	145
Net (decrease)/increase in cash and cash equivalents		**(3,326)**	2,575	**(309)**	(1,011)
Cash and cash equivalents 1 January		**6,770**	4,195	**5,832**	6,843
Cash and cash equivalents 31 December	33	**3,444**	6,770	**5,523**	5,832

ACCOUNTING POLICIES

1 Statement of compliance

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together "IFRS") as adopted by the European Union ("EU") The Bank accounts are presented in accordance with the Companies (Northern Ireland) Order 1986

The EU has not adopted the complete text of IAS 39 'Financial Instruments Recognition and Measurement', it has relaxed some of the standard's hedging requirements The Group has not taken advantage of this relaxation and has adopted IAS 39 as issued by the IASB The date of transition to IFRS for the Group and the Bank and the date of their opening IFRS balance sheets was 1 January 2004

2 Accounting convention

The Bank is incorporated and registered in Northern Ireland The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value derivative financial instruments, held-for-trading financial assets and financial liabilities, financial assets and financial liabilities that are designated at fair value through profit or loss, and available-for-sale financial assets Recognised financial assets and financial liabilities in fair value hedges are adjusted for changes in fair value in respect of the risk that is hedged

3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the holding company (Ulster Bank Limited) and entities (including certain special purpose entities) controlled by the Bank (its subsidiaries) Control exists where the Group has the power to govern the financial and operating policies of the entity, generally conferred by holding a majority of voting rights

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

The results of subsidiaries acquired are included in the consolidated income statement from the date control passes to the Group The results of subsidiaries are included up until the Group ceases to control them through sale or significant change in circumstances

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

4 Revenue recognition

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

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

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

ACCOUNTING POLICIES (continued)

4 Revenue recognition (continued)

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

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

Card related services fees from credit card business include

- Commission received from retailers for processing credit and debit card transactions income is accrued to profit or loss as the service is performed
- Interchange received as issuer, the Group receives a fee (interchange) each time a cardholder purchases goods and services The Group also receives interchange fees from other card issuers for providing cash advances through its branch and Automated Teller Machine networks These fees are accrued once the transaction has taken place
- An annual fee payable by a credit card holder is deferred and taken to profit or loss over the period of the service i e 12 months

Insurance brokerage this is made up of fees and commissions received from the agency sale of insurance Commission on the sale of an insurance contract is earned at the inception of the policy as the insurance has been arranged and placed However, provision is made where commission is refundable in the event of policy cancellation in line with estimated cancellations

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

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

5 Pensions and other post-retirement benefits

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

For defined benefit schemes, scheme liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate that reflects the current rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities Scheme assets are measured at their fair value Cumulative actuarial gains or losses that exceed 10 per cent of the greater of the assets or the obligations of the scheme are amortised through profit or loss over the expected average remaining lives of participating employees Past service costs are recognised immediately to the extent that benefits have vested, otherwise they are amortised over the period until the benefits become vested

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

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

ACCOUNTING POLICIES (continued)

6 Intangible assets and goodwill

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses Amortisation is charged to profit or loss using methods that best reflect the economic benefits over their estimated useful economic lives and included in depreciation and amortisation The estimated useful economic lives are as follows

Core deposit intangibles	7 years
Computer software	3 - 5 years
Other acquired intangibles	5 - 10 years

Expenditure on internally generated goodwill and brands is written off as incurred Direct costs relating to the development of internal-use computer software are capitalised once technical feasibility and economic viability have been established These costs include payroll, the costs of materials and services, and directly attributable overhead Capitalisation of costs ceases when the software is capable of operating as intended During and after development, accumulated costs are reviewed for impairment against the projected benefits that the software is expected to generate Costs incurred prior to the establishment of technical feasibility and economic viability are expensed as incurred as are all training costs and general overhead The costs of licences to use computer software that are expected to generate economic benefits beyond one year are also capitalised

Acquired goodwill being the excess of the cost of an acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or joint venture acquired is initially recognised at cost and subsequently at cost less any accumulated impairment losses Goodwill arising on the acquisition of subsidiaries is included in the balance sheet caption 'Intangible assets' and that on associates and joint ventures within their carrying amounts The gain or loss on the disposal of a subsidiary, associate or joint venture includes the carrying value of any related goodwill

7 Property, plant and equipment

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

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

Freehold and long leasehold buildings	50 years
Short leaseholds	unexpired period of the lease
Property adaptation costs	15 years
Computer equipment	up to 5 years
Other equipment	3 to 15 years

ACCOUNTING POLICIES (continued)

8 Impairment of intangible assets and property, plant and equipment

At each reporting date, the Group assesses whether there is any indication that its intangible assets or property, plant and equipment are impaired If any such indication exists, the Group estimates the recoverable amount of the asset and the impairment loss if any Irrespective of any indications of impairment, intangible assets (excluding goodwill) with indefinite useful lives are tested annually for impairment by comparing their carrying value with their recoverable amount Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired If an asset does not generate cash flows that are independent from those of other assets or groups of assets, recoverable amount is determined for the cash-generating unit to which the asset belongs The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use Value in use is the present value of future cash flows from the asset or cash-generating unit discounted at a rate that reflects market interest rates adjusted for risks specific to the asset or cash generating unit that have not been reflected in the estimation of future cash flows If the recoverable amount of an intangible or tangible asset is less than its carrying value, an impairment loss is recognised immediately in profit or loss and the carrying value of the asset reduced by the amount of the loss A reversal of an impairment loss on intangible assets (excluding goodwill) or property, plant and equipment is recognised as it arises provided the increased carrying value does not exceed that which it would have been had no impairment loss been recognised Impairment losses on goodwill are not reversed

9 Foreign currencies

The Group's consolidated financial statements are presented in Sterling, which is the functional currency of the Bank

Transactions in foreign currencies are translated into Sterling at the foreign exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date Foreign exchange differences arising on translation are reported in income from trading activities except for differences arising on cash flow hedges and hedges of net investments in foreign operations Non-monetary items denominated in foreign currencies that are stated at fair value are translated into Sterling at foreign exchange rates ruling at the dates the values were determined Translation differences arising on non-monetary items measured at fair value are recognised in profit or loss except for differences arising on available-for-sale non-monetary financial assets, for example equity shares, which are included in the available-for-sale reserve in equity unless the asset is the hedged item in a fair value hedge

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Sterling at foreign exchange rates ruling at the balance sheet date The revenues and expenses of foreign operations are translated into Sterling at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions Foreign exchange differences arising on translation of foreign operations are recognised directly in equity and included in profit or loss on its disposal

10 Leases

Contracts to lease assets are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer Other contracts to lease assets are classified as operating leases

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

Rental income from operating leases is credited to the income statement on a receivable basis over the term of the lease Operating lease assets are included within property, plant and equipment and depreciated over their useful lives (see accounting policy 7)

11 Taxation

Provision is made for taxation at current enacted or substantially enacted rates on taxable profits, arising in income or in equity, taking into account relief for overseas taxation where appropriate Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes, except in relation to overseas earnings where remittance is controlled by the Group, and goodwill
Deferred tax assets are only recognised to the extent that it is probable that they will be recovered

12 Financial assets

On initial recognition financial assets are classified into held-to-maturity, available-for-sale financial assets, held for-trading, designated as at fair value through profit or loss, or loans and receivables

Held-to-maturity investments – a financial asset may be classified as a held-to-maturity investment only if it has fixed or determinable payments, a fixed maturity and the Group has the positive intention and ability to hold to maturity Held-to-maturity investments are initially recognised at fair value plus directly related transaction costs They are subsequently measured at amortised cost using the effective interest method (see accounting policy 4) less any impairment losses

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

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

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

The Group has designated financial assets as at fair value through profit or loss principally where the assets are economically hedged by derivatives and fair value designation eliminates the measurement inconsistency that would arise if the assets were carried at amortised cost or classified as available-for-sale

Loans and receivables – non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables except those that are classified as available for sale or as held-for-trading, or designated as at fair value through profit or loss Loans and receivables are initially recognised at fair value plus directly related transaction costs They are subsequently measured at amortised cost using the effective interest method (see accounting policy 4) less any impairment losses

Available-for-sale – financial assets that are not classified as held-to-maturity, held-for-trading, designated at fair value through profit or loss, or loans and receivables are classified as available-for-sale Financial assets can be designated as available-for-sale on initial recognition Available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs They are subsequently measured at fair value Unquoted equity investments whose fair value cannot be measured reliably are carried at cost and classified as available-for-sale financial assets Impairment losses and exchange differences resulting from retranslating the amortised cost of monetary available-for-sale financial assets denominated in a foreign currency are recognised in profit or loss together with interest calculated using the effective interest method (see accounting policy 4) Other changes in the fair value of available-for-sale financial assets are reported in a separate component of shareholders' equity until disposal, when the cumulative gain or loss is recognised in profit or loss

Regular way purchases of financial assets classified as loans and receivables are recognised on settlement date, all other regular way purchases are recognised on trade date

Fair value for a net open position in a financial asset that is quoted in an active market is the current bid price times the number of units of the instrument held Fair values for financial assets not quoted in an active market are determined using appropriate valuation techniques including discounting future cash flows, option pricing models and other methods that are consistent with accepted economic methodologies for pricing financial assets

13 Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as held-to-maturity, available-for-sale or loans and receivables is impaired A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset

Financial assets carried at amortised cost - if there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables or as held-to-maturity investments has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition

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

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

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

14 Financial liabilities

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

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

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

The principal category of financial liabilities designated as at fair value through profit or loss is structured liabilities issued by the Group designation significantly reduces the measurement inconsistency between these liabilities and the related derivatives carried at fair value

All other financial liabilities are measured at amortised cost using the effective interest method (see accounting policy 4)

Fair value for a net open position in a financial liability that is quoted in an active market is the current offer price times the number of units of the instrument held or issued Fair values for financial liabilities not quoted in an active market are determined using appropriate valuation techniques including discounting future cash flows, option pricing models and other methods that are consistent with accepted economic methodologies for pricing financial liabilities

ACCOUNTING POLICIES (continued)

15 Derecognition

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

16 Sale and repurchase transactions

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

Securities borrowing and lending transactions are usually secured by cash or securities advanced by the borrower Borrowed securities are not recognised on the balance sheet or lent securities derecognised Cash collateral received or given is treated as a loan or deposit, collateral in the form of securities is not recognised

17 Netting

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

18 Capital instruments

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

19 Derivatives and hedging

Derivative financial instruments are recognised initially, and subsequently measured, at fair value Derivative fair values are determined from quoted prices in active markets where available Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models

A derivative embedded in a contract is accounted for as stand-alone derivative if its economic characteristics are not closely related to the economic characteristics of the host contract, unless the entire contract is carried at fair value through profit or loss

Gains and losses arising from changes in fair value of a derivative are recognised as they arise in profit or loss unless the derivative is the hedging instrument in a qualifying hedge The Group accounting policy recognises three types of hedge relationship hedges of changes in the fair value of a recognised asset or liability or firm commitment (fair value hedges), hedges of the variability in cash flows from a recognised asset or liability or a forecast transaction (cash flow hedges), and hedges of the net investment in a foreign operation

ACCOUNTING POLICIES (continued)

19 Derivatives and hedging (continued)

Hedge relationships are formally documented at inception The documentation includes identification of the hedged item and the hedging instrument, details the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge If the hedge is not highly effective in offsetting changes in fair values or cash flows attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued

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

Cash flow hedge - where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction, the effective *portion of the gain or loss* on the hedging instrument is recognised directly in equity The ineffective portion is recognised in profit or loss When the forecast transaction results in the recognition of a financial asset or financial liability, the cumulative gain or loss is reclassified from equity in the same periods in which the asset or liability affects profit or loss Otherwise the cumulative gain or loss is removed from equity and recognised in profit or loss at the same time as the hedged transaction Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting, if the hedging instrument expires or is sold, terminated or exercised, if the forecast transaction is no longer expected to occur, or if hedge designation is revoked On the discontinuance of hedge accounting (except where a forecast transaction is no longer expected to occur), the cumulative unrealised gain or loss recognised in equity is recognised in profit or loss when the hedged cash flow occurs or, if the forecast transaction results in the recognition of a financial asset or financial liability, in the same periods during which the asset or liability affects profit or loss Where a forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is recognised in profit or loss immediately

Hedge of net investment in a foreign operation – in the hedge of a net investment in a foreign operation, the portion of foreign exchange differences arising on the hedging instrument determined to be an effective hedge is recognised directly in equity Any ineffective portion is recognised in profit or loss Non-derivative financial liabilities as well as derivatives may be the hedging instrument in a net investment hedge

20 Cash and cash equivalents

Cash and cash equivalents comprises cash and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value

21 Shares in Group entities

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

ACCOUNTING POLICIES (continued)

Critical accounting policies and key sources of accounting judgements

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

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

Loan impairment provisions

The Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate

At 31 December 2008, gross loans and advances to customers totalled £60,377m (2007 £46,057m) and customer loan impairment provisions amounted to £811m (2007 £322m)

There are two components to the Group's loan impairment provisions individual and collective

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

Collective component – this is made up of two elements loan impairment provisions for impaired loans that are below individual assessment thresholds (collective impaired loan provisions) and for loan losses that have been incurred but have not been separately identified at the balance sheet date (latent loss provisions) These are established on a portfolio basis using a present value methodology taking into account the level of arrears, security, past loss experience, credit scores and defaults based on portfolio trends The most significant factors in establishing these provisions are the expected loss rates and the related average life These portfolios include credit card receivables and other personal advances including mortgages The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions These uncertainties include the economic environment, notably interest rates and their effect on customer spending, the unemployment level, payment behaviour and bankruptcy trends

ACCOUNTING POLICIES (continued)

Pensions

There are three defined benefit pension schemes in operation within the Group Ulster Bank Pension Scheme, Ulster Bank Pension Scheme (Republic of Ireland) and First Active Pension Scheme The assets of defined benefit schemes are measured at their fair value at the balance sheet date Scheme liabilities are measured using the projected unit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the scheme liabilities These cash flows are discounted at the interest rate applicable to high-quality corporate bonds of the same currency and term as the liabilities

Any surplus or deficit in excess of 10% of the greater of scheme assets and scheme liabilities is recognised in the balance sheet as an asset (surplus) or liability (deficit)

In determining the value of scheme liabilities assumptions are made as to price inflation, dividend growth, pension increases, earnings growth and employees There is a range of assumptions that could be adopted in valuing the schemes' liabilities Different assumptions could significantly alter the amount of the deficit recognised in the balance sheet and the pension cost charged through profit or loss The assumptions are set out in Note 4 on the financial statements The pension deficit recognised in the balance sheet at 31 December 2008 was £212m (2007 £197m)

Fair value – financial instruments

Financial instruments classified as held-for-trading or designated as at fair value through profit or loss and financial assets classified as available-for-sale are recognised in the financial statements at fair value All derivatives are measured at fair value In the balance sheet, financial assets carried at fair value are included within Treasury and other eligible bills, Loans and advances to banks, Loans and advances to customers, Debt securities and Equity shares as appropriate Financial liabilities carried at fair value are included within the captions Deposits by banks, Customer accounts, Debt securities in issue and Subordinated liabilities Derivative assets and Derivative liabilities are shown separately on the face of the balance sheets Gains or losses arising from changes in fair value of financial instruments classified as held-for-trading or designated as at fair value through profit or loss are included in the income statement Unrealised gains and losses on available-for-sale financial assets are recognised directly in equity unless an impairment loss is recognised The carrying value of a financial asset or a financial liability carried at cost or amortised cost that is the hedged item in a qualifying hedge relationship is adjusted by the gain or loss attributable to the hedged risk

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction Fair values are determined by reference to observable market prices where available and reliable Where representative market prices for an instrument are not available or are unreliable because of poor liquidity, the fair value is derived from prices for its components using appropriate pricing or valuation models that are based on independently sourced market parameters, including interest rate yield curves, option volatilities and currency rates

Financial assets carried at fair value include government and corporate debt securities, reverse repos, loans, corporate equity shares and derivatives Financial liabilities carried at fair value include deposits, repos, debt securities issued and derivatives Fair value for a substantial proportion of these instruments is based on observable market prices or derived from observable market parameters Where observable prices are not available, fair value is based on appropriate valuation techniques or management estimates

The Group's derivative products include swaps, forwards, futures and options Exchange traded instruments are valued using quoted prices The fair value of over-the-counter instruments is derived from pricing models which take account of contract terms, including maturity, as well as quoted market parameters such as interest rates and volatilities Most of the Group's pricing models do not entail material subjectivity because the methodologies utilised do not incorporate significant judgement and the parameters included in the models can be calibrated to actively quoted market prices Values established from pricing models are adjusted for credit risk, liquidity risk and future operational costs

A negligible proportion of the Group's trading derivatives are valued directly from quoted prices, the majority being valued using appropriate valuation techniques The fair value of substantially all securities positions carried at fair value is determined directly from quoted prices

Details of financial instruments carried at fair value are given in Note 9 to the accounts

ACCOUNTING POLICIES (continued)

Goodwill

The Group capitalises goodwill arising on the acquisition of businesses, as disclosed in accounting policy 6 The carrying value of goodwill as at 31 December 2008 was £nil (2007 £426m)

Goodwill is the excess of the cost of an acquisition over the fair value of its net assets The determination of the fair value of assets and liabilities of businesses acquired requires the exercise of management judgement, for example those financial assets and liabilities for which there are no quoted prices and those non-financial assets where valuations reflect estimates of market conditions such as property

Different fair values would result in changes to the goodwill arising and to the post-acquisition performance of the acquisition Goodwill is not amortised but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units or groups of cash-generating units expected to benefit from the combination Goodwill impairment testing involves the comparison of the carrying value of a cash-generating unit or group of cash generating units with its recoverable amount The recoverable amount is the higher of the unit's fair value and its value in use Value in use is the present value of expected future cash flows from the cash-generating unit or group of cash-generating units Fair value is the amount obtainable for the sale of the cash-generating unit in an arm's length transaction between knowledgeable, willing parties

Impairment testing inherently involves a number of judgmental areas the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting, the assessment of the discount rate appropriate to the business, estimation of the fair value of cash-generating units, and the valuation of the separable assets of each business whose goodwill is being reviewed

New accounting developments

The Group adopted IFRS 8 'Operating Segments' with effect from 1 January 2008 Early adoption of IFRS 8 has not affected segmental disclosures

In October 2008, the IASB issued and, the European Union endorsed, amendments to IAS 39 Financial Instruments Recognition and Measurement' to permit the reclassification of financial assets out of the held-for-trading (HFT) and available-for-sale (AFS) categories subject to certain restrictions Transfers must be made at fair value and this fair value becomes the instruments' new cost or amortised cost The amendments are effective from 1 July 2008 Reclassifications made before 1 November 2008 were backdated to 1 July 2008, subsequent reclassifications were effective from the date the reclassification was made

The Group reviewed its portfolios of financial assets in the light of the amendments and has initially decided to not to reclassify any of the financial instruments

Accounting developments

International Financial Reporting Standards

The International Accounting Standards Board issued a revised IAS 23 'Borrowing Costs' in March 2007 Entities are required to capitalise borrowing costs attributable to the development or construction of intangible assets or property plant or equipment The standard is effective for accounting periods beginning on or after 1 January 2009 and is not expected to have a material effect on the Group or Bank

The IASB issued a revised IAS 1 'Presentation of Financial Statements' in September 2007 effective for accounting periods beginning on or after 1 January 2009 The amendments to the presentation requirements for financial statements are not expected to have a material effect on the Group or Bank

The IASB published a revised IFRS 3 'Business Combinations' and related revisions to IAS 27 'Consolidated and Separate Financial Statements' following the completion in January 2008 of its project on the acquisition and disposal of subsidiaries The standards improve convergence with US GAAP and provide new guidance on accounting for changes in interests in subsidiaries The cost of an acquisition will comprise only consideration paid to vendors for equity, other costs will be expensed immediately Groups will only account for goodwill on acquisition of a subsidiary, subsequent changes in interest will be recognised in equity and only on a loss of control will there be a profit or loss on disposal to be recognised in income The changes are effective for accounting periods beginning on or after 1 July 2009 but both standards may be adopted together for accounting periods beginning on or after 1 July 2007 These changes will affect the Group's accounting for future acquisitions and disposals of subsidiaries

ACCOUNTING POLICIES (continued)

Accounting developments (continued)

The IASB published revisions to IAS 32 'Financial Instruments Presentation' and consequential revisions to other standards in February 2008 to improve the accounting for and disclosure of puttable financial instruments The revisions are effective for accounting periods beginning on or after 1 January 2009 but together they may be adopted earlier They are not expected to have a material affect on the Group or the Bank

The IASB issued amendments to a number of standards in May 2008 as part of its annual improvements project The amendments are effective for accounting periods beginning on or after 1 January 2009 and are not expected to have a material effect on the Group or Bank

Also in May 2008, the IASB issued amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 27 'Consolidated and Separate Financial Statements' that change the investor's accounting for the cost of an investment in a subsidiary, jointly controlled entity or associate It does not affect the consolidated accounts but may prospectively affect the company's accounting and presentation for receipts of dividends from such entities

The IASB issued an amendment to IAS 39 in July 2008 to clarify the IFRS stance on Eligible Hedged Items The amendment is effective for accounting periods beginning on or after 1 January 2009 and are not expected to have a material effect on the Group or Bank

The International Financial Reporting Interpretations Committee ('IFRIC') issued interpretation IFRIC 15 'Agreements for the Construction of Real Estate' in July 2008 This interpretation clarifies the accounting for construction profits It is applicable for accounting periods beginning on or after 1 January 2009 and is not expected to have a material effect on the Group or Bank

The IFRIC issued interpretation IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' in July 2008 The interpretation addresses the nature of the hedged risk and the amount of the hedged item, where in a group the hedging item could be held, and what amounts should be reclassified from equity on the disposal of a foreign operation that had been subject to hedging The interpretation is effective for accounting periods beginning on or after 1 October 2008 and is not expected to have a material effect on the Group or Bank

The IFRIC issued interpretation IFRIC 17 'Distributions of Non-Cash Assets to Owners' and the IASB made consequential amendments to IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations' in December 2008 The interpretation requires distributions to be presented at fair value with any surplus or deficit to be recognised in income The amendment to IFRS 5 extends the definition of disposal groups and discontinued operations to disposals by way of distribution The interpretation is effective for accounting periods beginning on or after 1 July 2009, to be adopted at the same time as IFRS 3 (revised 2008), and is not expected to have a material effect on the Group or Bank

The IFRIC issued interpretation IFRIC 18 'Transfers of Assets from Customers' in January 2009 The interpretation addresses the accounting by suppliers that receive assets from customers, requiring measurement at fair value The interpretation is effective for assets from customers received on or after 1 July 2009 and is not expected to have a material effect on the Group or Bank

NOTES TO THE FINANCIAL STATEMENTS - *for the year ended 31 December 2008*

1 Net interest income

	Group	
	2008	2007
	£m	£m
Loans and advances to customers	**2,808**	2,155
Loans and advances to banks	**756**	997
Debt securities	**83**	104
Interest receivable	**3,647**	3,256
Customer accounts	**(565)**	(520)
Deposits by banks	**(1,106)**	(1,105)
Debt securities in issue	**(987)**	(771)
Subordinated liabilities	**(63)**	(30)
Interest payable	**(2,721)**	(2,426)
Net interest income	**926**	830

2 Non interest income

	Group	
	2008	2007
	£m	£m
Fees and commission receivable	**236**	187
Fees and commission payable	**(23)**	(31)
Income from trading activities		
Foreign exchange (1)	**64**	74
Interest rates (2)	**(212)**	24
Other operating income	**46**	89
Non interest income	**111**	343

The analysis of trading income is based on how the business is organised and the underlying risks managed

Notes

Trading income comprises gains and losses on financial instruments held for trading, both realised and unrealised interest income and dividends and the related funding costs
The types of instruments include

(1) Foreign exchange spot foreign exchange contracts currency swaps and options emerging markets and related hedges and funding

(2) Interest rate interest rate swaps, forward foreign exchange contracts forward rate agreements interest rate options interest rate futures and related hedges and funding

3 Operating expenses

	Group	
	2008	2007
	£m	£m
Wages, salaries and other staff costs	**315**	279
Social security costs	**28**	23
Pension costs (see Note 4)	**52**	37
Staff costs	**395**	339
Premises and equipment	**71**	72
Other administration expenses	**142**	135
	213	207
Property plant and equipment (see Note 16)	**30**	23
Intangible assets (see Note 15)	**22**	39
Depreciation and amortisation	**52**	62
	660	608

Integration costs included in operating expenses comprises		
Staff costs	**-**	3
	-	3

The auditors' remuneration for statutory audit work was £0 87m for the Group (2007 £0 8m) and £0 34m (2007 £0 3m) for the Bank Remuneration paid to the auditors for non-audit work for the Group was £0 242m (2007 £0 2m)

The average number of persons employed by the Group during the year, excluding temporary staff was 6,668 (2007 6,422) The average number of temporary employees during 2008 was 258 (2007 424) The number of persons employed by the Group at 31 December, excluding temporary staff, was as follows

	Group	
Employee Numbers	**2008 Number**	2007 Number
Retail Markets	**3,076**	3,200
Corporate Markets/Other	**3,525**	3,535
	6,601	6,735

4 Pension costs

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

Name of schemes
Ulster Bank Pension Scheme
Ulster Bank Pension Scheme (Republic of Ireland)
First Active Pension Scheme

Employees make contributions at varying levels depending on which scheme they are a member of and when they joined the scheme In addition, employees may make voluntary contributions to secure additional benefits on a money- purchase basis The First Active Executives Scheme is closed to new entrants and it merged with the First Active Pension Scheme on 30 March 2007

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

The corridor method of accounting permits the Group to defer recognition of actuarial gains and losses that are within 10% of the larger of the fair value of plan assets and present value of defined benefits obligations of the schemes, on an individual scheme basis at the reporting date Any excess variations are amortised prospectively over the average remaining service lives of current members of the schemes

4 Pension costs (continued)

Interim valuations of the Group's schemes were prepared to 31 December 2008 by independent actuaries, using the following assumptions

	Group	
Principal actuarial assumptions at 31 December (weighted average)	**2008**	2007
Discount rate	**5 60% - 6 50%**	5 40% - 6 00%
Expected return on plan assets	**6 42% - 6 80%**	6 59% - 6 99%
Rate of increase in salaries	**3 00% - 3 70%**	3 20% - 4 20%
Rate of increase in pensions in payment	**2 00% - 2 50%**	2 25% - 3 20%
Inflation assumption	**2 00% - 2 70%**	2 25% - 3 20%

	Group	
Major classes of plan assets as a percentage of total plan assets	**2008**	2007
Equities	**49%**	62%
Index-linked bonds	**13%**	4%
Government fixed interest bonds	**2%**	12%
Corporate and other bonds	**17%**	11%
Property	**9%**	10%
Cash and other assets	**10%**	1%

The expected return on plan assets at 31 December 2008 is based upon the weighted average of the following assumptions of the returns on the major classes of plan assets

	Group	
	2008	2007
Equities	**8 40%**	7 50% - 8 10%
Index-linked bonds	**3 90%**	4 50%
Government fixed interest bonds	**3 90%**	4 50%
Corporate and other bonds	**5 10% - 6 10%**	5 20% - 5 30%
Property	**6 10%**	6 30% - 6 50%
Cash and other assets	**4 00%**	4 15% - 4 60%

	Bank	
Principal actuarial assumptions at 31 December (all schemes)	**2008**	2007
Discount rate	**6 50%**	6 00%
Expected return on plan assets (weighted average)	**6 71%**	6 99%
Rate of increase in salaries	**3 70%**	4 20%
Rate of increase in pensions in payment	**2 50%**	3 20%
Inflation assumption	**2 70%**	3 20%

	Bank	
Major classes of plan assets as a percentage of total plan assets	**2008**	2007
Equities	**49%**	62%
Index-linked bonds	**14%**	9%
Government fixed interest bonds	**-**	9%
Corporate and other bonds	**17%**	9%
Property	**9%**	10%
Cash other assets	**11%**	1%

4 Pension costs (continued)

The expected return on plan assets at 31 December 2008 is based upon the weighted average of the following assumptions of the returns on the major classes of plan assets

	Bank	
	2008	2007
Equities	**8 40%**	8 10%
Index-linked bonds	**3 90%**	4 50%
Government fixed interest bonds	**3 90%**	4 50%
Corporate and other bonds	**6 10%**	5 30%
Property	**6 10%**	6 30%
Cash and other assets	**4 00%**	4 60%

Post-retirement mortality assumptions (Main scheme)	**2008**	2007
Longevity at age 70 for current pensioners (years)		
Males	**16 5**	15 5
Females	**18.1**	17 9
Longevity at age 63 for future pensioners (years)		
Males	**23 1**	21 7
Females	**24 9**	24 5

These post-retirement mortality assumptions are derived from standard mortality tables used by the scheme actuary to value the liabilities for the main scheme Following a comprehensive review of the mortality experience of Irish pension scheme members over the last two years by the Society of Actuaries, different standard mortality tables (adjusted as appropriate) have been used in valuing the scheme liabilities as at 31 December 2008

NOTES TO THE FINANCIAL STATEMENTS – *for the year ended 31 December 2008*

4. Pension costs (continued)

Group (all schemes)

Changes in value of net pension liability	Fair value of plan assets £m	Present value of defined benefit obligations £m	Net pension liability £m
At 1 January 2008	940	(1,099)	(159)
Currency translation and other adjustments	113	(177)	(64)
Income statement			
Expected return	67	-	67
Interest cost	-	(53)	(53)
Current service cost	-	(64)	(64)
Less direct contributions from other scheme members	-	(2)	(2)
Past service cost	-	-	-
	67	(119)	(52)
Actuarial (losses) / gains	(299)	137	(162)
Contributions by employer	71	-	71
Contributions by other scheme members	-	-	-
Contributions by plan participants	5	(5)	-
Benefits paid	(30)	30	-
At 31 December 2008	867	(1,233)	(366)
Unrecognised actuarial losses			154
Unfunded scheme liabilities included in post retirement benefit liabilities			-
Retirement benefit liabilities at 31 December 2008			**(212)**

The Group expects to contribute £75m to its defined benefit pension schemes in 2009 Contributions for 2008 include £3m in relation to past service benefits for the Ulster Bank Pension Scheme, Ulster Bank Pension Scheme (Republic of Ireland) and First Active Pension Scheme

4 Pension costs (continued)

Group (all schemes)

Changes in value of net pension liability	**Fair value of plan assets £m**	**Present value of defined benefit obligations £m**	**Net pension liability £m**
At 1 January 2007	861	(1,029)	(168)
Currency translation and other adjustments	46	(50)	(4)
Income statement			
Expected return	59	-	59
Interest cost	-	(52)	(52)
Current service cost	-	(43)	(43)
Less direct contributions from other scheme members		-	
Past service cost	-	(1)	(1)
	59	(96)	(37)
Actuarial gains / (losses)	(38)	53	15
Contributions by employer	35	-	35
Contributions by other scheme members	-	-	-
Contributions by plan participants	4	(4)	-
Benefits paid	(27)	27	-
At 31 December 2007	940	(1,099)	(159)
Unrecognised actuarial gains			(38)
Unfunded scheme liabilities included in post retirement benefit liabilities			-
Retirement benefit liabilities at 31 December 2007			(197)

4 Pension costs (continued)

Bank

Changes in value of net pension liability	**Fair value of plan assets £m**	**Present value of defined benefit obligations £m**	**Net pension liability £m**
At 1 January 2008	451	(532)	(81)
Currency translation and other adjustments			
Income statement			
Expected return	32	-	32
Interest cost	-	(31)	(31)
Current service cost	-	(18)	(18)
Past service cost	-	(2)	(2)
	32	(51)	(19)
Actuarial (losses) / gains	(108)	106	(2)
Contributions by employer	28	-	28
Contributions by plan participants	1	(1)	-
Benefits paid	(16)	16	-
At 31 December 2008	388	(462)	(74)
Unrecognised actuarial gains			(27)
Unfunded scheme liabilities included in post retirement benefit liabilities			-
Retirement benefit liabilities at 31 December 2008			**(101)**
At 1 January 2007	430	(519)	(89)
Currency translation and other adjustments			
Income statement			
Expected return	30	-	30
Interest cost	-	(27)	(27)
Current service cost	-	(16)	(16)
Past service cost	-	(1)	(1)
	30	(44)	(14)
Actuarial (losses) / gains	(9)	17	8
Contributions by employer	14	-	14
Contributions by plan participants	1	(1)	-
Benefits paid	(15)	15	-
At 31 December 2007	451	(532)	(81)
Unrecognised actuarial gains			(29)
Unfunded scheme liabilities included in post retirement benefit liabilities			-
Retirement benefit liabilities at 31 December 2007			(110)

NOTES TO THE FINANCIAL STATEMENTS – *for the year ended 31 December 2008*

4 Pension costs (continued)

History of defined benefit schemes (Group)	2008 £m	2007 £m
Present value of defined benefit obligations	(1,233)	(1,099)
Fair value of plan assets	867	940
Net (deficit)	(366)	(159)
Experience (losses) on plan liabilities	(18)	(38)
Experience (losses)/gains on plan assets	(299)	23
Actual return on pension scheme assets	(232)	21

History of defined benefit schemes (Bank)	2008 £m	2007 £m
Present value of defined benefit obligations	(462)	(532)
Fair value of plan assets	388	451
Net (deficit)	(74)	(81)
Experience gains/(losses) on plan liabilities	1	(4)
Experience (losses) on plan assets	(108)	(9)
Actual return on pension scheme assets	(76)	20

5 Emoluments of Directors

	2008 £	2007 £
Non Executive Directors – emoluments	171,500	179,000
Chairman and Executive Directors - emoluments	1,898,761	2,839,869
Total emoluments received by Directors	2,070,261	3,018,869
Compensation for loss of office	1,230,167	-
	3,300,428	3,018,869

Retirement benefits are accruing to five Directors (2007 four) under defined benefit schemes

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 £870,484 (2007 £1,431,584) At 31 December 2008 the accrued pension, under a defined benefit scheme, for the highest paid Director was £186,666 (2007 £128,352) During the year the highest paid Director did not exercise share options

The Executive Directors may also participate in the RBS Group's executive *share option and sharesave schemes*

Compensation for loss of office includes an amount in respect of pension augmentation

6 Tax

	Group	
	2008	2007
Current taxation	**£m**	£m
United Kingdom Corporation Tax at 28 5% (2007 30%)		
Charge for the year	9	70
(Over)/under provision in respect of prior periods	(9)	16
	-	86
Overseas Tax at 12 5% (2007 12 5%)		
Charge for the year	20	45
(Over) provision in respect of prior periods	(3)	(18)
	17	27
Total current taxation	17	113
Deferred taxation		
Charge for the year	(34)	-
Under provision in respect of prior periods	12	5
Tax (credit)/charge for the year	(5)	118

The actual tax (credit)/charge differs from the expected tax charge computed by applying the standard rate of UK Corporation Tax of 28 5% (2007 30%) as follows

	2008 £m	2007 £m
Tax on (loss)/profit at the standard rate of UK Corporation tax (expected tax charge)	(198)	146
Factors affecting the charge for the year		
Foreign tax charged other than the standard rate of UK tax	30	(23)
Non-deductible items	175	1
Other timing differences	-	(2)
Other movements	(12)	(7)
Adjustments to tax charge in respect of prior periods	-	3
Actual tax charge for the year	(5)	118

The effective tax rate for the year was 0 7% (2007 24 2%)

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries as these earnings are continually reinvested in the business by the Group No tax is expected to be payable on these unremitted earnings in the foreseeable future If overseas earnings were to be remitted a tax liability of £107m (2007 £165m) would arise

7 Profit attributable to other owners

	Group	
	2008 £m	2007 £m
Dividends paid to other owners		
160m Non-cumulative preference shares of €1 each	8	6
20m Non-cumulative preference shares of €1 each	11	21
100m Non-cumulative preference shares of €1 each	34	24
70m Non-cumulative preference shares of €1 each	2	2
100m Non-cumulative preference shares of €1 each	5	4
Total	60	57

8. (Loss)/Profit dealt with in the financial statements of the Bank

In accordance with the exemption contained within Article 238 of the Companies (Northern Ireland) Order 1986, the primary financial statements of the Bank do not include an income statement Included within Group loss after tax at 31 December 2008 is £412m (2007. profit £678m) attributable to the operations of the Bank

NOTES TO THE FINANCIAL STATEMENTS – *for the year ended 31 December 2008*

9 Financial instruments

The following tables analyse the financial assets and financial liabilities in accordance with the categories of financial instruments in accordance with IAS 39 Assets and liabilities outside the scope of IAS 39 are shown separately

	Group							
2008	Held-for-trading £m	Designated as at fair value through profit or loss £m	Hedging derivatives £m	Available-for-sale £m	Loans and receivables [9] £m	Other (amortised cost) £m	Non financial assets/ liabilities £m	Total £m
Assets								
Cash and balances at central banks (1)	-	-	-	-	346	-	-	346
Treasury and other eligible bills (2)	-	-	-	-	-	-	-	-
Loans and advances to banks (3)	-	-	-	-	5,157	-	-	5,157
Loans and advances to customers (4)	-	-	-	-	59,566	-	-	59,566
Debt securities	-	-	-	1,528	-	-	-	1,528
Equity shares	-	-	-	13	-	-	-	13
Derivatives	2,329	-	-	-	-	-	-	2,329
Intangible assets	-	-	-	-	-	-	11	11
Property, plant and equipment	-	-	-	-	-	-	415	415
Prepayments, accrued income and other assets	-	-	-	-	-	-	252	252
Deferred taxation							68	68
	2,329	-	-	1,541	65,069	-	746	**69,685**
Liabilities								
Deposit by banks (5 6)	-	-	-	-	-	22,957	-	22,957
Customer accounts (7 9)	-	1,777	-	-	-	23,014	-	24,791
Debt securities in issue (8)	-	-	-	-	-	14,194	-	14,194
Derivatives	2,205	-	-	-	-	-	-	2,205
Accruals, deferred income and other liabilities	-	-	-	-	-	-	987	987
Retirement benefit liabilities	-	-	-	-	-	-	212	212
Deferred taxation							34	34
Subordinated liabilities	-	-	-	-	-	1,318	-	1,318
	2,205	1,777	-	-	-	61,483	1,233	66,698
Equity								2,987
								69,685

9 Financial instruments (continued)

2007	Held for-trading £m	Designated as at fair value through profit or loss £m	Hedging derivatives £m	Available-for-sale £m	Loans and receivables (9) £m	Other (amortised cost) £m	Non financial assets/liabilities £m	Total £m
	Group							
Assets								
Cash and balances at central banks (1)	-	-	-	-	290	-	-	290
Treasury and other eligible bills (2)	-	-	-	1	-	-	-	1
Loans and advances to banks (3)	-	-	-	-	7,585	-	-	7,585
Loans and advances to customers (4)	-	411	-	-	45,324	-	-	45,735
Debt securities	-	-	-	2,086	-	-	-	2,086
Equity shares	-	-	-	10	-	-	-	10
Derivatives	1,422	-	-	-	-	-	-	1,422
Intangible assets	-	-	-	-	-	-	526	526
Property, plant and equipment	-	-	-	-	-	-	321	321
Prepayments, accrued income and other assets	-	-	-	-	-	-	218	218
Deferred taxation	-	-	-	-	-	-	50	50
	1,422	411	-	2,097	53,199	-	1,115	**58,244**
Liabilities								
Deposit by banks (5 6)	-	-	-	-	-	10,051	-	10,051
Customer accounts (7, 9)	-	1,220	-	-	-	20,681	-	21,901
Debt securities in issue (8)	-	-	-	-	-	19,300	-	19,300
Derivatives	1,565	-	-	-	-	-	-	1,565
Accruals, deferred income and other liabilities	-	-	-	-	-	-	867	867
Retirement benefit liabilities	-	-	-	-	-	-	197	197
Deferred taxation	-	-	-	-	-	-	37	37
Subordinated liabilities	-	-	-	-	-	1,062	-	1,062
	1,565	1,220	-	-	-	51,094	1,101	54,980
Equity								3,264
								58,244

Notes

(1) Cash and balances at central banks include Bank of England notes held in respect of notes in circulation in Northern Ireland

(2) Comprises treasury bills and similar securities £nil (2007 £1m)

(3) Includes reverse repurchase agreements of £nil (2007 £1 227m) and items in the course of collection from other banks of Group £136m (2007 £177m) and Bank £20m (2007 £20m)

(4) Includes reverse repurchase agreements of £nil (2007 £nil) Ulster Bank Group has advances secured on residential property subject to non-recourse funding Under IAS 39 these securitised mortgages qualify for full recognition on the balance sheet at 31 December 2008 As at 31 December 2008 £6 854m (2007 £7 649m) are included in loans and advances to customers

(5) Includes repurchase agreements of £4 063m (2007 £346m) and items in the course of transmission to other banks of Group £65m (2007 £37m) and Bank £3m (2007 £2m)

(6) Included in deposits by banks, First Active s obligations to the Central Bank and Financial Services Authority of Ireland (CBFSAI) under the terms of the Mortgage Backed Promissory Note programme as at 31 December 2008 is €1 459 000 (2007 €nil) These obligations are secured by way of a floating charge to the CBFSAI over all its right title interest and benefit €1 527 406 978 of loans and advances to customers (2007 €1 277 255 590) Otherwise than with the prior written consent of the CBFSAI First Active has pledged under the terms of the floating charge to maintain the assets so charged free from any encumbrance and otherwise than in the ordinary course of business not to sell transfer lend or otherwise dispose of any part of the charged asset

(7) Includes repurchase agreements £131m (2007 £nil)

(8) Comprises Bonds and medium term notes of £9 624m (2007 £6 092m) and Certificates of deposit and other commercial paper of £4 570m (2007 £13 208m)

(9) The carrying amount of other customer accounts designated as at fair value through profit or loss is £79m less (2007 £37m greater) than the principal amount

Additional information	**2008 £m**	2007 £m
Gains on financial assets/liabilities designated as at fair value through profit or loss	-	3

NOTES TO THE FINANCIAL STATEMENTS – *for the year ended 31 December 2008*

9 Financial instruments (continued)

2008	Held-for-trading £m	Designated as at fair value through profit or loss £m	Available-for-sale £m	Loans and receivable £m	Other (amortised cost) £m	Non financial assets/ liabilities £m	Total £m
	Bank						
Assets							
Cash and balances at central banks	-	-	-	103	-	-	103
Loans and advances to banks (1)	-	-	-	6,389	-	-	6,389
Loans and advances to customers (1)	-	-	-	8,132	-	-	8,132
Debt securities	-	-	419	-	-	-	419
Investments in Group undertakings	-	-	-	-	-	1,333	1,333
Derivatives	47	-	-	-	-	-	47
Intangible assets	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	125	125
Prepayments, accrued income and other assets	-	-	-	-	-	120	120
Deferred taxation	-	-	-	-	-	38	38
	47	-	419	14,624	-	1,616	**16,706**
Liabilities							
Deposit by banks (2)	-	-	-	-	7,565	-	7,565
Customer accounts	-	357	-	-	4,617	-	4,974
Debt securities in issue	-	-	-	-	955	-	955
Derivatives	69	-	-	-	-	-	69
Accruals, deferred income and other liabilities	-	-	-	-	-	616	616
Retirement benefit liabilities	-	-	-	-	-	101	101
Deferred taxation	-	-	-	-	-	15	15
Subordinated liabilities	-	-	-	-	1,077	-	1,077
	69	357	-	-	14,214	732	15,372
Equity							1,334
							16,706

2007	Held for-trading £m	Designated as at fair value through profit or loss £m	Available-for-sale £m	Loans and receivable £m	Other (amortised cost) £m	Non financial assets/ liabilities £m	Total £m
	Bank						
Assets							
Cash and balances at central banks	-	-	-	74	-	-	74
Loans and advances to banks (1)	-	-	-	6,726	-	-	6,726
Loans and advances to customers (1)	-	-	-	8,255	-	-	8,255
Debt securities	-	-	815	-	-	-	815
Investments in Group undertakings	-	-	-	-	-	1,608	1,608
Derivatives	89	-	-	-	-	-	89
Intangible assets	-	-	-	-	-	31	31
Property, plant and equipment	-	-	-	-	-	117	117
Prepayments, accrued income and other assets	-	-	-	-	-	87	87
Deferred taxation	-	-	-	-	-	37	37
	89	-	815	15,055	-	1,880	17,839
Liabilities							
Deposit by banks (2)	-	-	-	-	4,054	-	4,054
Customer accounts	-	313	-	-	6,346	-	6,659
Debt securities in issue	-	-	-	-	3,339	-	3,339
Derivatives	53	-	-	-	-	-	53
Accruals, deferred income and other liabilities	-	-	-	-	-	583	583
Retirement benefit liabilities	-	-	-	-	-	110	110
Deferred taxation	-	-	-	-	-	16	16
Subordinated liabilities	-	-	-	-	860	-	860
	53	313	-	-	14,599	709	15,674
Equity							2,165
							17,839

(1) Includes amounts due from subsidiaries
(2) Includes amounts due to subsidiaries

9 Financial instruments (continued)

The following table shows the carrying values and the fair values of financial instruments on the balance sheet carried at cost

	Group			
	2008 Carrying value £m	**2008 Fair value £m**	2007 Carrying value £m	2007 Fair value £m
Financial assets				
Cash and balances at central banks	**346**	**346**	290	290
Treasury & other eligible bills	**-**	**-**	1	1
Loans and advances to banks				
Loans and receivables	**5,157**	**5,157**	7,585	7,578
Loans and advances to customers				
Loans and receivables	**59,566**	**59,257**	45,735	45,796
Debt securities				
Available for sale	**1,528**	**1,528**	2,086	2,086
Equity shares	**13**	**13**	10	10
Financial liabilities				
Deposit by banks				
Amortised cost	**22,957**	**22,957**	10,051	10,051
Customer accounts				
Amortised cost	**24,791**	**24,796**	21,901	21,890
Debt securities in issue				
Amortised cost	**14,194**	**14,198**	19,300	19,300
Subordinated liabilities				
Amortised cost	**1,318**	**1,318**	1,062	1,062

9 Financial instruments (continued)

Remaining maturity

2008	Group Less than 12 months £m	 More than 12 months £m	 Total £m
Assets			
Cash and balances at central banks	346	-	346
Treasury and other eligible bills	-	-	-
Loans and advances to banks	3,493	1,664	5,157
Loans and advances to customers	20,073	39,493	59,566
Debt securities	533	995	1,528
Equity shares	-	13	13
Derivatives	2,068	261	2,329
Liabilities			
Deposits by banks	22,805	152	22,957
Customer accounts	21,119	3,672	24,791
Debt securities in issue	5,690	8,504	14,194
Derivatives	1,694	511	2,205
Subordinated liabilities	-	1,318	1,318

2007	Group Less than 12 months £m	 More than 12 months £m	 Total £m
Assets			
Cash and balances at central banks	290	-	290
Treasury and other eligible bills	1	-	1
Loans and advances to banks	5,914	1,671	7,585
Loans and advances to customers	15,672	30,063	45,735
Debt securities	845	1,241	2,086
Equity shares	-	10	10
Derivatives	717	705	1,422
Liabilities			
Deposits by banks	10,000	51	10,051
Customer accounts	20,327	1,574	21,901
Debt securities in issue	6,002	13,298	19,300
Derivatives	719	846	1,565
Subordinated liabilities	-	1,062	1,062

9 Financial instruments (continued)

Remaining maturity

2008	Bank Less than 12 months £m	 More than 12 months £m	 Total £m
Assets			
Cash and balances at central banks	103	-	103
Loans and advances to banks	4,410	1,979	6,389
Loans and advances to customers	4,828	3,304	8,132
Debt securities	140	279	419
Derivatives	47	-	47
Liabilities			
Deposits by banks	7,559	6	7,565
Customer accounts	4,522	452	4,974
Debt securities in issue	668	287	955
Derivatives	41	28	69
Subordinated liabilities	-	1,077	1,077

2007	Bank Less than 12 months £m	 More than 12 months £m	 Total £m
Assets			
Cash and balances at central banks	74	-	74
Loans and advances to banks	5,319	1,407	6,726
Loans and advances to customers	5,091	3,164	8,255
Debt securities	815	-	815
Derivatives	11	78	89
Liabilities			
Deposits by banks	4,022	32	4,054
Customer accounts	6,226	433	6,659
Debt securities in issue	3,334	5	3,339
Derivatives	-	53	53
Subordinated liabilities	-	860	860

10 Asset quality

Asset grades

Internal reporting and oversight of risk assets is principally differentiated by credit ratings Internal ratings are used to assess the credit quality of borrowers Customers are assigned credit ratings, based on various credit grading models that reflect the probability of default All credit ratings across the Group map to a Group level asset quality scale

Expressed as an annual probability of default, the upper and lower boundaries and the midpoint for each of these Group level asset quality grades are as follows

	Minimum	Midpoint	Maximum
Asset Quality Grade	%	%	%
AQ1	0 00	0 10	0 20
AQ2	0 21	0 40	0 60
AQ3	0 61	1 05	1 50
AQ4	1 51	3 25	5 00
AQ5	5 01	52 50	100 0

The following table provides an analysis of the credit quality of third party financial assets by probability of default

	Group								
2008	AQ1 £m	AQ2 £m	AQ3 £m	AQ4 £m	AQ5 £m	Past due but not impaired £m	Non Accrual £m	Impairment Provision £m	Total £m
Cash and balances at central banks	346	-	-	-	-	-	-	-	346
Treasury and other eligible bills	-	-	-	-	-	-	-	-	-
Loans and advances to banks	2,423	-	27	12	1	-	-	-	2,463
Loans and advances to customers	8,136	13,848	15,790	9,329	7,700	2,680	2,892	(811)	59,564
Debt securities	1,528	-	-	-	-	-	-	-	1,528
Settlement balances	76	-	-	-	-	-	-	-	76
Derivatives	148	91	398	100	19	-	-	-	756
	12,657	13,939	16,215	9,441	7,720	2,680	2,892	(811)	64,733
Commitments	1,919	1,525	2,936	1,337	568	-	-	-	8,285
Contingent liabilities	44	189	215	195	105	-	-	-	748
Total off-balance sheet	1,963	1,714	3,151	1,532	673	-	-	-	9,033

	Group								
2007	AQ1 £m	AQ2 £m	AQ3 £m	AQ4 £m	AQ5 £m	Past due but not impaired £m	Non Accrual £m	Impairment Provision £m	Total £m
Cash and balances at central banks	290	-	-	-	-	-	-	-	290
Treasury and other eligible bills	1	-	-	-	-	-	-	-	1
Loans and advances to banks	3,255	224	-	-	-	-	-	-	3,479
Loans and advances to customers	2,803	2,783	31,649	4,980	1,131	1,534	560	(322)	45,118
Debt securities	2,086	-	-	-	-	-	-	-	2,086
Derivatives	1,058	3	6	-	1	-	-	-	1,068
Total	9,493	3,010	31,655	4,980	1,132	1,534	560	(322)	52,042
Commitments	560	556	6,319	995	226	-	-	-	8,656
Contingent liabilities	45	44	504	79	18	-	-	-	690
Total off-balance sheet	605	600	6,823	1,074	244	-	-	-	9,346

10 Asset quality (continued)

The following table provides an analysis of the credit quality of third party financial assets by probability of default

	Bank								
2008	AQ1 £m	AQ2 £m	AQ3 £m	AQ4 £m	AQ5 £m	Past due but not impaired £m	Non Accrual £m	Impairment Provision £m	Total £m
Cash and balances at central banks	103	-	-	-	-	-	-	-	103
Loans and advances to banks	30	-	-	-	-	-	-	-	30
Loans and advances to customers	1,109	1,754	2,001	1,107	975	530	850	(194)	8,132
Debt securities	419	-	-	-	-	-	-	-	419
Derivatives	9	2	7	-	-	-	-	-	18
	1,670	1,756	2,008	1,107	975	530	850	(194)	8,702
Commitments	560	298	722	346	127	-	-	-	2,053
Contingent liabilities	31	48	55	31	27	-	-	-	192
Total off-balance sheet	591	346	777	377	154	-	-	-	2,245

	Bank								
2007	AQ1 £m	AQ2 £m	AQ3 £m	AQ4 £m	AQ5 £m	Past due but not impaired £m	Non Accrual £m	Impairment Provision £m	Total £m
Cash and balances at central banks	74	-	-	-	-	-	-	-	74
Loans and advances to banks	67	5	-	-	-	-	-	-	72
Loans and advances to customers	508	505	5,741	903	205	336	130	(73)	8,255
Debt securities	815	-	-	-	-	-	-	-	815
Derivatives	57	-	-	-	-	-	-	-	57
	1,521	510	5,741	903	205	336	130	(73)	9,273
Commitments	148	147	1,676	264	60	-	-	-	2,295
Contingent liabilities	68	67	763	120	27	-	-	-	1,045
Total off-balance sheet	216	214	2,439	384	87	-	-	-	3,340

10 Asset quality (continued)

Industry risk – geographical analysis

2008	Group				
	Loans and advances to banks and customers £m	Treasury bills debt securities and equity shares £m	Derivatives £m	Total £m	Netting and offset [1] £m
UK					
Central and local government	-	-	-	-	-
Manufacturing	304	-	6	310	-
Construction	1,258	-	5	1,263	-
Finance	2,322	419	15	2,756	-
Service industries and business activities	938	-	19	957	-
Agriculture, forestry and fishing	305	-	-	305	-
Property	3,251	-	-	3,251	-
Individuals					
Home mortgages	1,795	-	-	1,795	-
Other	431	-	-	431	-
Interest accruals	13	-	-	13	-
Total UK	10,617	419	45	11,081	-
Rest of Europe					
Central and local government	95	-	-	95	-
Manufacturing	1,696	-	31	1,727	-
Construction	3,243	-	57	3,300	-
Finance	3,645	1,122	1,741	6,508	(7)
Service industries and business activities	7,027	-	136	7,163	-
Agriculture, forestry and fishing	1,093	-	1	1,094	-
Property	12,649	-	299	12,948	-
Individuals					
Home mortgages	22,656	-	-	22,656	-
Other	2,664	-	19	2,683	-
Interest accruals	149	-	-	149	-
Total Rest of Europe	54,917	1,122	2,284	58,323	(7)
Total					
Central and local government	95	-	-	95	-
Manufacturing	2,000	-	37	2,037	-
Construction	4,501	-	62	4,563	-
Finance	5,967	1,541	1,756	9,264	(7)
Service industries and business activities	7,965	-	155	8,120	-
Agriculture, forestry and fishing	1,398	-	1	1,399	-
Property	15,900	-	299	16,199	-
Individuals					
Home mortgages	24,451	-	-	24,451	-
Other	3,095	-	19	3,114	-
Interest accruals	162	-	-	162	-
	65,534	1,541	2,329	69,404	(7)

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

10 Asset quality (continued)

2007	Group Loans and advances to banks and customers £m	Treasury bills debt securities and equity shares £m	Derivatives £m	Total £m	Netting and offset [1] £m
UK					
Central and local government	-	-	-	-	-
Manufacturing	257	-	-	257	-
Construction	1,422	-	-	1,422	-
Finance	308	815	396	1,519	-
Service industries and business activities	881	-	-	881	-
Agriculture, forestry and fishing	279	-	-	279	-
Property	3,168	-	-	3,168	-
Individuals					
Home mortgages	1,802	-	-	1,802	-
Other	427	-	-	427	-
Interest accruals	53	-	-	53	-
Total UK	8,597	815	396	9,808	-
Rest of Europe					
Central and local government	104	742	-	846	-
Manufacturing	1,131	-	-	1,131	-
Construction	2,769	-	-	2,769	-
Finance	8,814	531	1,026	10,371	(7)
Service industries and business activities	5,073	8	-	5,081	-
Agriculture, forestry and fishing	587	-	-	587	-
Property	7,921	-	-	7,921	9
Individuals					
Home mortgages	15,951	-	-	15,951	-
Other	2,533	-	-	2,533	-
Interest accruals	162	-	-	162	-
Total Rest of Europe	45,045	1,281	1,026	47,352	2
Total					
Central and local government	104	742	-	846	-
Manufacturing	1,388	-	-	1,388	-
Construction	4,191	-	-	4,191	-
Finance	9,122	1,346	1,422	11,890	(7)
Service industries and business activities	5,954	8	-	5,962	-
Agriculture, forestry and fishing	866	-	-	866	-
Property	11,089	-	-	11,089	9
Individuals					
Home mortgages	17,753	-	-	17,753	-
Other	2,960	-	-	2,960	-
Interest accruals	215	-	-	215	-
	53,642	2,096	1,422	57,160	2

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

10 Asset quality (continued)

2008	Bank Loans and advances to banks and customers £m	Treasury bills debt securities and equity shares £m	Derivatives £m	Total £m	Netting and offset [1] £m
UK					
Central and local government	-	-	-	-	-
Manufacturing	304	-	6	310	-
Construction	1,258	-	5	1,263	-
Finance	6,420	419	17	6,856	-
Service industries and business activities	938	-	19	957	-
Agriculture, forestry and fishing	305	-	-	305	-
Property	3,251	-	-	3,251	-
Individuals					
Home mortgages	1,795	-	-	1,795	-
Other	431	-	-	431	-
Interest accruals	13	-	-	13	-
Total UK	14,715	419	47	15,181	-
Rest of Europe					
Central and local government	-	-	-	-	-
Manufacturing	-	-	-	-	-
Construction	-	-	-	-	-
Finance	-	-	-	-	-
Service industries and business activities	-	-	-	-	-
Agriculture, forestry and fishing	-	-	-	-	-
Property	-	-	-	-	-
Individuals					
Home mortgages	-	-	-	-	-
Other	-	-	-	-	-
Interest accruals	-	-	-	-	-
Total Rest of Europe	-	-	-	-	-
Total					
Central and local government	-	-	-	-	-
Manufacturing	304	-	6	310	-
Construction	1,258	-	5	1,263	-
Finance	6,420	419	17	6,856	-
Service industries and business activities	938	-	19	957	-
Agriculture, forestry and fishing	305	-	-	305	-
Property	3,251	-	-	3,251	-
Individuals					
Home mortgages	1,795	-	-	1,795	-
Other	431	-	-	431	-
Interest accruals	13	-	-	13	-
	14,715	419	47	15,181	-

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

10 Asset quality (continued)

	Bank				
2007	Loans and advances to banks and customers £m	Treasury bills debt securities and equity shares £m	Derivatives £m	Total £m	Netting and offset [1] £m
UK					
Central and local government	-	-	-	-	-
Manufacturing	257	-	-	257	-
Construction	1,422	-	-	1,422	-
Finance	6,765	815	89	7,669	-
Service industries and business activities	881	-	-	881	-
Agriculture, forestry and fishing	279	-	-	279	-
Property	3,168	-	-	3,168	-
Individuals					
Home mortgages	1,802	-	-	1,802	-
Other	427	-	-	427	-
Interest accruals	53	-	-	53	-
Total UK	15,054	815	89	15,958	-
Rest of Europe					
Central and local government	-	-	-	-	-
Manufacturing	-	-	-	-	-
Construction	-	-	-	-	-
Finance	-	-	-	-	(7)
Service industries and business activities	-	-	-	-	-
Agriculture, forestry and fishing	-	-	-	-	-
Property	-	-	-	-	9
Individuals					
Home mortgages	-	-	-	-	-
Other	-	-	-	-	-
Interest accruals	-	-	-	-	-
Total Rest of Europe	-	-	-	-	2
Total					
Central and local government	-	-	-	-	-
Manufacturing	257	-	-	257	-
Construction	1,422	-	-	1,422	-
Finance	6,765	815	89	7,669	(7)
Service industries and business activities	881	-	-	881	-
Agriculture, forestry and fishing	279	-	-	279	-
Property	3,168	-	-	3,168	9
Individuals					
Home mortgages	1,802	-	-	1,802	-
Other	427	-	-	427	-
Interest accruals	53	-	-	53	-
	15,054	815	89	15,958	2

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

11 Past due and impaired financial assets

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

	Group				
	Individually assessed £m	Collectively assessed £m	Latent £m	**Total 2008 £m**	Total 2007 £m
At 1 January	90	141	91	**322**	249
Currency translation and other adjustments	61	42	21	**124**	24
Amounts written-off [1]	(2)	(17)	-	**(19)**	(16)
Recoveries of amounts previously written-off	-	-	-	**-**	2
Charged to the income statement	298	106	10	**414**	78
Unwind of discount	(18)	(12)	-	**(30)**	(15)
At 31 December [2]	429	260	122	**811**	322

	Bank				
	Individually assessed £m	Collectively assessed £m	Latent £m	**Total 2008 £m**	Total 2007 £m
At 1 January	11	39	23	**73**	65
Amounts written-off [1]	-	(8)	-	**(8)**	(9)
Recoveries of amounts previously written-off	-	-	-	**-**	-
Charged to the income statement	104	27	7	**138**	21
Unwind of discount	(6)	(3)	-	**(9)**	(4)
At 31 December [2]	109	55	30	**194**	73

(1) Amounts written off do not include any loans and advances to banks
(2) Impairment losses at 31 December 2008 do not include any loans and advances to banks

	Group		Bank	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Impairment losses charged to the income statement				
Loans and advances to customers	414	78	138	21

Loan impairment

At 31 December 2008, the Group's non-accrual loans and loans past due 90 days amounted to £3,297m (2007 £606m) and £911m (2007 £137m) for Bank Loan impairment provisions of £689m (2007 £230m) were held against the Group loans and £164m (2007 £50m) against the Bank loans

	Group		Bank	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Gross income not recognised but which would have been recognised under the original terms of non-accrual and restructured loans				
Domestic	8	-	8	-
Foreign	31	3	-	-
	39	3	8	-
Interest on non-accrual and restructured loans included in net interest income				-
Domestic	-	-	-	-
Foreign	-	-	-	-
	-	-	-	-

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

11 Past due and impaired financial assets (continued)

The following table shows analysis of impaired financial assets

Group	2008			2007		
	Cost £m	Provision £m	Net book value £m	Cost £m	Provision £m	Net book value £m
Impaired financial assets						
Loans and advances to customers	2,892	(689)	2,203	560	(230)	330
Equity shares	2	(1)	1	2	(1)	1
	2,894	(690)	2,204	562	(231)	331

Bank	2008			2007		
	Cost £m	Provision £m	Net book value £m	Cost £m	Provision £m	Net book value £m
Impaired financial assets						
Loans and advances to customers	850	(164)	686	130	(50)	80
	850	(164)	686	130	(50)	80

The Group holds collateral in respect of certain loans and advances to banks and to customers that are past due or impaired Such collateral includes mortgages over property (both personal and commercial), charge over business assets such as plant, inventories and trade receivables, and guarantees of lending from parties other than the borrower

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

Group	Past due 1-29 days £m	Past due 30-59 days £m	Past due 60-89 days £m	Past due more than 90 days £m	Total £m
2008					
Loans and advances to customers	1,596	399	280	405	2,680
2007					
Loans and advances to customers	1,072	212	204	46	1,534

Bank	Past due 1-29 days £m	Past due 30-59 days £m	Past due 60-89 days £m	Past due more than 90 days £m	Total £m
2008					
Loans and advances to customers	391	39	39	61	530
2007					
Loans and advances to customers	272	30	27	7	336

	Group		Bank	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Impaired financial assets - individually assessed Loans and advances to customers	**429**	90	**109**	11

Loans that have been renegotiated in the past 12 months that would otherwise have been past due or impaired amounted to £nil as at 31 December 2008 (2007 £2m) for the Group and £nil (2007 £0 2m) for the Bank

12 Debt securities

2008	Group Government £m	Bank and building society £m	Mortgage backed securities £m	Other £m	Total £m
Available-for-sale	898	535	95	-	1,528
At 31 December 2008	898	535	95	-	1,528
Available-for-sale					
Gross unrealised gains	11	-	-	-	11
Gross unrealised losses	-	(15)	(13)	-	(28)

2007	Group Government £m	Bank and building society £m	Mortgage backed securities £m	Other £m	Total £m
Available-for-sale	760	665	124	537	2,086
At 31 December 2007	760	665	124	537	2,086
Available-for-sale					
Gross unrealised gains	-	-	-	-	-
Gross unrealised losses	-	(22)	-	-	(22)

2008	Bank Government £m	Bank and building society £m	Mortgage backed securities £m	Other £m	Total £m
Available-for-sale	-	324	95	-	419
At 31 December 2008	-	324	95	-	419
Available-for-sale					
Gross unrealised losses	-	(14)	(13)	-	(27)

2007	Bank Government £m	Bank and building society £m	Mortgage backed securities £m	Other £m	Total £m
Available-for-sale	-	393	124	298	815
At 31 December 2007	-	393	124	298	815
Available-for-sale					
Gross unrealised losses	-	(4)	-	-	(4)

12 Debt securities (continued)

The following table shows the Group and Bank's available-for-sale debt securities by maturity and related yield (based on weighted averages) as at 31 December 2008

Group	Within 1 year		After 1 but within 5 years		After 10 years		Total	
	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %
Issued by								
Government	239	2 9%	659	3 3%	-	-	898	3 2%
Mortgage backed securities	-	-	-	-	95	4 3%	95	4 3%
Bank and building society	294	4 0%	241	3 6%	-	-	535	3 8%
Other	-	-	-	-	-	-	-	-
Total fair value	533	3 5%	900	3 4%	95	4 3%	1.528	3 5%

Bank	Within 1 year		After 1 but within 5 years		After 10 years		Total	
	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %
Issued by								
Mortgage backed securities	-	-	-	-	95	4 3%	95	4 3%
Bank and building society	151	3 8%	173	3 7%	-	-	324	3 7%
Other	-	-	-	-	-	-	-	-
Total fair value	151	3 8%	173	3 7%	95	4 3%	419	3 9%

There were no maturities within the 5-10 year time category in 2008 and 2007

The following table shows the Group and Bank's available-for-sale debt securities by maturity and related yield (based on weighted averages) as at 31 December 2007

Group	Within 1 year		After 1 but within 5 years		After 10 years		Total	
	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %
Issued by								
Government	129	4 3%	631	4 2%	-	-	760	4 2%
Mortgage backed securities	-	-	-	-	124	6 4%	124	6 4%
Bank and building society	179	4 5%	486	4 6%	-	-	665	4 6%
Other	537	5 1%	-	-	-	-	537	5 1%
Total fair value	845	4 9%	1,117	4 4%	124	6 4%	2,086	4 7%

Bank	Within 1 year		After 1 but within 5 years		After 10 years		Total	
	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %
Mortgage backed securities	-	-	-	-	124	6 4%	124	6 4%
Bank and building society	78	4 7%	315	5 2%	-	-	393	5 1%
Other	298	5 0%	-	-	-	-	298	5 0%
Total fair value	376	4 9%	315	5 2%	124	6 4%	815	5 3%

13 Equity shares

	Group					
	2008			2007		
	Listed £m	Unlisted £m	Total £m	Listed £m	Unlisted £m	Total £m
Available-for-sale	-	13	13	-	10	10
At 31 December	-	13	13	-	10	10

No gains or losses were realised on the available for sale equity shares (2007 gain of £6m)

As at 31 December 2008 the Bank held £210,179 unlisted equity shares (2007 £175,000)

14 Investments in Group undertakings

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

	Bank	
	2008 £m	2007 £m
At 1 January	1,608	1,209
Additions	236	319
Impairment	(418)	-
Currency translations and other adjustments	(93)	80
At 31 December	1,333	1,608

	2008 £m	2007 £m
Subsidiary undertakings comprise		
- Banks	488	763
- Other	845	845
Total – all unlisted	1,333	1,608

The principal subsidiary undertakings included in the consolidated accounts of the Bank are shown below All of these Companies are included in the Group's consolidated financial statements and have an accounting reference date of 31 December With the exception of Ulster Investments Limited which is incorporated in Northern Ireland, all are incorporated in the Republic of Ireland The Bank holds 100% of the ordinary share capital of all subsidiary undertakings apart from Ulster Bank Commercial Services Limited where the holding is 90 9%, and Ulster Bank Insurance Services Limited where the holding is 51 0% In all cases, the holding is equal to the voting rights

Undertaking	**Nature of business**
Ulster Bank Ireland Limited	Banking services, corporate and investment banking, foreign exchange services
First Active plc	Banking Services
Ulster Bank Finance plc	Issue of debt instruments
Ulster Bank Commercial Services Limited	Debtor finance
Easycash (Ireland) Limited	Provision of ATM services
Ulster Bank (Ireland) Holdings	Holding company
Ulster Bank Holdings (ROI) Limited	Investment company
Ulster Investments Limited	Investment company

15 Intangible assets

2008	Group Goodwill £m	Core Deposit Intangibles £m	Other Acquired Intangibles £m	Computer Software £m	Total £m
Cost					
At 1 January 2008	426	27	31	106	590
Currency translation and other adjustments	150	8	10	6	174
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
At 31 December 2008	576	35	41	112	764
Accumulated amortisation and impairment					
At 1 January 2008	-	15	12	37	64
Currency translation and other adjustments	-	5	5	-	10
Disposals	-	-	-	-	-
Impairment	576	-	21	60	657
Amortisation charge for the year	-	4	3	15	22
At 31 December 2008	576	24	41	112	753
Net book value at 31 December 2008	-	11	-	-	11

Goodwill, all of which relates to unquoted investments, has arisen on the acquisitions of First Active plc and Easycash (Ireland) Limited

As required under IAS 36, the Group undertakes annual impairment testing on Goodwill and Other Intangible assets Given the significant deterioration in the short term performance of the Group and the reduced profit outlook over the planning horizon, projected cash flows have been reduced leading to full impairment of Goodwill and Intangible carrying values As a result, the Group felt it prudent to write down the value of its investment in First Active plc and Easycash (Ireland) Limited as well as related intangible assets The Group also booked an impairment charge on other intangibles representing internally capitalised software due to reduced future income streams

Other intangible assets, comprising computer software not integral to hardware, were reclassified on transition to IFRS Additionally, as required by IFRS directly related internal computer software development costs have been capitalised

2007	Group Goodwill £m	Core deposit intangibles £m	Other acquired intangibles £m	Computer software £m	Total £m
Cost					
At 1 January 2007	426	24	29	96	575
Currency translation and other adjustments	-	3	2	9	14
Additions	-	-	-	-	-
Disposals	-	-	-	1	1
At 31 December 2007	426	27	31	106	590
Accumulated amortisation and impairment					
At 1 January 2007	-	10	8	4	22
Currency translation and other adjustments	-	1	1	-	2
Disposals	-	-	-	1	1
Charge for the year	-	4	3	32	39
At 31 December 2007	-	15	12	37	64
Net book value at 31 December 2007	426	12	19	69	526

15 Intangible assets (continued)

2008	**Bank** Computer Software £m	Total £m
Cost		
At 1 January 2008	50	50
Additions	-	-
At 31 December 2008	**50**	**50**
Accumulated amortisation and impairment		
At 1 January 2008	19	19
Impairment	23	23
Charge for the year	8	8
At 31 December 2008	**50**	**50**
Net book value at 31 December 2008	**-**	**-**

2007	**Bank** Computer Software £m	Total £m
Cost		
At 1 January 2007	50	50
Additions	-	-
At 31 December 2007	50	50
Accumulated amortisation and impairment		
At 1 January 2007	2	2
Charge for the year	17	17
At 31 December 2007	19	19
Net book value at 31 December 2007	31	31

16 Property, plant and equipment

2008	Group				
	Freehold land and buildings £m	Leases of 50 years or more unexpired £m	Leases of 50 years or less unexpired £m	Computer and other equipment £m	Total £m
Cost					
At 1 January 2008	153	35	54	223	465
Exchange adjustments	31	5	20	39	95
Additions	11	4	31	14	60
Disposals	-	-	-	(3)	(3)
At 31 December 2008	195	44	105	273	617
Accumulated depreciation and amortisation					
At 1 January 2008	17	3	10	114	144
Currency translation and other adjustments	3	1	5	21	30
Disposals	-	-	-	(2)	(2)
Depreciation charge for the year	4	1	4	21	30
At 31 December 2008	24	5	19	154	202
Net book value at 31 December 2008	**171**	**39**	**86**	**119**	**415**

2007	Group				
	Freehold land and buildings £m	Leases of 50 years or more unexpired £m	Leases of 50 years or less unexpired £m	Computer and other equipment £m	Total £m
Cost					
At 1 January 2007	150	32	37	202	421
Currency translation and other adjustments	12	1	4	10	27
Additions	3	2	13	13	31
Disposals	(12)	-	-	(2)	(14)
Other movements					
At 31 December 2007	153	35	54	223	465
Accumulated depreciation and amortisation					
At 1 January 2007	13	3	8	91	115
Currency translation and other adjustments	1	(1)	1	6	7
Disposals	-	-	-	(1)	(1)
Charge for the year	3	1	1	18	23
Other movements					
At 31 December 2007	17	3	10	114	144
Net book value at 31 December 2007	136	32	44	109	321

There was no profit on disposal of freehold land and buildings during the year (2007 £23 7m)

16 Property, plant and equipment (continued)

2008	Bank Freehold land and buildings £m	Leases of 50 years or more unexpired £m	Leases of 50 years or less unexpired £m	Computer and other equipment £m	Total £m
Cost					
At 1 January 2008	50	20	4	100	174
Exchange adjustments	-	-	1	-	1
Additions	8	2	7	4	21
Disposals	-	-	-	-	-
At 31 December 2008	58	22	12	104	196
Accumulated depreciation and *amortisation*					
At 1 January 2008	4	1	-	52	57
Exchange adjustments	1	1	1	(1)	2
Disposals	-	-	-	-	-
Depreciation charge for the year	1	-	1	10	12
At 31 December 2008	6	2	2	61	71
Net book value at 31 December 2008	**52**	**20**	**10**	**43**	**125**

2007	Bank Freehold land and buildings £m	Leases of 50 years or more unexpired £m	Leases of 50 years or less unexpired £m	Computer and other equipment £m	Total £m
Cost					
At 1 January 2007	62	19	2	104	187
Exchange Adjustments	-	-	-	-	-
Additions	-	1	2	-	3
Disposals	(12)	-	-	(4)	(16)
At 31 December 2007	50	20	4	100	174
Accumulated depreciation and amortisation					
At 1 January 2007	4	-	-	43	47
Charge for the year	-	1	-	9	10
Exchange Adjustments	-	-	-	-	-
Disposals	-	-	-	-	-
At 31 December 2007	4	1	-	52	57
Net book value at 31 December 2007	46	19	4	48	117

Capital commitments

Obligations for the Group for future capital expenditure not provided for in the financial statements at the year end amounted to £5,694,309 (2007 £104,678)

NOTES TO THE FINANCIAL STATEMENTS - *for the year ended 31 December 2008*

17 Derivatives

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

	Group					
	2008			2007		
	Notional amounts £m	Assets £m	Liabilities £m	Notional amounts £m	Assets £m	Liabilities £m
Free standing derivatives						
Exchange rate contracts						
Spot, forwards and futures	24,779	957	487	13,550	169	282
Currency swaps	2,720	164	478	13,726	305	404
Interest rate contracts						
Interest rate swaps	69,798	1,172	1,203	53,077	779	866
Options purchased	2,477	10	-	2,412	13	-
Options written	9,400	-	31	2,275	-	13
Futures and forwards	8,214	-	6	-	-	-
Credit derivatives	-	-	-	147	-	-
Equity and commodity contracts	1,505	26	-	1,069	156	-
	118,893	2,329	2,205	86,256	1,422	1,565

	Bank					
	2008			2007		
	Notional amounts £m	Assets £m	Liabilities £m	Notional amounts £m	Assets £m	Liabilities £m
Free standing derivatives						
Exchange rate contracts						
Spot, forwards and futures	714	47	49	6	-	-
Interest rate contracts						
Interest rate swaps	523	-	20	1,802	89	53
	1,237	47	69	1,808	89	53

18 Prepayments, accrued income and other assets

	Group		Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
Prepayments	25	31	2	2
Accrued income	34	3	10	1
Current taxation	55	32	8	-
Other assets	138	152	100	84
	252	218	120	87

19 Accruals, deferred income and other liabilities

	Group		Bank	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Notes in circulation	**533**	465	**530**	465
Current taxation	**-**	-	**-**	44
Accruals	**288**	285	**66**	73
Deferred income	**22**	11	**2**	1
Other liabilities	**144**	106	**18**	-
	987	867	**616**	583

20 Deferred taxation

Provision for deferred taxation has been made as follows

	Group		Bank	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Deferred tax asset	**68**	50	**38**	37
Deferred tax liability	**(34)**	(37)	**(15)**	(16)
Net deferred tax	**34**	13	**23**	21

Group

	Pension	Accelerated capital allowances	Provisions	Deferred gains	Fair value on financial instruments	Hedging	Other	Tax Losses	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2007	38	(3)	13	(17)	5	(3)	(18)	-	15
(Charge) / credit to income statement	1	(3)	-	-	(2)	4	(5)	-	(5)
(Charge) / credit to equity directly	6	-	(3)	-	-	-	-	-	3
Other	(2)	2	-	-	(1)	-	1	-	-
Exchange adjustments	-	-	-	-	-	-	-	-	-
At 1 January 2008	43	(4)	10	(17)	2	1	(22)	-	13
(Charge) / credit to income statement	(6)	4	-	1	(1)	-	2	22	22
(Charge) / credit to equity directly	2	-	(3)	-	-	-	-	-	(1)
Other	-	-	-	-	-	-	-	-	-
Exchange adjustments	-	-	-	-	-	-	-	-	
At 31 December 2008	39	-	7	(16)	1	1	(20)	22	34

Full provision is made for all deferred taxation liabilities except for those which might arise in the event of 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 If overseas earnings were to be remitted a tax liability of £107m (2007 £165m) would arise

20 Deferred taxation (continued)

Provisions for Deferred Tax	Bank 2008 £m
Balance at 1 January 2007	31
Charge to income statement	(9)
Exchange and other movements	(1)
At January 2008	21
Charge to income statement	(4)
Exchange and other movements	6
At 31 December 2008	23

21 Subordinated liabilities

	Group		Bank	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Dated loan capital	**1,058**	845	**962**	772
Undated loan capital	**115**	88	**115**	88
Dated subordinated bonds	**66**	65	**-**	-
Undated perpetual subordinated bonds	**79**	64	**-**	-
	1,318	1,062	**1,077**	860

	Group		Bank	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Dated loan capital				
Repayable 2014				
- held by immediate parent company	**20**	20	**20**	20
Repayable 2015				
- held by immediate parent company	**20**	20	**20**	20
Repayable 2019				
- held by RBS plc	**100**	100	**100**	100
Euro loan capital repayable 2017				
- held by RBS plc	**382**	294	**-**	294
Euro loan capital repayable 2020				
- held by RBS plc	**172**	132	**172**	132
Euro loan capital repayable 2022				
- held by RBS plc	**364**	279	**650**	206
	1,058	845	**962**	772
Undated loan capital				
- held by RBS plc	**115**	88	**115**	88
	115	88	**115**	88
Subordinated bonds				
£60m 6 375% subordinated bonds 2018				
(callable April 2013)	**66**	65	**-**	-
	66	65	**-**	-
Undated perpetual subordinated bonds				
First Active plc				
€38m 11 375% perpetual tier two capital	**51**	39	**-**	-
£20m 11 75% perpetual tier two capital	**26**	23	**-**	-
£1 3m floating rates	**2**	2	**-**	-
	79	64	**-**	-
Total	**1,318**	1,062	**1,077**	860

21 Subordinated liabilities (continued)

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

Interest on the Sterling-denominated dated loan capital held by fellow subsidiary undertakings, the immediate parent company and the ultimate holding company are payable quarterly at a margin over London Interbank Offer rates Interest on Euro-denominated loan capital is payable quarterly at a margin over Euro Interbank Offer rates

Early repayment of the dated loan capital may take place at any time with a notice period of at least 30 days, subject to the prior agreement of the Financial Services Authority ("FSA")

Dated subordinated bonds
The Sterling fixed subordinated bond matures on 4 April 2013 The claims of the holders of the bonds are subordinate to the claims of all creditors of First Active other than the holders of the perpetual subordinated bonds

Perpetual subordinated bonds
The subordinated perpetual bonds were issued by First Active, in the Republic of Ireland, at par on conversion of First National Building Society to a public limited company pursuant to Section 107 of the Building Societies Act, 1989 to replace the issued fixed and floating rate permanent interest bearing shares of the Society The claims of the holders of the bonds are subordinate to the claims of all creditors of First Active

22 Share capital

	Group and Bank			
	Allotted, called up and fully paid		Authorised	
	1 January 2008 £m	31 December 2008 £m	2008 £m	2007 £m
Equity shares				
Ordinary shares of £1	415	415	450	450
Equity preference shares				
Non-cumulative redeemable preference shares of €1 each	302	302	350	336
Total share capital	717	717	800	786

Number of shares	Allotted, called up and fully paid		Authorised	
	2008 Millions	2007 Millions	2008 Millions	2007 Millions
Equity shares				
Ordinary shares of £1	415	415	450	450
Equity Preference shares				
Non-cumulative redeemable preference shares of €1 each	450	450	500	500
Total share capital	865	865	950	950

The non-cumulative redeemable preference shares entitle the holders thereof to receive periodic non-cumulative cash dividends, at the discretion of the directors, 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

23 Shareholders' equity

	Group		Bank	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Called up share capital				
At 1 January	**717**	717	**717**	717
Shares issued during the year	**-**	-	**-**	-
Called up share capital as at 31 December	**717**	717	**717**	717
Share premium account				
At 1 January	**949**	888	**949**	888
Currency translation adjustments and other adjustments	**(47)**	61	**(47)**	61
At 31 December	**902**	949	**902**	949
Available-for-sale reserve				
At 1 January	**(19)**	(12)	**(3)**	(1)
Unrealised gains/(losses) in the year	**4**	(2)	**(23)**	(3)
Realised (losses) in the year	**-**	(6)	**-**	-
Exchange (losses) in the year	**-**	(1)	**-**	-
Taxation	**3**	2	**7**	1
At 31 December	**(12)**	(19)	**(19)**	(3)
Cash flow hedging reserve				
At 1 January	**7**	11	**-**	-
Unrealised (losses) in the year	**(3)**	(1)	**-**	-
(Losses) recycled on terminated hedges	**-**	(4)	**-**	-
Exchange gains	**2**	-	**-**	-
Taxation	**-**	1	**-**	-
At 31 December	**6**	7	**-**	-
Retained earnings				
At 1 January	**1,105**	1,410	**467**	419
Actuarial gains and other movements	**(20)**	(6)	**(1)**	-
(Loss)/profit attributable to ordinary shareholders	**(794)**	274	**(472)**	621
Profit attributable to equity preference shareholders	**60**	57	**60**	57
Ordinary dividends paid	**-**	(573)	**-**	(573)
Equity preference dividends paid	**(60)**	(57)	**(60)**	(57)
At 31 December	**291**	1,105	**(6)**	467
Foreign exchange reserve				
At 1 January	**11**	(52)	**35**	(2)
Retranslation of net assets	**510**	63	**(295)**	37
At 31 December	**521**	11	**(260)**	35
Reserves as at 31 December	**1,708**	2,053	**617**	1,448
Minority interests				
At 1 January	**494**	156	**-**	-
Currency translation adjustments and other movements	**122**	(8)	**-**	-
Profit attributable to minority interests	**45**	38	**-**	-
Dividend paid	**(27)**	(21)	**-**	-
Equity withdrawn	**(72)**	-	**-**	-
Equity raised	**-**	329	**-**	-
At 31 December	**562**	494	**-**	-
Shareholders' equity at 31 December	**2,987**	3,264	**1,334**	2,165

NOTES TO THE FINANCIAL STATEMENTS – *for the year ended 31 December 2008*

24 Leases

Minimum amounts receivable and payable under non-cancellable leases

	Group			
	Year in which receipt or payment will occur			
2008	**Within 1 year £m**	**After 1 year but within 5 years £m**	**After 5 years £m**	**Total £m**
Operating lease obligations				
Future minimum lease payables				
Premises	22	83	215	320
Equipment	5	4	-	9
	27	**87**	**215**	**329**

	Group			
	Year in which receipt or payment will occur			
2007	Within 1 year £m	After 1 year but within 5 years £m	After 5 years £m	Total £m
Operating lease obligations				
Future minimum lease payables				
Premises	16	60	193	269
Equipment	3	4	-	7
	19	64	193	276

	Bank			
	Year in which receipt or payment will occur			
2008	**Within 1 year £m**	**After 1 year but within 5 years £m**	**After 5 years £m**	**Total £m**
Operating lease obligations				
Future minimum lease payables				
Premises	2	6	92	100
Equipment	1	1	-	2
	3	**7**	**92**	**102**

	Bank			
	Year in which receipt or payment will occur			
2007	Within 1 year £m	After 1 year but within 5 years £m	After 5 years £m	Total £m
Operating lease obligations				
Future minimum lease payables				
Premises	1	4	92	97
Equipment	1	1	-	2
	2	5	92	99

24 Leases (continued)

	Group		Bank	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Amounts recognised as income and expense				
Operating lease payables - minimum payments	18	15	3	1

25 Collateral

Securities repurchase agreements and lending transactions

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers cash or securities as collateral in accordance with normal practice Generally, the agreements require additional collateral to be provided if the value of the securities fall below a predetermined level Under standard terms for repurchase transactions in the UK, the recipient of the collateral has an unrestricted right to sell or repledge it, subject to returning equivalent securities on settlement of the transaction

The fair value (and carrying value) of securities transferred under repurchase transactions included within securities on the balance sheet were as follows

	Group		Bank	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Debt securities	**98**	21	**98**	-

All of the above securities could be sold or repledged by the holder Securities received as collateral under reverse repurchase agreements amounted to £nil (2007 £1,120m), of which none (2007 £1,120m) has been resold or repledged as collateral for the Group's own transactions

Other collateral given

	Group		Bank	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Group assets charged as security for liabilities				
Loans and advances to customers	**6,854**	7,649	-	-
Debt securities in issue	**6,693**	7,708	-	-

The amount of retained securitisation bonds pledged at 31 December 2008 was £6,836m

26 Securitisations and other asset transfers

The Group engages in securitisation transactions of its residential mortgage loans In such transactions, the assets, or interests in the assets, are transferred generally to a special purpose entity ("SPE") which then issues liabilities to third party investors

SPEs are vehicles set up for a specific, limited purpose, usually do not carry out a business or trade and typically have no employees They take a variety of legal forms – trusts, partnerships and companies – and fulfil many different functions They constitute a key element of securitisation transactions in which an SPE acquires financial assets funded by the issue of securities In the normal course of business, the Group undertakes securitisations to sell financial assets or to obtain funding

Residential mortgage securitisations – in Ireland, the Group has securitised portfolios of residential mortgages These assets have been transferred to SPEs funded by the issue of notes to third party investors These SPEs are consolidated and the securitised assets remain on the Group's balance sheet

Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets, or derecognition of the assets and the separate recognition, as assets or liabilities, of any rights and obligations created or retained in the transfer (see accounting policy number 15) All the Group's securitisations result in continued recognition of the securitised assets

26. Securitisations and other asset transfers (continued)

Continued recognition

The table below sets out the asset categories together with the carrying amounts of the assets and associated liabilities

	Group			
	2008		2007	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Residential mortgages [1]	6,854	6,693	7,649	7,708

Notes
[1] Mortgages have been transferred to special purpose vehicles, held ultimately by charitable trusts, funded principally through the issue of floating rate notes The Group has entered into arm's length fixed/floating interest rate swaps and cross-currency swaps with the securitisation vehicles and provides mortgage management and agency services to the vehicles On repayment of the financing, any further amounts generated by the mortgages will be paid to the Group

27 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 defined as the risk of loss as a result of adverse changes in risk factors including interest rates, foreign currency and equity prices together with related parameters such as market volatilities

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

(i) Trading
The Group's dealing, money-market and debt investment portfolios comprise derivative financial instruments (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 and marketable financial instruments The Group eliminates its market risk in these portfolios by entering into back-to-back positions with its ultimate parent company RBS Group

27 Risk management (continued)

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 20 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, such as the implied volatility of traded options The method of aggregation used assumes that the Income Statement of each sub-portfolio is normally distributed and that the exposures of each sub-portfolio are 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

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

	31 December 2008 £m	Maximum £m	Minimum £m	Average £m
Value-at-Risk	0 192	0 208	0 045	0 142

(ii) Non-trading

The principal market risks arising from the Group's non-trading activities are interest rate risk and currency risk Treasury activity and mismatches between the repricing of assets and liabilities in its retail and commercial banking operations account for most of the non-trading interest rate risk

Interest rate risk

The Group's portfolio of non-trading financial instruments principally comprise retail and commercial banking loans and deposits, debt securities, debt securities issued, loan capital and derivatives

27 Risk management (continued)

Non-trading interest rate risk is calculated on the basis of establishing the repricing behaviour of each asset, liability and off-balance sheet product For many products, the actual interest rate repricing characteristics differ from the contractual repricing In most cases, the repricing maturity is determined by the market interest rate that most closely fits the historical behaviour of the product interest rate For non-interest bearing current accounts, the repricing maturity is determined by the stability of the portfolio The repricing maturities used are approved by Group Treasury and the Group Asset and Liability Committee (GALCO) at least annually Key conventions are reviewed annually by GALCO Short-term exposures are measured and controlled in terms of net interest income sensitivity over 12 months to a 1% parallel movement in interest rates Risk is managed through arm's length cash transactions, bonds and derivatives, principally interest rate swaps

A static maturity gap report is produced as at the month-end, in each functional currency based on the behaviouralised repricing for each product It is Group policy to include in the gap report, non-financial assets and liabilities, mainly property, plant and equipment and the Group's capital and reserves, spread over medium and longer term maturities This report also includes hedge transactions, principally derivatives

Any residual non-trading interest rate exposures are controlled by limiting repricing mismatches in the balance sheets Potential exposures to interest rate movements in the medium to long term are measured and controlled using a version of the same VaR methodology that is used for the Group's trading portfolios but without discount factors Net accrual income exposures are measured and controlled in terms of sensitivity over time to movements in interest rates

Risk is managed within limits approved by GALCO through the execution of cash and derivative instruments Execution of the hedging is carried out by the relevant division through the Group's treasury function The residual risk position is reported to GALCO

Non-trading interest rate VaR

Non-trading interest rate VaR is split between Euro and Sterling currency balances to which separate risk limits are applied At 31 December 2008, Sterling VaR was calculated to be £220,000 (2007 £276,000) Euro VaR was calculated to be £331,000 (2007 £266,000)

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

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

27 Risk management (continued)

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 foreign subsidiaries and associated undertakings and their related currency funding The Group's policy in relation to structural positions is to match fund the structural foreign currency exposure arising from net asset value, including goodwill, in foreign subsidiaries, equity accounted investments and branches, except where doing so would materially increase the sensitivity of either the Group's or the subsidiary's regulatory capital ratios to currency movements The policy requires structural foreign exchange positions to be reviewed regularly by GALCO Foreign exchange differences arising on the translation of foreign operations are recognised directly in equity together with the effective portion of foreign exchange differences arising on hedging liabilities

The table below sets out the Group's structural currency exposures as at 31 December 2008

Functional currency of the net investment	Foreign currency net investments £m	Foreign currency liabilities hedging net investments £m	Structural foreign currency exposures £m
Euro	3,558	2,860	698

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 2008 exchange losses of £367m (2007 losses* £114m) have been charged to reserves

Currency balance sheet

2008	Sterling £m	US Dollars £m	Euro £m	Other £m	Total £m
Assets					
Cash and balances at central banks	103	-	243	-	346
Treasury bills and other eligible bills	-	-	-	-	-
Loans and advances to banks	2,820	29	2,287	21	5,157
Loans and advances to customers	12,051	309	47,098	108	59,566
Debt securities	294	-	1,234	-	1,528
Equity shares	-	-	13	-	13
Derivatives	(1,868)	25,413	(21,516)	300	2,329
Intangible assets	-		11	-	11
Property, plant and equipment	125	-	290	-	415
Prepayments, accrued income and other assets	252	-	-	-	252
Deferred taxation	19	-	49	-	68
Total assets	13,796	25,751	29,709	429	69,685
Liabilities and equity					
Deposits by banks	2,833	12,032	8,045	47	22,957
Customer accounts	6,785	4,080	13,909	17	24,791
Debt securities in issue	1,993	646	11,399	156	14,194
Derivatives	(300)	9,246	(6,926)	185	2,205
Accruals, deferred income and other liabilities	580	8	399	-	987
Retirement benefit liabilities	66	-	146	-	212
Deferred taxation	10	-	24	-	34
Subordinated liabilities	234	-	1,084	-	1,318
Shareholders' equity	2,402	-	585	-	2,987
Total liabilities and equity	14,603	26,012	28,665	405	69,685

27. Risk management (continued)

Currency balance sheet*

2007	Sterling £m	US Dollars £m	Euro £m	Other £m	Total £m
Assets					
Cash and balances at central banks	74	-	216	-	290
Treasury bills and other eligible bills	-	-	1	-	1
Loans and advances to banks	2,394	2,299	2,856	36	7,585
Loans and advances to customers	11,209	292	34,189	45	45,735
Debt securities	467	147	1,472	-	2,086
Equity shares	-	-	10	-	10
Derivatives	191	8,622	(7,725)	334	1,422
Intangible assets	32	-	494	-	526
Property, plant and equipment	106		215	-	321
Prepayments, accrued income and other assets	45	-	112	61	218
Deferred taxation	21	-	29	-	50
Total assets	14,539	11,360	31,869	476	58,244
Liabilities and equity					
Deposits by banks	1,578	7,759	282	432	10,051
Customer accounts	8,421	1,563	11,899	18	21,901
Debt securities in issue	2,871	1,706	14,326	397	19,300
Derivatives	53	-	1,512	-	1,565
Accruals, deferred income and other liabilities	561	5	298	3	867
Retirement benefit liabilities	94	-	103	-	197
Deferred taxation	12	-	25	-	37
Subordinated liabilities	268	-	794	-	1,062
Shareholders' equity	1,967	-	1,297	-	3,264
Total liabilities and equity	15,825	11,033	30,536	850	58,244

Liquidity Risk

Liquidity Risk is the risk that the Group is unable to meet its obligations to depositors and creditors when due or to honour commitments that it has given to provide credit facilities to, or to undertake transactions with, third parties

The market disruption in 2008 led to severe pressure in the wholesale funding markets and this had a major impact on the industry The wholesale market responded adversely to the failure of Lehman Brothers in September 2008 Across the industry this led to pressures accessing market funding

The Group's access to its traditional sources of liquidity was severely impacted as wholesale funding markets dried up and some customer deposit balances were withdrawn To meet the funding pressures during this period UBG used its assets as collateral to secure funding from the European Central Bank and also obtained additional funding from RBS Group As part of the UK government scheme RBS Group was able to issue debt liabilities These initiatives in conjunction with the strong retail franchise and continued access to other funding markets enabled the Group to manage funding throughout this period

The structure of the Group's balance sheet is managed to maintain substantial diversification, to minimise concentration across its various deposit sources, and to limit the reliance on total short-term wholesale sources of funds within prudent levels

During 2008 the Group's funding sources remained well diversified but the market dislocation has resulted in the Group having a greater reliance on shorter term funding because the availability of longer term funding is much reduced At the same time there has been an increased reliance on central banks facilities

27 Risk management (continued)

The following table shows cashflows payable on financial liabilities up to a period of 20 years on an undiscounted basis Liabilities are repayable after 20 years or where the counterparty has no right the principal are excluded, although any interest payable up to 20 years is reflected in the table

	Group					
2008	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Deposits by banks	13,765	7,935	1,063	901	1	-
Customer accounts	20,055	1,809	1,630	1,481	88	-
Debt securities in issue	5,620	3,112	1,186	1,105	445	742
Subordinated liabilities	21	62	167	225	860	798
	39,461	12,918	4,046	3,712	1,394	1,540

	Group					
2007	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Deposits by banks	9,585	296	11	10	5	-
Customer accounts	18,692	1,566	759	724	183	-
Debt securities in issue	8,008	2,221	4,455	4,208	1,460	-
Subordinated liabilities	23	72	202	202	1,079	(8)
	36,308	4,155	5,427	5,144	2,727	(8)

	Bank					
2008	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Deposits by banks	385	496	941	808	-	-
Customer accounts	4,301	303	213	196	57	-
Debt securities in issue	230	463	163	150	-	-
Subordinated liabilities	17	53	141	141	774	659
	4,933	1,315	1,458	1,295	831	659

	Bank					
2007	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Deposits by banks	1,816	3	-	-	-	-
Customer accounts	5,801	446	220	210	28	-
Debt securities in issue	2,310	1,047	3	3	-	-
Subordinated liabilities	19	57	161	161	859	-
	9,946	1,553	384	374	887	-

NOTES TO THE FINANCIAL STATEMENTS - *for the year ended 31 December 2008*

27 Risk management (continued)

Other contractual cash obligations

	Group					
2008	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Operating leases	7	20	47	40	80	45
Contractual obligations to purchase goods or services	3	8	1	-	-	-
	10	28	48	40	80	45

	Group					
2007	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Operating leases	5	14	33	31	61	41
Contractual obligations to purchase goods or services	-	-	-	-	-	-
	5	14	33	31	61	41

	Bank					
2008	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Operating leases	1	2	4	3	5	2
Contractual obligations to purchase goods or services	1	3	-	-	-	-
	2	5	4	3	5	2

	Bank					
2007	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Operating leases	1	1	3	2	4	3
Contractual obligations to purchase goods or services	-	-	-	-	-	-
	1	1	3	2	4	3

27 Risk management (continued)

Credit Risk

The objective of credit risk management is to enable the Group to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved risk appetite

The key principles for credit risk management as defined in the Group's Credit Risk Management Framework are set out below

- Approval of all credit exposure is granted prior to any advance or extension of credit

- An appropriate credit risk assessment of the customer and credit facilities is undertaken prior to approval of credit exposure This includes a review of, amongst other things, the purpose of the credit and sources of repayment, compliance with affordability tests, repayment history, capacity to repay, sensitivity to economic and market developments and risk-adjusted return

Credit risk models

Credit risk models are used throughout the Group to support the analytical elements of the credit risk management framework, in particular the risk assessment part of the credit approval process and ongoing monitoring as well as portfolio analysis and reporting Credit risk models used by the Group can be broadly grouped into three categories

- Probability of default ("PD") /customer credit grade – these models assess the probability that the customer will fail to make full and timely repayment of credit obligations over a one year time horizon Each customer is assigned an internal credit grade which corresponds to a probability of default There are a number of different credit grading models in use across the Group, each of which considers particular characteristics of customer types in that portfolio The credit grading models use a combination of quantitative inputs, such as recent financial performance and customer behaviour, and qualitative inputs, such as company management performance or sector outlook

- Exposure at default ("EAD") – these models estimate the expected level of utilisation of a credit facility at the time of a borrower's default The EAD will typically be higher than the current utilisation (e g in the case where further drawings are made on a revolving credit facility prior to default) but will not normally exceed the total facility limit The methodologies used in EAD modelling recognise that customers may make more use of their existing credit facilities in the run up to a default

- Loss given default ("LGD") – these models estimate the economic loss that may be suffered by the Group on a credit facility in the event of default The LGD of a facility represents the amount of debt which cannot be recovered and is typically expressed as a percentage of the EAD The Group's LGD models take into account the type of borrower, facility and any risk mitigation such as security or collateral held The LGD may also be affected by the industry sector of the borrower, the legal jurisdiction in which the borrower operates as well as general economic conditions which may impact the value of any assets held as security

Credit risk exposure measurement – these models calculate the credit risk exposure for products where the exposure is not 100% of the gross nominal amount of the credit obligation These models are most commonly used for derivative and other traded instruments where the amount of credit risk exposure may be dependent on external variables such as interest rates or foreign exchange rates

27 Risk management (continued)

Credit risk assets
Credit risk assets are an internal risk measure of the Group's exposure to customers

Policies and risk appetite
Policies provide a clear framework for the assessment, approval, monitoring and management of credit risk where risk appetite sets the tolerance of loss Limits are used to manage concentration risk by single name, sector and country

Stress Testing
Stress testing forms an integral part of portfolio analysis, providing a measure of potential vulnerability to exceptional but plausible economic and geopolitical events which assists management in the identification of risk not otherwise apparent in more benign circumstances Stress testing informs risk appetite decisions

Credit risk asset quality
Internal reporting and oversight of risk assets is principally differentiated by credit ratings Internal ratings are used to assess the credit quality of borrowers Customers are assigned credit ratings, based on various credit grading models that reflect the probability of default All credit ratings across the Group map to a Group level asset quality scale

Provision analysis
The Group's consumer portfolios, which consist of small value, high volume credits, have highly efficient, largely automated processes for identifying problem credits and short timescales, before resolution or adoption of various recovery methods

Corporate portfolios consist of higher value, lower volume credits, which tend to be structured to meet individual customer requirements

Early and active management of problem exposures ensures that credit losses are minimised Specialised units are used for different customer types to ensure that appropriate risk mitigation is taken in a timely manner

Portfolio provisions are reassessed regularly as part of the Group's ongoing monitoring process

Provisions methodology
Provisions for impairment losses are assessed under three categories as described below

- Individually assessed provisions are the provisions required for individually significant impaired assets which are assessed on a case-by-case basis, taking into account the financial condition of the counterparty and any guarantor This incorporates an estimate of the discounted value of any recoveries and realisation of security or collateral The asset continues to be assessed on an individual basis until it is repaid in full, transferred to the performing portfolio or written-off

- Collectively assessed provisions are the provisions on impaired credits below an agreed threshold which are assessed on a portfolio basis, to reflect the homogeneous nature of the assets, such as credit cards or personal loans The provision is determined from a quantitative review of the relevant portfolio, taking account of the level of arrears, security and average loss experience over the recovery period

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

Operational risk
Operational risks are inherent in the Group's business Operational risk losses occur as the result of fraud, human error, missing or inadequately designed processes, failed systems, damage to physical assets, improper behaviour or from external events The key processes include risk and control assessment, scenario analysis, loss data collection, new product approval process, key risk indicators, notifiable events process, and the self certification process The implementation of this process is facilitated and overseen by operational risk teams, with internal audit providing independent evaluation of the control framework

NOTES TO THE FINANCIAL STATEMENTS - *for the year ended 31 December 2008*

28 Capital resources

The following table analyses the Group's regulatory capital resources at 31 December

Composition of regulatory capital	**31 Dec 2008 Basel II Actual £m**	01 Jan 08 Basel II Actual £m	31 Dec 07 Basel I Actual £m
Tier 1 capital			
Ordinary Shareholder's equity	**2,426**	2,770	2,770
Minority interests	**562**	494	494
Adjustment for			
Goodwill capitalised and intangible assets per Balance Sheet	**(11)**	(526)	(526)
Other Regulatory adjustments	**48**	53	53
Tier 1 capital	**3,025**	2,791	2,791
Tier 1 Regulatory Deductions	**(178)**	(102)	-
Total tier 1 capital	**2,847**	2,689	2,791
Tier 2 capital			
Reserves arising from revaluation of property and unrealised gains on available for sale equities	**57**	47	47
Latent impairment allowances	**3**	3	232
Perpetual subordinated debt	**115**	88	88
Term subordinated debt	**1,161**	943	943
Total qualifying tier 2 capital before Deductions	**1,336**	1,081	1,310
Tier 2 Regulatory Deductions	**(401)**	(192)	(119)
Total tier 2 Capital	**935**	889	1,191
Total regulatory capital	**3,782**	3,578	3,982
Risk weighted assets	**29,631**	29,340	34,328

Capital ratios	**2008 %**	2008 %	2007 %
Tier 1 ratio	**9 61**	9 17	8 13
Total capital ratio	**12 76**	12 20	11 60

Capital Resources
In the management of capital resources, the Group is governed by RBS Group's policy which is to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business

Basel I Transitional Floor
Ulster Bank Group commenced calculating capital requirements under the Basel II capital framework from 1st January 2008 The Group manages its businesses and reports capital requirements on a Basel II basis During the transition period for the adoption of Basel II, banks' capital requirements may not fall below a transitional floor In 2008 this floor was 90% of adjusted Basel I capital requirements As at 31st December 2008, the Group had additional capital requirements under the transitional floor rules of £171m The Group's total capital resources of £3,782m exceeded its capital requirements taking into account the transitional floor by £1,240m On 1st January 2009, the scaling factor reduced to 80% of adjusted Basel I capital requirements

29. Memorandum items

Contingent liabilities and commitments

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

	Group		Bank	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Contingent liabilities				
Guarantees and assets pledged as collateral security	**225**	408	**313**	966
Other contingent liabilities	**523**	282	**179**	79
	748	690	**492**	1,045
Commitments				
Documentary credits and other short-term trade related transactions	**58**	73	**2**	41
- less than one year	**6,010**	7,188	**1,932**	2,138
- one year and over	**2,217**	1,395	**119**	116
	8,285	8,656	**2,053**	2,295

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

Contingent liabilities

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

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

Commitments

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

29 Memorandum items (continued)

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

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

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

Contingent liabilities and commitments incurred by the Bank on behalf of subsidiary undertakings, included in the above, amounted to £259m (2007 £905m) for which there are corresponding obligations by counterparties

The Bank has given guarantees under Section 17 of the Companies (Amendment) Act, 1986 of the Republic of Ireland in respect of

Cherbou Property Limited
Cuvia Finance Limited
DA Property Limited
Danroc
Easycash (Ireland) Limited
First Active Franchising Limited
First Active Holdings International Limited
First Active Holdings Limited
First Active Insurances Services Limited
First Active Investments No 1 Limited
First Active Investments No 2 Limited
First Active Investments No 3 Limited
First Active Investments No 4 Limited
First Active Investments No 5 Limited
First Active Nominees Limited
First Active Property Investments Limited
First Active Treasury Services
GMM Limited
Inland Property Development Limited
Larroquette
Meritvale Limited
Michael Property Limited
Norgay Property Limited
Sanlar
Sondey
UIF Finance Company
Ulster Bank (Ireland) Holdings
Ulster Bank Commercial Services Limited
Ulster Bank Dublin Trust Company
Ulster Bank Group Treasury Limited
Ulster Bank Holdings (ROI) Limited
Ulster Bank Investment Funds Limited
Ulster Bank Wealth Nominees Limited (formerly FNBS Finance International Limited)
Ulster International Finance
Walter Property Limited

Litigation
The Group is 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

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

30 Net cash inflow from operating activities

	Group		Bank	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Operating (loss)/profit before tax	**(694)**	487	**(415)**	750
(Increase)/decrease in prepayments and accrued income	**(25)**	(6)	**(9)**	2
Interest on subordinated liabilities	**63**	35	**50**	23
Increase/(decrease) in accruals and deferred income	**14**	125	**(6)**	16
Loans and advances written off net of recoveries	**395**	64	**130**	12
Profit on sale of tangible assets	**-**	(24)	**-**	(2)
Loss/(profit) on sale of securities	**5**	(8)	**-**	-
Charge for pensions	**52**	37	**19**	14
Cash contribution to defined benefit pension schemes	**(71)**	(35)	**(28)**	(14)
Depreciation and amortisation of fixed assets	**52**	62	**20**	27
Amortisation and provisions on debt and equity securities	**36**	-	**-**	-
Exchange difference	**476**	5	**(35)**	25
Other non-cash items	**(458)**	(313)	**(58)**	(180)
Net cash flow from trading activities	**(155)**	429	**(332)**	673
(Increase)/decrease in loans and advances to banks and customers	**(14,638)**	(10,057)	**613**	(1,244)
(Increase)/decrease in securities	**(607)**	765	**(577)**	629
Decrease/(increase) in other assets	**14**	(27)	**(16)**	(77)
(Increase)/decrease in derivative assets	**(907)**	(515)	**42**	(57)
(Increase)/decrease in deferred tax assets	**(18)**	(21)	**(1)**	3
Changes in operating assets	**(16,156)**	(9,855)	**61**	(746)
Increase/(decrease) in deposits by banks and customers	**15,768**	3,984	**1,825**	(1,255)
(Decrease)/increase in debt securities in issue	**(5,106)**	7,296	**(2,384)**	887
Increase/(decrease) in other liabilities	**106**	(22)	**83**	44
Increase in derivative liabilities	**640**	694	**16**	19
(Decrease)/increase in deferred tax liabilities	**(3)**	23	**(1)**	7
Changes in operating liabilities	**11,405**	11,975	**(461)**	(298)
Total taxes (paid)	**(62)**	(192)	**(38)**	(70)
Net cash (outflow)/inflow from operating activities	**(4,968)**	2,357	**(770)**	(441)

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - *for the year ended 31 December 2008*

31 Interest received and paid

	Group		Bank	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Interest received	**3,637**	3,286	**823**	1,105
Interest paid	**(2,526)**	(1,214)	**(651)**	(656)
	1,111	2,072	**172**	449

32 Analysis of changes in financing during the year

	Group				Bank			
	Share capital and share premium		Subordinated liabilities		Share capital and share premium		Subordinated liabilities	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
At 1 January	**1,619**	1,619	**1,062**	489	**1,619**	1,619	**860**	342
Net cash inflows from financing	**-**	-	**-**	562	**-**	-	**-**	511
Currency translation and other adjustments	**-**	-	**256**	11	**-**	-	**217**	7
At 31 December	**1,619**	1,619	**1,318**	1,062	**1,619**	1,619	**1,077**	860

33 Analysis of cash and cash equivalents

	Group	
	2008	2007
	£m	£m
At 1 January	**6,770**	4,195
Net cash (outflow)/inflow	**(3,775)**	2,305
Effect of exchange rate changes on cash and cash equivalents	**449**	270
At 31 December	**3,444**	6,770
Comprising		
Cash and balances at central banks	**346**	290
Loans and advances to banks & debt securities	**3,098**	6,480

	Bank	
	2008	2007
	£m	£m
At 1 January	**5,832**	6,843
Net cash outflow	**(334)**	(1,156)
Effect of exchange rate changes on cash and cash equivalents	**25**	145
At 31 December	**5,523**	5,832
Comprising		
Cash and balances at central banks	**103**	74
Loans and advances to banks & debt securities	**5,420**	5,758

34 Segmental analysis

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

Both Retail Markets and Corporate Markets are supported by manufacturing, finance, human resources and head office divisions

34 Segmental analysis (continued)

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

Geographical segments	United Kingdom £m	Republic of Ireland £m	Total £m
Total Income			
2008	**353**	**684**	**1,037**
2007	452	721	1,173
Group (loss)/profit on ordinary activities before tax			
2008	**(235)**	**(459)**	**(694)**
2007	163	324	487
Net assets			
2008	**1,334**	**1,653**	**2,987**
2007	2,108	1,156	3,264
Total assets			
2008	**11,273**	**58,412**	**69,685**
2007	17,839	40,405	58,244
Average assets			
2008	**15,685**	**53,239**	**68,924**
2007	16,949	34,910	51,859

Class of business	Retail Markets £m	Corporate Markets £m	Support Units £m	Total £m
Total Income				
2008	**416**	**752**	**(131)**	**1,037**
2007	409	678	86	1,173
Group (loss)/profit on ordinary activities before tax				
2008	**167**	**258**	**(1,119)**	**(694)**
2007	220	493	(226)	487
Net assets				
2008	**-**	**-**	**2,987**	**2,987**
2007	-	-	3,264	3,264
Total assets				
2008	**27,546**	**40,598**	**1,541**	**69,685**
2007	20,117	35,595	2,532	58,244
Average assets				
2008	**27,245**	**40,155**	**1,524**	**68,924**
2007	18,388	31,231	2,240	51,859

35 Transactions with Directors, officers and others

(a) At 31 December 2008 the amounts outstanding in relation to 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, 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 £000
Loans	4	3	20,851
Quasi-loans	5	4	134

(b) There were no amounts outstanding at 31 December 2008 (2007 £nil) in respect of loans made to Directors by subsidiary undertakings which were not authorised institutions

(c) The aggregate amounts outstanding at 31 December 2008 under transactions, arrangements and agreements made by authorised institutions within the Group for persons who are, or were, Officers of the Bank during the year relating to loans, quasi-loans and credit transactions were

	Number of Officers	Amount £000
Loans	5	2,560
Quasi-loans	4	106

36 Related parties

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

(a) *Directors and key managers*

The aggregate transactions between the Bank 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 £000
Transactions during the year				
Loans made during the year				
- at a commercial rate	-	2	-	402
- at a preferential rate	-	-	-	-
Balances outstanding at the end of the year				
Loans				
- at a preferential rate	3	4	-	1,877
- at a commercial rate	6	4	5	21,775

36 Related parties (continued)

(b) Related party transactions

Included in the Group's balance sheet are the following balances with related parties at the year end

Assets	2008 £m	2007 £m
Loans and advances to banks		
Parent	2,377	3,755
Other related parties, including fellow subsidiaries	165	20
	2,542	3,775
Loans and advances to customers		
Parent	-	27
Key management	3	2
Other related parties, including fellow subsidiaries	2	757
	5	786
Derivatives		
Parent	1,572	354
	1,572	354
Total assets	4,119	4,915
Liabilities		
Deposits by banks		
Parent	16,015	9,342
Other related parties, including fellow subsidiaries	674	234
	16,689	9,576
Deposits by customers		
Other related parties, including fellow subsidiaries	450	149
	450	149
Derivatives		
Parent	1,890	875
	1,890	875
Total liabilities	19,029	10,600

37 Ultimate Parent Company

The Company's immediate parent company is National Westminster Bank Plc

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

The smallest subgroup into which the Company is consolidated has as its parent company National Westminster Bank Plc, a company incorporated in Britain Copies of the consolidated financial statements for this subgroup can be obtained from Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ

On 1 December 2008, the UK Government through HM Treasury acquired a controlling shareholding in The Royal Bank of Scotland Group plc The UK Government has announced that its shareholdings in banks will be managed by UK Financial Investments Limited a company wholly-owned by the UK Government

38 Going concern

The financial statements have been prepared on a going concern basis as disclosed in the statement on going concern included in the Report of the Directors

39. Post balance sheet events

In January 2009, Ulster Bank announced details of a restructuring programme that will see the merger of the operations of Ulster Bank Ireland Limited and First Active plc in the Republic of Ireland, as well as a series of cost management initiatives across the Ulster Bank Group This action is being taken to further strengthen the Ulster Bank Group franchise by positioning it to best deal with the prevailing local and global market conditions

DIRECTORS AND EXECUTIVES

Chairman

Sean Dorgan (57)

was appointed deputy Chairman in July 2008 and subsequently Chairman in September 2008 He also serves as Chairman of Tesco Ireland and of the governing board of Dublin Institute of Technology He is a board member of Short Bros plc, FBD Holdings plc and Fineos Corporation Ltd Previously from, 1999 - 2007, he was Chief Executive of IDA Ireland, one of the world's leading inward investment agencies He has also been Secretary General of the government departments responsible for industry, commerce, tourism and trade, and Chief Executive of the Institute of Chartered Accountants in Ireland

EXECUTIVE DIRECTORS

Group Chief Executive

Cormac McCarthy (46)

served as Chief Executive of First Active from 2000 (having previously held the positions of Head of Finance and Chief Financial Officer) until his appointment as Chief Executive of the *enlarged Ulster Bank Group Prior to joining* First Active, he held a number of senior positions with Woodchester Investments plc He holds a Bachelor of Commerce Degree from University College Dublin and qualified as a Chartered Accountant with KPMG in Dublin

Senan Murphy (40)

was appointed Group Finance Director in February 2008 He joined Ulster Bank Group from Airtricity, having been its Chief Financial Officer since April 2003 Prior to that he worked internationally with GE Capital for eight years, where he held a variety of leadership roles in finance He has a Bachelor of Commerce Degree from University College Dublin and qualified as a Chartered Accountant

Michael Bamber (47)

was appointed to his current position as Chief Executive Retail Markets Division in December 2002 He joined the Royal Bank of Scotland plc in 1977 and was formerly Regional Managing Director, NatWest Retail Midlands and Wales Prior to this, he held senior roles in RBS Retail Network and RBS Corporate Banking

Robert Gallagher (47)

was appointed Chief Executive of Corporate Markets Division in August 2005 He was formerly Head of Corporate Banking International at AIB Group Prior to this, he worked with Citibank Australia Limited and KPMG He holds a Bachelor of Science Degree and is a Chartered Accountant

NON-EXECUTIVE DIRECTORS

Miller McLean FCIBS, FII (59)

was appointed Group Secretary of the Royal Bank of Scotland Group plc in August 1994 and General Counsel in October 2003 He is a Trustee of the Industry and Parliament Trust, Non-Executive Chairman of The Whitehall and Industry Group and a former Director of the Scottish Parliament and Business Exchange He is President of the Chartered Institute of Bankers in Scotland

Trevor Bowen (59)

joined Ulster Bank Board in 2004 He had been a First Active director since 2003 A chartered accountant, he is a Partner in Principle Management and holds a number of other non-executive directorships including Ardmore Studios Ltd, The Point Exhibition Company Ltd and Spencer Dock Development Company Ltd

DIRECTORS AND EXECUTIVES (continued)

Professor Niamh Brennan (54)

joined Ulster Bank Board in 2001 She is a Chartered Accountant, Chartered Director, and Michael MacCormac Professor of Management at University College Dublin (UCD) She is Academic Director of the Centre for Corporate Governance at UCD She is a non-Executive Director of the Health Services Executive, and is a former non-Executive Director of Lifetime Assurance Company Ltd, of Coillte Teoranta, the State Forestry Company and of Co-Operation Ireland

Eileen Gleeson (48)

joined Ulster Bank Board in 2004 She joined First Active Board in 2003 She is Chair of communications company Weber Shandwick Ireland She is a non-Executive Director of the Institute of Directors in Ireland, Sustainable Energy Ireland, UNICEF Ireland and the Coombe Women and Infants Hospital She is a former Special Adviser to the President of Ireland, Mary McAleese

Lady Brenda McLaughlin CBE (61)

is Chair of Civil Service Commission for Northern Ireland and a Member of the Public Service Commission and of the Board of Directors of the Ulster Orchestra Society Recently retired Senior Pro-Chancellor of Queen's University Belfast and former Chair of South and East Belfast HSS Trust she is also a former Non-Executive Director of the Northern Ireland Office Dept Board and former Chair of Opportunity Now N I

Christopher Mills (61)

recently retired as Group Chief Executive Officer of Ulster Carpet Mills where he played a leadership role since 1988 He began his career with Esso Petroleum, spending 18 years in a variety of management positions He has been President of the Northern Ireland Chamber of Commerce, Chairman of Business in the Community and President of the European Carpet Manufacturers Association

Dr Philip Nolan (55)

was educated at Queen's University Belfast where he graduated with a PhD in geology Beginning his career as a Geology Lecturer, he joined BP as a Geologist in 1981 He spent 15 years with the company before joining British Gas (BG) in 1996 where he subsequently became Chief Executive of Lattice Group, which de-merged from BG in 1999 He was CEO at Eircom Group from 2002 to 2006 He currently is Chairman of the Irish Management Institute of Infinis Ltd and of Sepura plc He is a non-executive director of De La Rue and Providence Resources

Ian Webb (61)

is Chairman of John Hogg and Company, a privately owned family firm, which operates a range of businesses including textiles, travel, fuel oils and property He joined the company in 1970 Mr Webb is Chairman of the Belfast Harbour Users Group and a Partner of Killylane Properties

GROUP AUDIT COMMITTEE

Trevor Bowen, Chairman
Professor Niamh Brennan
Miller McLean

DIRECTORS AND EXECUTIVES (continued)

DIVISIONAL HEADS

M Bamber	Retail Markets
R Bergin	Communications and Corporate Services
R Gallagher	Corporate Markets
R Gammell	Group Human Resources
J McDonnell	Group Risk Management
S Murphy	Group Finance
E Graham	Manufacturing

COMPANY SECRETARY

J Collister

HEAD OFFICE

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