

ULSTER BANK GROUP
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2009

ULSTER BANK GROUP

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ULSTER BANK GROUP

DIRECTORS AND OTHER INFORMATION

Directors

M Bamber
T Bowen
S Dorgan (Chair)
R Gallagher
E Gleeson
N Hamilton
C M Mills
C McCarthy
M McLean
S Murphy
P Nolan
G Pell
I Webb

Registered Office

11-16 Donegall Square East
Belfast
BT1 5UB

Secretaries

R Bergin
M Mullen

Auditors

Deloitte & Touche
Chartered Accountants & Registered Auditors
Deloitte and Touche House
Earlsfort Terrace
Dublin 2

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") present their report, together with audited financial statements of the Bank and its subsidiaries (together "the Group") for the year ended 31 December 2009. The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

ACTIVITIES AND BUSINESS REVIEW

Principal Activities

Ulster Bank Group is a leading player in the Irish banking market providing a comprehensive range of financial services through its extensive branch and business centre network across the island of Ireland. Serving personal customers, Ulster Bank Retail Markets provides branch banking, financial planning 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.

Business Review

Ulster Bank Group's performance continues to be affected by economic conditions across the island of Ireland. In 2009 operating losses before tax were £1,368m compared to losses before tax in 2008 of £694m. Irish lenders continue to face difficult credit conditions and the Group has experienced further increases in the impairment charge for the loan portfolio.

The Group has responded to the challenging economic environment by developing and enhancing the product offering to support both existing and new customers. These include the Momentum mortgage and Co-ownership Scheme in Northern Ireland and the Secure Step mortgage in the Republic of Ireland. In addition to normal lending, the Group has made £1 billion of funding available across the island of Ireland, including £250 million of SME funding in Northern Ireland. Further support has been provided to customers through the launch of the "Money sense for Adults" and "Flex" propositions, as well as the "Small Business Can" website. Although customer deposits fell by 10% in 2009, reflecting an increasingly competitive Irish deposit market and reductions in wholesale funding during Q1, during the second half of the year the market has stabilised and the Bank has recorded strong growth in customer balances resulting in an improved funding profile.

During the year the Group implemented a restructuring programme which focused on efficiency and cost reduction initiatives. The full merger of First Active and Ulster Bank businesses is now complete with the Group's branch network now fully under the Ulster Bank brand. These actions position the Group well for further efficiency improvements in 2010.

Financial performance

The Group's financial performance is presented in the Consolidated Income Statement on page 10.

Net interest income at £1,008m increased over 2008 levels mainly as a result of currency movements but decreased 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 increased to £221m from £111m in spite of reduced activity levels in the Financial Planning and Wealth management businesses. This improvement was as a result of lower volatility on interest rate hedges and a positive foreign exchange effect.

Excluding restructuring costs, operating expenses decreased by 9% mainly as a result of the efficiency programme and restructuring activities completed during the year.

Loan impairment losses have increased to £1,905m from £414m in 2008. This reflects the continued deterioration in the Irish economic environment and resultant impact on credit risk metrics, particularly in property-related lending.

At the end of the year total assets of the Group were £61,751m (2008: £69,685m).

ULSTER BANK GROUP

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 15 to 25.

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 continually 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 25 to the financial statements.

Outlook

The Directors remain confident that the Bank is well positioned to meet the challenges of the external market and customer environment. They consider the Group to be in a stable financial position and confirm that it has adequate resources to continue in business for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

Share Capital

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

Directors and Secretaries

The names of the current members of the Board of Directors are shown on page 1 and brief biographical details are shown on pages 78 to 80. From 1 January 2009 to date the following changes have taken place:

	<u>Appointed</u>	<u>Resigned</u>
<u>Directors</u>		
N Brennan		7 June 2009
N Hamilton	17 April 2009	
B McLaughlin		7 June 2009
G Pell	30 June 2009	
<u>Secretary</u>		
D Peacock		30 September 2009
R Bergin	30 March 2009	
J Collister		11 February 2010

In accordance with the Articles of Association of the Bank, the Directors are not required to retire by rotation.

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").

Interests in Directors and Secretaries

At 31 December 2009 the Directors and Secretaries of the Bank had no beneficial interests in the shares of RBS Group companies other than that disclosed in Note 33 to the financial statements.

Employees

The average number of persons employed by the Group was 6,164 split by Retail Markets 2,639 and Corporate Markets/Others 3,525.

ULSTER BANK GROUP

REPORT OF THE DIRECTORS (continued)

Staff Involvement

The Group values the input of its employees and actively seeks opportunities to engage with staff at all levels. The annual survey of employee opinions known as Yourfeedback provides 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.

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.

Safety, health and wellbeing

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

During 2009, the Group continued to focus on compliance, governance and managing risks across all jurisdictions. Opportunities to improve the efficiency and effectiveness of safety, health and wellbeing management policies and services were sought and maximised. Enhanced mechanisms were implemented to support the health and wellbeing of employees, particularly given the impact of the economic environment which has affected many of our people.

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 2009, 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 (2008: 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 £780,693 (2008: £809,514).

ULSTER BANK GROUP

REPORT OF THE DIRECTORS (continued)

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 25 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 receive support from 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 have a reasonable expectation 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 financial statements.

Dividends

The Directors do not recommend the payment of a dividend (2008: nil).

Financial Years of Subsidiary Undertakings

All except one of the Group's subsidiary companies have a year financial year ending on 31 December. The most recent audited accounts prepared for the subsidiary falling outside the Group financial year end, was for the year ended 30 November 2008.

Post Balance Sheet Events

On 15 February 2010, First Active plc surrendered its banking licence as part of the final phase of the merger of First Active plc and Ulster Bank Ireland Limited. The merger also involved the transfer of the majority of First Active plc's assets and liabilities to Ulster Bank Ireland Limited with no change in terms of conditions of the Banks' borrowers and investors.

On 29 January 2010, the Bank received a capital contribution of £502m from its parent, National Westminster Bank plc.

ULSTER BANK GROUP

REPORT OF THE DIRECTORS (continued)

Disclosure to Auditors

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

- (a) in so far as each Director is aware, there is no relevant audit information of which the Bank's auditor is unaware; and
- (b) each Director has taken all steps he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditors

On 23 June 2009, Deloitte & Touche LLP resigned as Auditors of the Company. Deloitte & Touche, Dublin, were appointed in their place and have indicated their willingness to continue in office.

By order of the Board:

R Bergin
Secretary

11-16 Donegall Square East
Belfast
BT1 5UB

24 February 2010

ULSTER BANK GROUP

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 Act 2006. 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.

R Bergin
Secretary

11-16 Donegall Square East
Belfast
BT1 5UB

24 February 2010

ULSTER BANK GROUP

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 2009 which comprise the Accounting Policies, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Bank Balance Sheets, the Consolidated and Bank Cash Flow Statements and the related Notes 1 to 36. 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 the Companies Act 2006. 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 Act 2006. 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.

ULSTER BANK GROUP

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 2009 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 Act 2006, of the state of the Bank's affairs as at 31 December 2009;
- the financial statements have been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report is consistent with the financial statements.

Martin Reilly (Senior Statutory Auditor)

For an on behalf of Deloitte & Touche
Chartered Accountants and Registered Auditors
Dublin
5 March 2010

ULSTER BANK GROUP

CONSOLIDATED INCOME STATEMENT for the year ended 31 December 2009

	Note	2009 £m	2008 £m
Interest receivable		1,973	3,647
Interest payable		(965)	(2,721)
Net interest income	1	1,008	926
Fees and commission receivable		193	236
Fees and commission payable		(26)	(23)
Income from trading activities		(3)	(148)
Other operating income		57	46
Non interest income	2	221	111
Total income		1,229	1,037
Operating expenses	3	(681)	(660)
Operating profit before impairment losses		548	377
Impairment loss on loans	11	(1,905)	(414)
Impairment on intangibles	15	(11)	(657)
Operating loss before tax		(1,368)	(694)
Tax	6	193	5
Loss for the year		(1,175)	(689)
Profit/(loss) attributable to:			
Minority interests		(1)	45
Equity preference shareholders	7	(4)	60
Ordinary shareholders		(1,170)	(794)
		(1,175)	(689)

The financial statements were approved by the Board of Directors on 24 February 2010 and signed on its behalf by:

Sean Dorgan
Chairman

Cormac McCarthy
Group Chief Executive

Senan Murphy
Chief Operating Officer and
Finance Director

ULSTER BANK GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *for the year ended 31 December 2009*

	Group 2009 £m	2008 £m
Loss after tax for the year	(1,175)	(689)
Other comprehensive income:		
Fair value gains on available-for-sale financial assets	19	4
Cash flow hedges	(5)	(1)
Exchange differences on translation of foreign operations	(179)	632
Dividends paid	-	(87)
Equity withdrawn	-	(72)
Actuarial gains/(losses) on defined benefit plans and other movements	41	(20)
Other comprehensive income before tax	(124)	456
Tax	(5)	3
Other comprehensive income after tax	(129)	459
Total comprehensive income for the year	(1,304)	(230)
Attributable to:		
Minority interests	(40)	68
Ordinary shareholders	(1,264)	(298)
	(1,304)	(230)

ULSTER BANK GROUP

BALANCE SHEETS as at 31 December 2009

	Note	Group		Bank	
		2009 £m	2008 £m	2009 £m	2008 £m
Assets					
Cash and balances at central banks	9	860	346	599	103
Loans and advances to banks	9	5,091	5,157	4,811	6,389
Loans and advances to customers	9	52,843	59,566	8,011	8,132
Debt securities subject to repurchase agreements		72	98	72	98
Other debt securities		840	1,430	183	321
Debt securities	9,12	912	1,528	255	419
Equity shares	9,13	2	13	-	-
Investments in Group undertakings	9,14	-	-	1,365	1,333
Derivatives	9,17	1,203	2,329	30	47
Intangible assets	9,15	-	11	-	-
Property, plant and equipment	9,16	487	415	110	125
Prepayments, accrued income and other assets	9,18	173	252	88	120
Deferred taxation	9,20	180	68	10	38
Total assets		61,751	69,685	15,279	16,706
Liabilities					
Deposits by banks	9	20,446	22,957	4,554	7,565
Customer accounts	9	22,599	24,791	6,474	4,974
Debt securities in issue	9	9,866	14,194	521	955
Derivatives	9,17	1,574	2,205	29	69
Accruals, deferred income and other liabilities	9,19	1,267	987	815	616
Retirement benefit liabilities	4,9	53	212	27	101
Deferred taxation	9,20	16	34	13	15
Subordinated liabilities	9,21	1,243	1,318	1,010	1,077
Total liabilities		57,064	66,698	13,443	15,372
Equity					
Minority interests		522	562	-	-
Shareholders' equity:					
Called up share capital	22	1,505	712	1,505	712
Reserves		2,660	1,713	331	622
Total equity		4,687	2,987	1,836	1,334
Total liabilities and equity		61,751	69,685	15,279	16,706

The financial statements were approved by the Board of Directors on 24 February 2010 and signed on its behalf by:

Sean Dorgan
Chairman

Cormac McCarthy
Group Chief Executive

Senan Murphy
Chief Operating Officer and
Finance Director

ULSTER BANK GROUP

STATEMENTS OF CHANGES IN EQUITY for the year ended 31 December 2009

	Group		Bank	
	2009 £m	2008 £m	2009 £m	2008 £m
Called up share capital				
At 1 January	712	712	712	712
Shares issued during the year	793	-	793	-
Called up share capital as at 31 December	1,505	712	1,505	712
Share premium account				
At 1 January	907	949	907	949
Currency translation adjustments and other adjustments	-	(42)	-	(42)
At 31 December	907	907	907	907
Available-for-sale reserve				
At 1 January	(12)	(19)	(19)	(3)
Unrealised gains/(losses) in the year	19	4	24	(23)
Realised (losses) in the year	1	-	-	-
Exchange (losses) in the year	(1)	-	-	-
Taxation	(6)	3	(7)	7
At 31 December	1	(12)	(2)	(19)
Cash flow hedging reserve				
At 1 January	6	7	-	-
Unrealised (losses) in the year	-	(3)	-	-
(Losses) recycled on terminated hedges	(5)	-	-	-
Exchange gains	-	2	-	-
Taxation	1	-	-	-
At 31 December	2	6	-	-
Foreign exchange reserve				
At 1 January	521	11	(260)	35
Retranslation of net assets	(140)	510	-	(295)
At 31 December	381	521	(260)	(260)
Retained earnings				
At 1 January	291	1,105	(6)	467
Actuarial gains and other movements	41	(20)	-	(1)
(Loss)/profit attributable to ordinary shareholders	(1,170)	(794)	(2,519)	(472)
Profit attributable to equity preference shareholders	(4)	60	-	60
Equity preference dividends paid	-	(60)	-	(60)
At 31 December	(842)	291	(2,525)	(6)
Capital contribution				
At 1 January	-	-	-	-
Capital contribution	2,211	-	2,211	-
At 31 December	2,211	-	2,211	-
Shareholders' equity at 31 December	4,165	2,425	1,836	1,334
Minority interests				
At 1 January	562	494	-	-
Currency translation adjustments and other movements	(39)	122	-	-
Loss attributable to minority interests	(1)	45	-	-
Dividend paid	-	(27)	-	-
Equity withdrawn	-	(72)	-	-
At 31 December	522	562	-	-
Total equity at 31 December	4,687	2,987	1,836	1,334

ULSTER BANK GROUP

CASH FLOW STATEMENTS for the year ended 31 December 2009

	Note	Group		Bank	
		2009 £m	2008 £m	2009 £m	2008 £m
Operating activities					
Operating loss before tax		(1,368)	(694)	(2,583)	(415)
Adjustments for:					
Depreciation and amortisation		38	52	12	20
Impairment of intangible assets		11	657	-	23
Interest on subordinated liabilities		38	63	23	50
Charge for defined benefit pension schemes		(118)	52	(54)	19
Elimination of foreign exchange differences		(163)	476	(51)	(35)
Losses on loans and advances written off net of recoveries		1,872	395	462	130
Impairment of investments in Group undertakings		-	-	2,402	418
Other non-cash items		366	(428)	246	(73)
Net cash flows from trading activities	28	676	573	457	137
Changes in operating assets and liabilities		(3,548)	(4,751)	(2,653)	(400)
Net cash flows from operating activities before tax		(2,872)	(4,178)	(2,196)	(263)
Income taxes received/(paid)		6	(62)	8	(38)
Cash contribution to defined benefit pension schemes		(68)	(71)	(29)	(28)
Net cash flows from operating activities	28	(2,934)	(4,311)	(2,217)	(329)
Investing activities					
Sale and maturity of securities		581	833	185	362
Purchase of securities		-	(16)	-	-
Sale of property, plant and equipment		-	1	-	-
Purchase of property, plant and equipment		(61)	(60)	(6)	(21)
Net investment in business interests and intangible assets		-	-	-	(236)
Investment in subsidiary undertakings		-	-	(2,434)	-
Net cash flows from investing activities		520	758	(2,255)	105
Financing activities					
Issue of ordinary shares		793	-	793	-
Capital contribution		2,211	-	2,211	-
Issue of subordinated liabilities		-	-	-	-
Net equity minority interest acquired/(withdrawn)		-	(72)	-	-
Repayment of subordinated liabilities		-	-	-	-
Dividends paid		4	(87)	-	(60)
Interest on subordinated liabilities		(38)	(63)	(23)	(50)
Net cash flows from financing activities		2,970	(222)	2,981	(110)
Effect of exchange rate changes on cash and cash equivalents		(195)	449	(192)	25
Net increase/(decrease) in cash and cash equivalents		361	(3,326)	(1,683)	(309)
Cash and cash equivalents 1 January		3,444	6,770	5,523	5,832
Cash and cash equivalents 31 December	31	3,805	3,444	3,840	5,523

ULSTER BANK GROUP

ACCOUNTING POLICIES

1. Presentation of financial statements

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 Banks' financial statements are presented in accordance with the Companies Act 2006.

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.

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.

2. 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 financial statements at their fair value. Any excess of the cost (the fair value of assets given, liabilities incurred or assumed and equity instruments issued by the Group plus any directly attributable costs) of an acquisition over the fair value of the net assets acquired is recognised as goodwill. The interest of 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 financial statements are prepared using uniform accounting policies.

3. 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.

ULSTER BANK GROUP

ACCOUNTING POLICIES (continued)

3. 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.

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.

4. Pensions and other post-retirement benefits

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

For defined benefit schemes, scheme liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate that reflects the current rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities. Scheme assets are measured at their fair value. Cumulative actuarial gains or losses that exceed 10 per cent of the greater of the assets or the obligations of the scheme are amortised to the income statement 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.

ULSTER BANK GROUP

ACCOUNTING POLICIES (continued)

5. 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	6 to 10 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 is 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.

6. 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	10 to 15 years
Computer equipment	up to 5 years
Other equipment	4 to 15 years

7. 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.

ULSTER BANK GROUP

ACCOUNTING POLICIES (continued)

8. 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.

9. 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 6).

10. 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.

11. 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 3) 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.

ULSTER BANK GROUP

ACCOUNTING POLICIES (continued)

11. Financial assets (continued)

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 3) 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 3). 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.

12. 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.

ULSTER BANK GROUP

ACCOUNTING POLICIES (continued)

12. Impairment of financial assets (continued)

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.

13. 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 3).

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.

ULSTER BANK GROUP

ACCOUNTING POLICIES (continued)

14. 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.

15. 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.

16. 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.

17. 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.

18. 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.

ULSTER BANK GROUP

ACCOUNTING POLICIES (continued)

18. 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.

19. 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.

20. Shares in Group entities

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

ULSTER BANK GROUP

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 2009, gross loans and advances to customers totalled £55,308m (2008: £60,377m) and customer loan impairment provisions amounted to £2,465m (2008: £811m).

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.

ULSTER BANK GROUP

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 2009 was £53m (2008: £212m).

Fair value

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 financial statements.

ULSTER BANK GROUP

ACCOUNTING POLICIES (continued)

Accounting developments

International Financial Reporting Standards

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.

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 financial statements but may prospectively affect the Bank's accounting and presentation of receipts of dividends from such entities.

The IASB issued amendments to a number of standards in April 2009 as part of its annual improvements project. The amendments are effective for accounting periods beginning on or after 1 January 2010 and are not expected to have a material effect on the Group or Bank.

The IASB reissued IAS24, 'Related Party Disclosures', in November 2009 clarifying the existing standard and to provide certain exemptions for entities under government control. The revised standard is effective for accounting periods beginning on or after 1 January 2011 and is expected generally to reduce the volume of disclosure between the Group and other parties related to the UK Government.

The International Financial Reporting Interpretations Committee ('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 'Business Combinations' (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.

The IASB issued IFRS 9 'Financial Instruments' in November 2009 simplifying the classification and measurement requirements in IAS 39 'Financial Instruments: Recognition and Measurement' in respect of financial assets. The standard reduces the measurement categories for financial assets to two: fair value and amortised cost. A financial asset is classified on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. Only assets with contractual terms that give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding and which are held within a business model whose objective is to hold assets in order to collect contractual cash flows are classified as amortised cost. All other instruments are measured at fair value. Changes in the value of instruments measured at fair value are generally taken to profit or loss. The standard is effective for annual periods beginning on or after 1 January 2013; early application is permitted.

The standard makes major changes to the framework for the classification and measurement of financial assets and will have a significant effect on the Group's financial statements. The Group is assessing this impact which is likely to depend on the outcome of the other phases of IASB's IAS 39 replacement project.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

1. Net interest income

	Group	
	2009	2008
	£m	£m
Loans and advances to customers	1,786	2,808
Loans and advances to banks	114	756
Debt securities	73	83
Interest receivable	1,973	3,647
Customer accounts	(314)	(565)
Deposits by banks	(354)	(1,106)
Debt securities in issue	(261)	(987)
Subordinated liabilities	(36)	(63)
Interest payable	(965)	(2,721)
Net interest income	1,008	926

2. Non interest income

	Group	
	2009	2008
	£m	£m
Fees and commission receivable	193	236
Fees and commission payable	(26)	(23)
Income from trading activities:		
Foreign exchange ⁽¹⁾	123	64
Interest rates ⁽²⁾	(126)	(212)
Other operating income	57	46
Non interest income	221	111

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.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

3. Operating expenses

	Group	
	2009 £m	2008 £m
Wages, salaries and other staff costs	286	315
Restructure costs	78	-
Social security costs	26	28
Pension costs (see Note 4)	68	52
Pension costs curtailment gains (see Note 4)	(186)	-
Staff costs	272	395
Premises and equipment	195	71
Other administration expenses	140	142
	335	213
Property plant and equipment (see Note 16)	63	30
Intangible assets (see Note 15)	-	22
Equity investments	11	-
	681	660
<i>Integration costs included in operating expenses comprises:</i>		
Other administrative expenses	2	-

The auditors' remuneration for statutory audit work was £0.97m for the Group (2008: £0.87m) and £0.33m (2008: £0.34m) for the Bank. Remuneration paid to the auditors for non-audit work for the Group was £0.24m (2008: £0.24m).

The average number of persons employed by the Group during the year, excluding temporary staff was 6,164 (2008: 6,668). The average number of temporary employees during 2009 was 131 (2008: 258). The number of persons employed by the Group at 31 December, excluding temporary staff, was as follows:

Employee Numbers	Group	
	2009 Number	2008 Number
Retail Markets	2,412	3,076
Corporate Markets/Other	3,314	3,525
	5,726	6,601

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

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.

Interim valuations of the Group's schemes were prepared to 31 December 2009 by independent actuaries, using the following assumptions:

Principal actuarial assumptions at 31 December (weighted average)	Group	
	2009	2008
Discount rate	5.25% - 5.90%	5.60% - 6.50%
Expected return on plan assets	6.30% - 6.63%	6.42% - 6.80%
Rate of increase in salaries	1.75%	3.00% - 3.70%
Rate of increase in pensions in payment	2.00% - 3.50%	2.00% - 2.50%
Inflation assumption	2.00% - 3.50%	2.00% - 2.70%

During the year the Group announced changes to the pension benefits to be earned by employees. Each defined benefit scheme is now closed to new entrants; however the Group has launched a new defined contribution scheme which is now open to all employees. The change to the definition of pensionable salary for a majority of the membership of each defined benefit scheme has resulted in a significant reduction in the balance sheet deficit. In addition, this change resulted in a significant "one-off" reduction of £14m in the charge to the income statement for the year which was classified as a curtailment event.

Major classes of plan assets as a percentage of total plan assets	Group	
	2009	2008
Equities	46%	49%
Index-linked bonds	13%	13%
Government fixed interest bonds	2%	2%
Corporate and other bonds	21%	17%
Property	6%	9%
Cash and other assets	12%	10%

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

4. Pension costs (continued)

The expected return on plan assets at 31 December 2009 is based upon the weighted average of the following assumptions of the returns on the major classes of plan assets:

	Group	
	2009	2008
Equities	8.00%	8.40%
Index-linked bonds	4.30% - 4.50%	3.90%
Government fixed interest bonds	4.30% - 4.50%	3.90%
Corporate and other bonds	5.25% - 5.90%	5.10% - 6.10%
Property	6.10% - 6.20%	6.10%
Cash and other assets	1.00% - 5.42%	4.00%

Principal actuarial assumptions at 31 December (all schemes)	Bank	
	2009	2008
Discount rate	5.90%	6.50%
Expected return on plan assets (weighted average)	6.60%	6.71%
Rate of increase in salaries	1.75%	3.70%
Rate of increase in pensions in payment	3.50%	2.50%
Inflation assumption	3.50%	2.70%

Major classes of plan assets as a percentage of total plan assets	Bank	
	2009	2008
Equities	45%	49%
Index-linked bonds	14%	14%
Corporate and other bonds	21%	17%
Property	6%	9%
Cash other assets	14%	11%

The expected return on plan assets at 31 December 2009 is based upon the weighted average of the following assumptions of the returns on the major classes of plan assets:

	Bank	
	2009	2008
Equities	8.00%	8.40%
Index-linked bonds	4.50%	3.90%
Corporate and other bonds	5.90%	6.10%
Property	6.20%	6.10%
Cash other assets	5.42%	4.00%

Post-retirement mortality assumptions (Main scheme)	Bank	
	2009	2008
Longevity at age 70 for current pensioners (years)		
Males	16.7	16.5
Females	18.3	18.1
Longevity at age 63 for future pensioners (years)		
Males	23.3	23.1
Females	25.1	24.9

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 2009.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

4. Pension costs (continued)

Group (all schemes)	Fair value of plan assets £m	Present value of defined benefit obligations £m	Net pension liability £m
Changes in value of net pension liability			
At 1 January 2009	867	(1,233)	(366)
Currency translation and other adjustments	(34)	55	21
<i>Income statement:</i>			
Expected return	56	-	56
Interest cost	-	(69)	(69)
Current service cost	-	(51)	(51)
Gains on curtailments	-	186	186
Past service cost	-	(4)	(4)
	56	62	118
Actuarial gain/(losses)	83	(184)	(101)
Contributions by employer	68	-	68
Contributions by plan participants	6	(6)	-
Benefits paid	(34)	34	-
At 31 December 2009	1,012	(1,272)	(260)
Unrecognised actuarial gains			207
Retirement benefit liabilities at 31 December 2009			(53)

The Group expects to contribute £53.5m to its defined benefit pension schemes in 2010. Curtailment gains of £186m have been recognised in 2009 arising from changes to pension benefits due to the capping of future salary increases that will count for pension purposes, to the lower of 2% or the rate of inflation in any year.

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

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

4. Pension costs (continued)

Bank	Fair value of plan assets £m	Present value of defined benefit obligations £m	Net pension liability £m
Changes in value of net pension liability			
At 1 January 2009	388	(462)	(74)
Currency translation and other adjustments			
<i>Income statement:</i>			
Expected return	27	-	27
Interest cost	-	(30)	(30)
Current service cost	-	(13)	(13)
Past service cost	-	(1)	(1)
Gains on curtailments	-	71	71
	27	27	54
Actuarial gains/(losses)	29	(137)	(108)
Contributions by employer	29	-	29
Contributions by plan participants	1	(1)	-
Benefits paid	(16)	16	-
At 31 December 2009	458	(557)	(99)
Unrecognised actuarial gains			72
Retirement benefit liabilities at 31 December 2009			(27)

The Bank expects to contribute £26.0m to its defined benefit pension schemes in 2010. Curtailment gains of £71m have been recognised in 2009 arising from changes to pension benefits due to the capping of future salary increases that will count for pension purposes, to the lower of 2% or the rate of inflation in any year.

Bank	Fair value of plan assets £m	Present value of defined benefit obligations £m	Net pension liability £m
Changes in value of net pension liability			
At 1 January 2008	451	(532)	(81)
Currency translation and other adjustments			
<i>Income statement:</i>			
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 losses			(27)
Retirement benefit liabilities at 31 December 2008			(101)

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

4. Pension costs (continued)

	2009 £m	2008 £m
History of defined benefit schemes (Group)		
Present value of defined benefit obligations	(1,272)	(1,233)
Fair value of plan assets	1,012	867
Net (deficit)	(260)	(366)
Experience losses on plan liabilities	(184)	(18)
Experience gains/(losses) on plan assets	83	(299)
Actual return on pension scheme assets	139	(232)
History of defined benefit schemes (Bank)		
Present value of defined benefit obligations	(557)	(462)
Fair value of plan assets	458	388
Net deficit	(99)	(74)
Experience gains/(losses) on plan liabilities	(137)	1
Experience (losses) on plan assets	28	(108)
Actual return on pension scheme assets	56	(76)

5. Emoluments of Directors

	2009 £	2008 £
Non Executive Directors – emoluments	167,620	171,500
Chairman and Executive Directors - emoluments	2,170,529	1,898,761
Total emoluments received by Directors	2,338,149	2,070,261
Compensation for loss of office	-	1,230,167
	2,338,149	3,300,428

Two of the non executive directors of the Bank, Gordon Pell and Miller McLean, are employed by The Royal Bank of Scotland plc and are remunerated for their services to the Royal Bank of Scotland Group as a whole.

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 £804,439 (2008: £838,001). 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.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

6. Tax

	Group	
	2009	2008
	£m	£m
Current taxation:		
<i>United Kingdom Corporation Tax at 28%</i>		
Charge for the year	(71)	9
(Over)/under provision in respect of prior periods	(1)	(9)
	(72)	-
<i>Overseas Tax at 12.5% (2008: 12.5%):</i>		
Charge for the year	-	20
Under/(Over) provision in respect of prior periods	10	(3)
Total current taxation	(62)	17
Deferred taxation:		
Credit for the year	(115)	(34)
Under/(over) provision in respect of prior periods	(16)	12
Tax charge credit for the year	(193)	(5)

The actual tax charge/(credit) differs from the expected tax charge computed by applying the standard rate of UK Corporation Tax of 28% (2008: 28.5%) as follows:

	2009	2008
	£m	£m
Tax on loss at the standard rate of UK Corporation tax (expected tax charge)	(383)	(198)
<i>Factors affecting the charge for the year:</i>		
Foreign tax charged other than the standard rate of UK tax	197	30
Non-deductible items	-	175
Other timing differences	-	-
Other movements	-	(12)
Adjustments to tax charge in respect of prior periods	(7)	-
Actual tax credit for the year	(193)	(5)

The effective tax rate for the year was 14.3% (2008: 0.7%).

7. Profit attributable to other owners

	Group	
	2009	2008
	£m	£m
Dividends paid (refunded) to other owners:		
160m Non-cumulative preference shares of €1 each	-	8
20m Non-cumulative preference shares of €1 each	-	11
100m Non-cumulative preference shares of €1 each	-	34
70m Non-cumulative preference shares of €1 each	-	2
100m Non-cumulative preference shares of €1 each	(4)	5
Total	(4)	60

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

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

In accordance with the exemption contained within Section 408 of the Companies Act 2006 the primary financial statements of the Bank do not include an income statement. Included within Group loss after tax at 31 December 2009 is £147m (2008: loss £412m) attributable to the operations of the Bank.

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							Total £m
	Held-for- trading £m	Designated as at fair value through profit or loss £m	Available-for- sale £m	Loans and receivables £m	Other (amortised cost) £m	Non Financial assets/ liabilities £m		
2009								
Assets								
Cash and balances at central banks ⁽¹⁾	-	-	-	860	-	-	-	860
Loans and advances to banks ⁽²⁾	-	-	-	5,091	-	-	-	5,091
Loans and advances to customers ⁽³⁾	-	-	-	52,843	-	-	-	52,843
Debt securities	-	-	912	-	-	-	-	912
Equity shares	-	-	2	-	-	-	-	2
Derivatives	1,203	-	-	-	-	-	-	1,203
Intangible assets	-	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	-	487	487
Prepayments, accrued income and other assets	-	-	-	-	-	-	173	173
Deferred taxation	-	-	-	-	-	-	180	180
	1,203	-	914	58,794	-	-	840	61,751
Liabilities								
Deposit by banks ⁽⁴⁾	-	-	-	-	20,446	-	-	20,446
Customer accounts ^(5, 7)	-	1,352	-	-	21,247	-	-	22,599
Debt securities in issue ⁽⁶⁾	-	-	-	-	9,866	-	-	9,866
Derivatives	1,574	-	-	-	-	-	-	1,574
Accruals, deferred income and other liabilities	-	-	-	-	-	-	1,267	1,267
Retirement benefit liabilities	-	-	-	-	-	-	53	53
Deferred taxation	-	-	-	-	-	-	16	16
Subordinated liabilities	-	-	-	-	1,243	-	-	1,243
	1,574	1,352	-	-	52,802	-	1,336	57,064
Equity								4,687
								61,751

Notes:

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

(2) Includes reverse repurchase agreements of £nil (2008: £nil) and items in the course of collection from other banks of Group £300m (2008: £136m) and Bank £111m (2008: £20m).

(3) Includes reverse repurchase agreements of £nil (2008: £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 2009. As at 31 December 2009, £14,501m (2008: £3,508m) are included in loans and advances to customers.

(4) Includes repurchase agreements of £4,946m (2008: £4,063m) and items in the course of transmission to other banks of Group £245m (2008: £65m) and Bank £38m (2008: £3m).

(5) Includes repurchase agreements £nil (2008: £131m)

(6) Comprises Bonds and medium term notes of £8,490m (2008: £9,624m) and Certificates of deposit and other commercial paper of £1,376m (2008: £4,570m)

(7) The carrying amount of other customer accounts designated as at fair value through profit or loss is £8m less (2008: £79m less) than the principal amount.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

9. Financial instruments (continued)

	Group						Total £m
	Held-for- trading £m	Designated as at fair value through profit or loss £m	Available-for- sale £m	Loans and receivables £m	Other (amortised cost) £m	Non financial assets/ liabilities £m	
2008							
Assets							
Cash and balances at central banks ⁽¹⁾	-	-	-	346	-	-	346
Loans and advances to banks ⁽²⁾	-	-	-	5,157	-	-	5,157
Loans and advances to customers ⁽³⁾	-	-	-	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 ⁽⁴⁾	-	-	-	-	22,957	-	22,957
Customer accounts ^(5,7)	-	1,777	-	-	23,014	-	24,791
Debt securities in issue ⁽⁶⁾	-	-	-	-	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

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

9. Financial instruments (continued)

	Bank						Total £m
	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	
2009							
Assets							
Cash and balances at central banks	-	-	-	599	-	-	599
Loans and advances to banks ⁽¹⁾	-	-	-	4,811	-	-	4,811
Loans and advances to customers ⁽¹⁾	-	-	-	8,011	-	-	8,011
Debt securities	-	-	255	-	-	-	255
Investments in Group undertakings	-	-	-	-	-	1,365	1,365
Derivatives	30	-	-	-	-	-	30
Property, plant and equipment	-	-	-	-	-	110	110
Prepayments, accrued income and other assets	-	-	-	-	-	88	88
Deferred taxation	-	-	-	-	-	10	10
	30	-	255	13,421	-	1,573	15,279
Liabilities							
Deposit by banks ⁽²⁾	-	-	-	-	4,554	-	4,554
Customer accounts	-	457	-	-	6,017	-	6,474
Debt securities in issue	-	-	-	-	521	-	521
Derivatives	29	-	-	-	-	-	29
Accruals, deferred income and other liabilities	-	-	-	-	-	815	815
Retirement benefit liabilities	-	-	-	-	-	27	27
Deferred taxation	-	-	-	-	-	13	13
Subordinated liabilities	-	-	-	-	1,010	-	1,010
	29	457	-	-	12,102	855	13,443
Equity							1,836
							15,279

	Bank						Total £m
	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	
2008							
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
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

(1) Includes amounts due from subsidiaries.

(2) Includes amounts due to subsidiaries.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

9. Financial instruments (continued)

The following table shows the financial instruments carried at fair value by valuation method

	Group							
	2009				2008			
	Level 1 ⁽¹⁾ £m	Level 2 ⁽²⁾ £m	Level 3 ⁽³⁾ £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Debt securities	572	340	-	912	648	880	-	1,528
Equity Shares	-	-	2	2	-	-	13	13
Derivatives	-	1,203	-	1,203	-	2,329	-	2,329
Total	572	1,543	2	2,117	648	3,209	13	3,870
Liabilities								
Deposits by banks and customers	-	1,352	-	1,352	-	1,777	-	1,777
Derivatives	-	1,574	-	1,574	-	2,205	-	2,205
Total	-	2,926	-	2,926	-	3,982	-	3,982

(1) Valued using unadjusted quoted prices in active markets for identical financial instruments. This category includes listed equity shares, certain exchange-traded derivatives, G10 government securities and certain US agency securities.

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

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

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

Financial instruments included within Level 3 of the fair value hierarchy primarily consist of cash instruments which trade infrequently, certain syndicated and commercial mortgage loans, unlisted equity shares, certain residual interests in securitisations, super senior tranches of high grade and mezzanine collateralised debt obligations (CDO's), and other mortgage-based products and less liquid debt securities, certain structured debt securities in issue and OTC derivatives where valuation depends upon unobservable inputs such as certain credit and exotic derivatives. No gain or loss is recognised on the initial recognition of a financial instrument valued using a technique incorporating significant unobservable data.

	Bank							
	2009				2008			
	Level 1 ⁽¹⁾ £m	Level 2 ⁽²⁾ £m	Level 3 ⁽³⁾ £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Debt securities	-	255	-	255	-	419	-	419
Derivatives	-	30	-	30	-	47	-	47
Total	-	285	-	285	-	466	-	466
Liabilities								
Deposits by banks and customers	-	457	-	457	-	357	-	357
Derivatives	-	29	-	29	-	69	-	69
Total	-	486	-	486	-	426	-	426

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

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			
	2009 Carrying value £m	2009 Fair value £m	2008 Carrying value £m	2008 Fair value £m
Financial assets				
Cash and balances at central banks	860	860	346	346
Loans and advances to banks				
Loans and receivables	5,091	5,091	5,157	5,157
Loans and advances to customers				
Loans and receivables	52,843	50,696	59,566	59,257
Debt securities				
Available for sale	912	912	1,528	1,528
Equity shares	2	2	13	13
Financial liabilities				
Deposit by banks				
Amortised cost	20,446	20,446	22,957	22,957
Customer accounts				
Amortised cost	22,599	22,612	24,791	24,796
Debt securities in issue				
Amortised cost	9,866	7,758	14,194	14,198
Subordinated liabilities				
Amortised cost	1,243	1,243	1,318	1,318

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

9. Financial instruments (continued)

Remaining maturity

2009	Group		Total £m
	Less than 12 months £m	More than 12 months £m	
Assets			
Cash and balances at central banks	860	-	860
Treasury and other eligible bills	-	-	-
Loans and advances to banks	3,461	1,630	5,091
Loans and advances to customers	19,036	33,807	52,843
Debt securities	112	800	912
Equity shares	-	2	2
Derivatives	297	906	1,203
Liabilities			
Deposits by banks	20,378	68	20,446
Customer accounts	19,926	2,673	22,599
Debt securities in issue	2,725	7,141	9,866
Derivatives	202	1,372	1,574
Subordinated liabilities	-	1,243	1,243

2008	Group		Total £m
	Less than 12 months £m	More than 12 months £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

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

9. Financial instruments (continued)

Remaining maturity

2009	Bank		Total £m
	Less than 12 months £m	More than 12 months £m	
Assets			
Cash and balances at central banks	599	-	599
Loans and advances to banks	3,317	1,494	4,811
Loans and advances to customers	4,579	3,432	8,011
Debt securities	53	202	255
Derivatives	12	18	30
Liabilities			
Deposits by banks	4,496	58	4,554
Customer accounts	5,343	1,131	6,474
Debt securities in issue	521	-	521
Derivatives	29	-	29
Subordinated liabilities	-	1,010	1,010

2008	Bank		Total £m
	Less than 12 months £m	More than 12 months £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

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NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

10. Asset quality

Internal reporting and oversight of risk assets is principally differentiated by credit grades. Customers are assigned credit grades, based on various credit grading models that reflect the key drivers of default for the customer type. All credit grades across the Group map to both a Group level asset quality scale, used for external financial reporting, and a master grading scale for wholesale exposures used for internal management reporting across disparate portfolios. Accordingly, measurement of risk is easily aggregated and can be reported at increasing levels of granularity depending on audience and business need.

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

Asset Quality Grade	Minimum	Maximum
AQ1	0.000	0.034
AQ2	0.034	0.048
AQ3	0.048	0.095
AQ4	0.095	0.381
AQ5	0.381	1.076
AQ6	1.076	2.153
AQ7	2.153	6.089
AQ8	6.089	17.222
AQ9	17.222	100.000
AQ10	100.000	100.000

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

	Group						
	Cash and balances at central banks £m	Loans and advances to banks £m	Loans and advances to customers £m	Debt securities £m	Derivatives £m	Commitments £m	Contingent liabilities £m
2009							
AQ1	860	5,071	662	836	1,016	348	2
AQ2	-	-	70	18	8	67	8
AQ3	-	2	222	58	8	324	77
AQ4	-	-	4,710	-	11	655	64
AQ5	-	-	9,768	-	49	1,403	127
AQ6	-	1	14,782	-	34	1,151	92
AQ7	-	13	7,965	-	19	602	159
AQ8	-	4	3,466	-	19	232	26
AQ9	-	-	2,210	-	7	58	5
AQ10	-	-	327	-	32	450	42
Accruing past due	-	-	2,700	-	-	-	-
Non-accrual	-	-	8,426	-	-	-	-
Impairment provisions	-	-	(2,465)	-	-	-	-
Total	860	5,091	52,843	912	1,203	5,290	602

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

10. Asset quality (continued)

	Group						
	Cash and balances at central banks £m	Loans and advances to banks £m	Loans and advances to customers £m	Debt securities £m	Derivatives £m	Commitments £m	Contingent liabilities £m
2008							
AQ1	346	5,117	359	1,528	1,721	1,919	44
AQ2	-	-	110	-	91	1,525	189
AQ3	-	27	882	-	398	2,936	215
AQ4	-	12	17,822	-	100	1,337	195
AQ5	-	1	14,323	-	19	568	105
AQ6	-	-	11,504	-	-	-	-
AQ7	-	-	5,681	-	-	-	-
AQ8	-	-	3,013	-	-	-	-
AQ9	-	-	1,111	-	-	-	-
AQ10	-	-	-	-	-	-	-
Accruing past due	-	-	2,680	-	-	-	-
Non-accrual	-	-	2,892	-	-	-	-
Impairment provisions	-	-	(811)	-	-	-	-
Total	346	5,157	59,566	1,528	2,329	8,285	748

	Bank						
	Cash and balances at central banks £m	Loans and advances to banks £m	Loans and advances to customers £m	Debt securities £m	Derivatives £m	Commitments £m	Contingent liabilities £m
2009							
AQ1	599	4,810	52	179	22	3	7
AQ2	-	-	22	18	-	21	-
AQ3	-	-	17	58	-	34	2
AQ4	-	-	479	-	1	125	90
AQ5	-	-	1,763	-	2	577	103
AQ6	-	-	1,661	-	2	385	248
AQ7	-	1	1,376	-	3	213	6
AQ8	-	-	695	-	-	82	8
AQ9	-	-	49	-	-	25	-
AQ10	-	-	-	-	-	75	-
Accruing past due	-	-	399	-	-	-	-
Non-accrual	-	-	2,106	-	-	-	-
Impairment provisions	-	-	(608)	-	-	-	-
Total	599	4,811	8,011	255	30	1,540	464

	Bank						
	Cash and balances at central banks £m	Loans and advances to banks £m	Loans and advances to customers £m	Debt securities £m	Derivatives £m	Commitments £m	Contingent liabilities £m
2008							
AQ1	103	6,388	50	419	28	127	-
AQ2	-	1	14	-	-	51	-
AQ3	-	-	112	-	-	108	52
AQ4	-	-	2,256	-	9	458	-
AQ5	-	-	1,814	-	2	535	28
AQ6	-	-	1,457	-	7	482	68
AQ7	-	-	720	-	1	231	32
AQ8	-	-	382	-	-	38	12
AQ9	-	-	141	-	-	23	-
AQ10	-	-	-	-	-	-	-
Accruing past due	-	-	530	-	-	-	-
Non-accrual	-	-	850	-	-	-	-
Impairment provisions	-	-	(194)	-	-	-	-
Total	103	6,389	8,132	419	47	2,053	192

Loans and advances to customers, past due at balance sheet date but not considered impaired are shown in Note 11.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

10. Asset quality (continued)

Industry risk – geographical analysis

2009	Group				
	Gross loans and advances to banks and customers £m	Debt securities and equity shares £m	Derivatives £m	Total £m	Netting and offset ⁽¹⁾ £m
UK					
Central and local government	-	-	-	-	-
Manufacturing	309	-	-	309	-
Construction	640	-	-	640	-
Finance	2,862	308	22	3,192	-
Service industries and business activities	899	-	-	899	-
Agriculture, forestry and fishing	300	-	-	300	-
Property	3,793	-	-	3,793	-
Individuals					
Home mortgages	2,081	-	-	2,081	-
Other	457	-	-	457	-
Interest accruals	18	-	-	18	-
Total UK	11,359	308	22	11,689	-
Rest of Europe					
Central and local government	80	-	-	80	-
Manufacturing	1,268	-	-	1,268	-
Construction	1,577	-	-	1,577	-
Finance	2,863	606	1,181	4,650	(7)
Service industries and business activities	6,428	-	-	6,428	-
Agriculture, forestry and fishing	894	-	-	894	-
Property	13,972	-	-	13,972	-
Individuals					
Home mortgages	20,570	-	-	20,570	-
Other	1,352	-	-	1,352	-
Interest accruals	36	-	-	36	-
Total Rest of Europe	49,040	606	1,181	50,827	(7)
Total					
Central and local government	80	-	-	80	-
Manufacturing	1,577	-	-	1,577	-
Construction	2,217	-	-	2,217	-
Finance	5,725	914	1,203	7,842	(7)
Service industries and business activities	7,327	-	-	7,327	-
Agriculture, forestry and fishing	1,194	-	-	1,194	-
Property	17,765	-	-	17,765	-
Individuals					
Home mortgages	22,651	-	-	22,651	-
Other	1,809	-	-	1,809	-
Interest accruals	54	-	-	54	-
	60,399	914	1,203	62,516	(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.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

10. Asset quality (continued)

Industry risk – geographical analysis

	Group				
	Gross 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
2008					
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.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

10. Asset quality (continued)

2009	Bank				
	Gross 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	309	-	-	309	-
Construction	640	-	-	640	-
Finance	4,881	255	30	5,166	-
Service industries and business activities	899	-	-	899	-
Agriculture, forestry and fishing	300	-	-	300	-
Property	3,847	-	-	3,847	-
Individuals					
Home mortgages	2,079	-	-	2,079	-
Other	457	-	-	457	-
Interest accruals	18	-	-	18	-
Total UK	13,430	255	30	13,715	-

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	-

(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.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

11. Past due and impaired financial assets

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

	Group			Total 2009 £m	Total 2008 £m
	Individually assessed £m	Collectively assessed £m	Latent £m		
At 1 January	429	260	122	811	322
Currency translation and other adjustments	(26)	(15)	(7)	(48)	124
Amounts written-off ⁽¹⁾		(34)	-	(34)	(19)
Charged to the income statement	1,466	270	169	1,905	414
Unwind of discount	(140)	(29)	-	(169)	(30)
At 31 December ⁽²⁾	1,729	452	284	2,465	811

	Bank			Total 2009 £m	Total 2008 £m
	Individually assessed £m	Collectively assessed £m	Latent £m		
At 1 January	109	55	30	194	73
Amounts written-off ⁽¹⁾	-	(16)	-	(16)	(8)
Charged to the income statement	380	58	40	478	138
Unwind of discount	(44)	(4)	-	(48)	(9)
At 31 December ⁽²⁾	445	93	70	608	194

⁽¹⁾ Amounts written off do not include any loans and advances to banks.

⁽²⁾ Impairment losses at 31 December 2009 do not include any loans and advances to banks.

	Group		Bank	
	2009 £m	2008 £m	2009 £m	2008 £m
Impairment losses charged to the income statement				
Loans and advances to customers	1,905	414	478	138

Loan impairment

At 31 December 2009, the Group's non-accrual loans and loans past due 90 days amounted to £9,048m (2008: £3,297m) and £2,294m (2008: £911m) for Bank. Loan impairment provisions of £2,180m (2008: £689m) were held against the Group loans and £539m (2008: £164m) against the Bank loans.

	Group		Bank	
	2009 £m	2008 £m	2009 £m	2008 £m
Gross income not recognised but which would have been recognised under the original terms of non-accrual and restructured loans				
Domestic	57	8	10	8
Foreign	211	31	37	-
	268	39	47	8

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.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

11. Past due and impaired financial assets (continued)

The following table shows analysis of impaired financial assets.

Group	2009			2008		
	Cost £m	Provision £m	Net book value £m	Cost £m	Provision £m	Net book value £m
Impaired financial assets						
Loans and advances to customers	8,426	(2,180)	6,246	2,892	(689)	2,203
Equity shares	2	-	2	2	(1)	1
	8,428	(2,180)	6,248	2,894	(690)	2,204

Bank	2009			2008		
	Cost £m	Provision £m	Net book value £m	Cost £m	Provision £m	Net book value £m
Impaired financial assets						
Loans and advances to customers	2,106	(539)	1,567	850	(164)	686

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	Past due 30-59 days	Past due 60-89 days	Past due more than 90 days	Total £m
	£m	£m	£m	£m	
2009					
Loans and advances to customers	1,370	406	302	622	2,700

2008					
Loans and advances to customers	1,596	399	280	405	2,680

Bank	Past due 1-29 days	Past due 30-59 days	Past due 60-89 days	Past due more than 90 days	Total £m
	£m	£m	£m	£m	
2009					
Loans and advances to customers	176	20	15	188	399

2008					
Loans and advances to customers	391	39	39	61	530

	Group		Bank	
	2009 £m	2008 £m	2009 £m	2008 £m
Impaired financial assets - individually assessed:				
Loans and advances to customers	1,729	429	445	109

Loans that have been renegotiated in the past 12 months that would otherwise have been past due or impaired amounted to £340.9m as at 31 December 2009 (2008: £nil) for the Group and £53.5m (2008: £nil) for the Bank.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

12. Debt securities

	Group			Total £m
	Government £m	Bank and building society £m	Mortgage backed securities £m	
2009				
Available-for-sale	618	222	72	912
Gross unrealised gains/(losses)	4	(3)	-	1

	Group			Total £m
	Government £m	Bank and building society £m	Mortgage backed securities £m	
2008				
Available-for-sale	898	535	95	1,528
Gross unrealised gains/(losses)	11	(15)	(13)	(17)

	Bank			Total £m
	Government £m	Bank and building society £m	Mortgage backed securities £m	
2009				
Available-for-sale	-	183	72	255
Gross unrealised gains/(losses)	-	(2)	-	(2)

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

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

13. Equity shares

	Group	
	2009	2008
	Unlisted	Unlisted
	£m	£m
Available-for-sale	2	13

No gains or losses were realised on the available for sale equity shares (2008: £nil).

As at 31 December 2009, the Bank held £216,378 unlisted equity shares (2008: £310,179).

14. Investments in Group undertakings

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

	Bank	
	2009	2008
	£m	£m
At 1 January	1,333	1,608
Capital injections	2,434	
Additions		236
Impairment in Ulster Bank Ireland Limited	(2,402)	(418)
Currency translations and other adjustments	-	(93)
At 31 December	1,365	1,333
	2009	2008
	£m	£m
Subsidiary undertakings comprise:		
- Banks	488	488
- Other	877	845
Total – all unlisted	1,365	1,333

The principal subsidiary undertakings included in the consolidated financial statements 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

Ulster Bank Ireland Limited

First Active plc

Ulster Bank Commercial Services Limited

Easycash (Ireland) Limited

Ulster Bank (Ireland) Holdings

Ulster Bank Holdings (ROI) Limited

Ulster Bank Wealth

Nature of business

Banking services, corporate and investment banking, foreign exchange services

Banking Services

Debtor finance

Provision of ATM services

Holding company

Investment company

Financial & Investment Advisors

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NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

15. Intangible assets

	Group				Total
	Goodwill	Core Deposit Intangibles	Other Acquired Intangibles	Computer Software	
2009	£m	£m	£m	£m	£m
<i>Cost:</i>					
At 1 January 2009	576	35	41	112	764
Currency translation and other adjustments	(41)	(2)	(3)	(4)	(50)
Disposals	-	-	-	-	-
At 31 December 2009	535	33	38	108	714
<i>Accumulated amortisation and impairment:</i>					
At 1 January 2009	576	24	41	112	753
Currency translation and other adjustments	(41)	(2)	(3)	(4)	(50)
Impairment	-	11	-	-	11
At 31 December 2009	535	33	38	108	714
Net book value at 31 December 2009	-	-	-	-	-

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.

	Group				Total
	Goodwill	Core deposit intangibles	Other acquired intangibles	Computer software	
2008	£m	£m	£m	£m	£m
<i>Cost:</i>					
At 1 January 2008	426	27	31	106	590
Currency translation and other adjustments	150	8	10	6	174
Disposals	-	-	-	-	-
At 31 December 2008	576	35	41	112	764
<i>Accumulated amortisation and impairment:</i>					
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

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NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

16. Property, plant and equipment

	Group					
	Investment Properties £m	Freehold land and buildings £m	Leases of 50 years or more unexpired £m	Leases of 50 years or less unexpired £m	Computer and other equipment £m	Total £m
2009						
<i>Cost:</i>						
At 1 January 2009	-	195	44	105	273	617
Currency translation and other adjustments	-	(13)	(1)	(7)	(8)	(29)
Additions	117	8	23	15	6	169
Disposals	-	(1)	(5)	(20)	(9)	(35)
At 31 December 2009	117	189	61	93	262	722
<i>Accumulated depreciation and amortisation:</i>						
At 1 January 2009	-	24	5	19	154	202
Currency translation and other adjustments	-	(1)	-	(1)	(7)	(9)
Disposals	-	-	(1)	(14)	(6)	(21)
Impairments	-	17	3	5	-	25
Depreciation charge for the year	3	4	1	7	23	38
At 31 December 2009	3	44	8	16	164	235
Net book value at 31 December 2009	114	145	53	77	98	487

	Group					
	Investment Properties £m	Freehold land and buildings £m	Leases of 50 years or more unexpired £m	Leases of 50 years or less unexpired £m	Computer and other equipment £m	Total £m
2008						
<i>Cost:</i>						
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
<i>Accumulated depreciation and amortisation:</i>						
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

There was no profit on disposal of freehold land and buildings during the year (2008: £nil).

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NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

16. Property, plant and equipment (continued)

	Bank				Total £m
	Freehold land and buildings £m	Leases of 50 years or more unexpired £m	Leases of 50 years or less unexpired £m	Computer and other equipment £m	
2009					
Cost:					
At 1 January 2009	58	22	12	104	196
Exchange adjustments	(3)	-	-	2	(1)
Additions	1	-	3	2	6
Disposals	-	(1)	(5)	(2)	(8)
At 31 December 2009	56	21	10	106	193
Accumulated depreciation and amortisation:					
At 1 January 2009	6	2	1	61	70
Disposals	-	-	(1)	(1)	(2)
Impairment	2	1	-	-	3
Depreciation charge for the year	2	-	1	9	12
At 31 December 2009	10	3	1	69	83
Net book value at 31 December 2009	46	18	9	37	110

	Bank				Total £m
	Freehold land and buildings £m	Leases of 50 years or more unexpired £m	Leases of 50 years or less unexpired £m	Computer and other equipment £m	
2008					
Cost:					
At 1 January 2008	50	20	4	100	174
Exchange Adjustments	-	-	1	-	1
Additions	8	2	7	4	21
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
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

Capital commitments

Obligations for the Group for future capital expenditure not provided for in the financial statements at the year end amounted to £2,093,000 (2008: £5,694,309).

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NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

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					
	2009			2008		
	Notional amounts £m	Assets £m	Liabilities £m	Notional amounts £m	Assets £m	Liabilities £m
Free standing derivatives						
Exchange rate contracts:						
Spot, forwards and futures	11,270	166	135	24,779	957	487
Currency swaps	1,578	82	282	2,720	164	478
Interest rate contracts:						
Interest rate swaps	71,885	846	1,130	69,798	1,172	1,203
Options purchased	658	29	-	2,477	10	-
Options written	1,104	-	8	9,400	-	31
Futures and forwards	1,802	19	19	8,214	-	6
Equity and commodity contracts	1,318	61	-	1,505	26	-
	89,615	1,203	1,574	118,893	2,329	2,205

	Bank					
	2009			2008		
	Notional amounts £m	Assets £m	Liabilities £m	Notional amounts £m	Assets £m	Liabilities £m
Free standing derivatives						
Exchange rate contracts:						
Spot, forwards and futures	290	4	4	714	47	49
Interest rate contracts:						
Interest rate swaps	1,519	8	25	523	-	20
Equity and commodity contracts	448	18	-	-	-	-
	2,257	30	29	1,237	47	69

18. Prepayments, accrued income and other assets

	Group		Bank	
	2009 £m	2008 £m	2009 £m	2008 £m
Prepayments	32	25	2	2
Accrued income	2	34	2	10
Current taxation	120	55	81	8
Other assets	19	138	3	100
	173	252	88	120

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NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

19. Accruals, deferred income and other liabilities

	Group		Bank	
	2009 £m	2008 £m	2009 £m	2008 £m
Notes in circulation	717	533	717	530
Accruals	341	288	60	66
Deferred income	33	22	22	2
Other liabilities	176	144	16	18
	1,267	987	815	616

Provisions for liabilities and charges of £60m (2008: £1m) are included in other liabilities.

20. Deferred taxation

Provision for deferred taxation has been made as follows:

	Group		Bank	
	2009 £m	2008 £m	2009 £m	2008 £m
Deferred tax asset	180	68	10	38
Deferred tax liability	(16)	(34)	(13)	(15)
Net deferred tax	164	34	(3)	23

	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 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)
At 1 January 2009	39	-	7	(16)	1	1	(20)	22	34
(Charge) / credit to income statement	(36)	4	(6)	-	(1)	-	17	153	131
(Charge) / credit to equity directly	10	-	-	-	-	-	-	(2)	8
Other	(9)	(1)	-	1	-	-	-	-	(9)
At 31 December 2009	4	3	1	(15)	-	1	(3)	173	164

Deferred tax liabilities of £148m (2008 - £255 million) have not been recognised in respect of retained earnings of overseas subsidiaries and held-over gains on the incorporation of overseas branches. Retained earnings of overseas subsidiaries are expected to be reinvested indefinitely or remitted to the UK free from further taxation. No taxation is expected to arise in the foreseeable future in respect of held-over gains. The temporary differences at the balance sheet date are significantly reduced from the previous year as a result of a change to UK tax legislation which largely exempts from UK tax, overseas dividends received on or after 1 July 2009.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

20. Deferred taxation (continued)

	Bank
	2009
	£m
Provisions for Deferred Tax	
Balance at 1 January 2008	21
Charge to income statement	(4)
Exchange and other movements	6
At 1 January 2009	23
Charge to income statement	(21)
Credit directly to equity	4
Exchange and other movements	(9)
At 31 December 2009	(3)

21. Subordinated liabilities

	Group		Bank	
	2009	2008	2009	2008
	£m	£m	£m	£m
Dated loan capital	991	1,058	903	962
Undated loan capital	107	115	107	115
Dated subordinated bonds	66	66	-	-
Undated perpetual subordinated bonds	79	79	-	-
	1,243	1,318	1,010	1,077

	Group		Bank	
	2009	2008	2009	2008
	£m	£m	£m	£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	355	382	-	-
Euro loan capital repayable 2020				
- held by RBS plc	160	172	160	172
Euro loan capital repayable 2022				
- held by RBS plc	336	364	603	650
	991	1,058	903	962
Undated loan capital:				
- held by RBS plc	107	115	107	115
	107	115	107	115
Dated subordinated bonds				
£60m 6.375% subordinated bonds 2018 (callable April 2013)	66	66	-	-
	66	66	-	-
Undated perpetual subordinated bonds				
<i>First Active plc</i>				
€38m 11.375% perpetual tier two capital	51	51	-	-
£20m 11.75% perpetual tier two capital	26	26	-	-
£1.3m floating rates	2	2	-	-
	79	79	-	-
Total	1,243	1,318	1,010	1,077

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

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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 2009 £m	31 December 2009 £m	2009 £m	2008 £m
<i>Equity shares:</i>				
Ordinary shares of £1	415	1,208	2,000	450
<i>Equity preference shares:</i>				
Non-cumulative redeemable preference shares of €1 each	297	297	346	350
Total share capital	712	1,505	2,346	800

	Allotted, called up and fully paid		Authorised	
	2009 Millions	2008 Millions	2009 Millions	2008 Millions
Number of shares				
<i>Equity shares:</i>				
Ordinary shares of £1	1,208	415	2,000	450
<i>Equity Preference shares:</i>				
Non-cumulative redeemable preference shares of €1 each	450	450	500	500
Total share capital	1,658	865	2,500	950

NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

22. Share capital (continued)

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 company law 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.

Authorised Share Capital

On 30 January 2009, the authorised share capital of the Bank was increased by a written resolution of the members by the creation of an additional 150,000,000 Ordinary Shares of £1 each.

On 26 February 2009, the authorised share capital of the Bank was increased by a written resolution of the members by the creation of an additional 500,000,000 Ordinary Shares of £1 each.

On 30 March 2009, the authorised share capital of the Bank was increased by a written resolution of the members by the creation of an additional 900,000,000 Ordinary Shares of £1 each.

Issued Share Capital

On 30 January 2009, 150,000,000 Ordinary Shares of £1 each were issued at par.

On 27 February 2009, 443,440,000 Ordinary Shares of £1 each were issued at par.

On 30 March 2009, 200,000,000 Ordinary Shares of £1 each were issued at par.

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NOTES TO THE FINANCIAL STATEMENTS – for the year ended 31 December 2009

23. Leases

Minimum amounts payable under non-cancellable leases:

	Group				Total £m
	Year in which payment will occur				
	Within 1 year £m	After 1 year but within 5 years £m	After 5 years £m		
2009					
Operating lease obligations: Future minimum lease payables:					
Premises	24	87	203		314
Equipment	3	2	-		5
	27	89	203		319

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

	Bank				Total £m
	Year in which payment will occur				
	Within 1 year £m	After 1 year but within 5 years £m	After 5 years £m		
2009					
Operating lease obligations: Future minimum lease payables:					
Premises	2	6	91		99
Equipment	-	-	-		-
	2	6	91		99

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

	Group		Bank	
	2009 £m	2008 £m	2009 £m	2008 £m
Amounts recognised as expense				
Operating lease payables - minimum payments	23	18	3	3

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NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

24. Collateral and securitisations

Securities repurchase agreements and lending transactions

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers cash or securities as collateral in accordance with normal practice. Generally, the agreements require additional collateral to be provided if the value of the securities fall below a predetermined level. Under standard terms for repurchase transactions in the 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 debt securities are shown on the balance sheet. Securities received as collateral under reverse repurchase agreements amounted to £nil (2008: £nil).

Other collateral given

	Group	
	2009 £m	2008* £m
Group assets charged as security for liabilities		
Loans and advances to customers	16,916	14,929
Liabilities secured by charges on assets		
Debt securities in issue	3,507	4,131
Deposits by banks	1,758	1,398
	5,265	5,529

*2008 revised

Included in deposits by banks are First Active's and Ulster Bank (Ireland) Limited's obligations to the Central Bank and Financial Services Authority of Ireland (CBFSAI) under the terms of the Mortgage Backed Promissory Note programme. These obligations are secured by way of a floating charge to the CBFSAI over all its right, title, interest and benefit.

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. All notes issued by own-asset securitisation SPEs are purchased by Group companies, assets are greater than secured liabilities.

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 14). The entire Group's securitisations result in continued recognition of the securitised assets.

The table below sets out the asset categories together with the carrying amount of the assets and associated liabilities for those securitisations where the assets continue to be recorded on the Group's balance sheet.

	2009		2008*	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Residential mortgages	14,501	3,507	13,172	4,131

*2008 revised

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

25. 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.

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 99%. In other words, the Group expects to suffer a one-day loss greater than VaR only 1% of the time, i.e. one day in 100. 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 99% 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.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

25. Risk management (continued)

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 2009 £m	Maximum £m	Minimum £m	Average £m
Value-at-Risk	0.655	0.869	0.276	0.632

(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.

Non-trading interest rate risk is calculated on the basis of establishing the repricing behavior 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 behavior 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 behavioralised 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 2009, Sterling VaR was calculated to be £161,000 (2008: £220,000). Euro VaR was calculated to be £185,000 (2008: £331,000).

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.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

25. 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 2009:

Functional currency of the net investment	Foreign currency net investments £m	Foreign currency liabilities hedging net investments £m	Structural foreign currency exposures £m
Euro	5,116	3,493	1,623

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 2009 exchange losses of £179m (2008: losses £367m) have been charged to reserves.

Currency balance sheet:

	Sterling £m	US Dollars £m	Euro £m	Other £m	Total £m
2009					
Assets					
Cash and balances at central banks	600	2	258	-	860
Treasury bills and other eligible bills	-	-	-	-	-
Loans and advances to banks	2,558	(153)	2,667	19	5,091
Loans and advances to customers	11,398	216	41,148	81	52,843
Debt securities	227	-	685	-	912
Equity shares	-	-	2	-	2
Derivatives	304	4,337	(3,448)	10	1,203
Property, plant and equipment	110	-	377	-	487
Prepayments, accrued income and other assets	-	-	173	-	173
Deferred taxation	-	-	180	-	180
Total assets	15,197	4,402	42,042	110	61,751
Liabilities and equity					
Deposits by banks	2,322	3,420	14,703	1	20,446
Customer accounts	8,351	916	13,292	40	22,599
Debt securities in issue	1,243	226	8,369	28	9,866
Derivatives	(338)	489	1,431	(8)	1,574
Accruals, deferred income and other liabilities	678	72	517	-	1,267
Retirement benefit liabilities	20	-	33	-	53
Deferred taxation	1	-	15	-	16
Subordinated liabilities	212	-	1,031	-	1,243
Shareholders' equity	3,787	(113)	1,013	-	4,687
Total liabilities and equity	16,276	5,010	40,404	61	61,751

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

25. Risk management (continued)

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
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

Liquidity Risk

The Group's liquidity policy is designed to ensure that the Group can at all times meet its obligations as they fall due.

Liquidity management within the Group addresses the overall balance sheet structure and the control, within prudent limits, of risk arising from the mismatch of maturities across the balance sheet and from exposure to undrawn commitments and other contingent obligations.

Liquidity conditions in money and debt markets have improved significantly since the beginning of 2009. This was partly due to significant injections of liquidity by the leading Central Banks who provided funding under various collateralised schemes. During the year the Group improved its liquidity position through a number of strategic initiatives which included increasing core funding from domestic depositors, increasing funding available from the European Central Bank through the Group collateral enablement program and accessing international funding through an extensive calling program of large institutional counterparties.

Liquidity risk framework and Governance

The Group has an approved risk appetite supported by explicit targets and metrics to control the size and extent of both short-term and long-term liquidity risk. These metrics are reviewed by the GALCO on a regular basis.

The GALCO, chaired by the Group Finance Director, has the responsibility to set Group policy and ensure that it is cascaded and communicated to the business divisions. Group Treasury is the functional area with responsibility for monitoring and control of the Group's funding and liquidity positions.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

25. 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					
	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
2009						
Deposits by banks	17,689	1,649	54	1,092	-	-
Customer accounts	17,552	1,591	1,245	1,117	81	-
Debt securities in issue	2,028	1,331	444	408	-	-
Subordinated liabilities	-	5	14	111	57	1,104
	37,269	4,576	1,757	2,728	138	1,104

	Group					
	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
2008						
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

	Bank					
	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
2009						
Deposits by banks	2,230	5	-	-	-	-
Customer accounts	5,509	414	290	267	77	-
Debt securities in issue	396	80	28	26	-	-
Subordinated liabilities	1	-	-	-	455	-
	8,136	499	318	293	532	-

	Bank					
	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
2008						
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

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

25. Risk management (continued)

Other contractual cash obligations

	Group					
	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
2009						
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					
	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
2008						
Operating leases	7	20	47	40	80	45
Contractual obligations to purchase goods or services	3	8	1	-	-	-
	10	28	48	40	80	45

	Bank					
	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
2009						
Operating leases	1	2	4	3	5	2
Contractual obligations to purchase goods or services	1	3	-	-	-	-
	2	5	4	3	5	2

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

25. 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.

Credit risk assets

Credit risk assets are an internal risk measure of the Group's exposure to customers, taking into account the effects of credit risk mitigation techniques.

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.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

25. Risk management (continued)

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.

Regulatory Risk

Regulatory risk is managed by designing, maintaining and implementing policies and systems in order to ensure effective compliance with all regulatory and legal requirements in the jurisdiction in which the Group operates.

The Group's approach to regulatory risk has three distinct elements:

- The review of potential changes in regulation to ensure that the Group addresses the risks arising from such changes and responds appropriately;
- The monitoring of compliance with existing rules and regulations and the mitigation of the consequences of any inadvertent non-compliance; and
- The management of effective relationships with regulators to ensure constructive engagement

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.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

26. Capital resources

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

	31 Dec 2009 Basel II Actual £m	31 Dec 2008 Basel II Actual £m
Composition of regulatory capital		
Tier 1 capital:		
Ordinary Shareholder's equity	4,165	2,426
Minority interests	522	562
Adjustment for		
Goodwill capitalised and intangible assets per Balance Sheet	-	(11)
Other Regulatory adjustments	15	48
Tier 1 capital	4,702	3,025
Tier 1 Regulatory Deductions	(494)	(178)
Total tier 1 capital	4,208	2,847
Tier 2 capital:		
Reserves arising from revaluation of property and unrealised gains on available for sale equities	-	57
Latent impairment allowances	3	3
Perpetual subordinated debt	107	115
Term subordinated debt	1,091	1,161
Total qualifying tier 2 capital before Deductions	1,201	1,336
Tier 2 Regulatory Deductions	(1,137)	(401)
Total tier 2 Capital	64	935
Total regulatory capital	4,272	3,782
Risk weighted assets	36,561	29,631
	2009	2008
Capital ratios	%	%
Tier 1 ratio	11.51	9.61
Total capital ratio	11.69	12.76

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

The 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 2009 this floor was 80% of adjusted Basel I capital requirements. As at 31st December 2009, the Group had no additional capital requirements under the transitional floor rules.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

27. 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 2009. 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	
	2009 £m	2008 £m	2009 £m	2008 £m
Contingent liabilities:				
Guarantees and assets pledged as collateral security	233	225	313	313
Other contingent liabilities	369	523	151	179
	602	748	464	492
Commitments:				
Documentary credits and other short-term trade related transactions	28	58	2	2
- less than one year	3,776	6,010	1,349	1,932
- one year and over	1,486	2,217	189	119
	5,290	8,285	1,540	2,053

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.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

27. 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 £252m (2008: £259m) 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 Limited
Easycash (Ireland) 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
Larroquette
Loanzone Limited
Meritvale Limited
Michael Property Limited
Norgay Property Limited
Sanlar
Sondey Limited
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
Ulster International Finance
Walter Property Limited
West Register (Republic of Ireland) 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.

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

28. Net cash outflow from operating activities

	Group		Bank	
	2009 £m	2008 £m	2009 £m	2008 £m
Operating loss before tax	(1,368)	(694)	(2,583)	(415)
Decrease/(increase) in prepayments and accrued income	25	(25)	7	(9)
Interest on subordinated liabilities	38	63	23	50
Increase/(decrease) in accruals and deferred income	43	14	(5)	(6)
Loans and advances written off net of recoveries	1,872	395	462	130
Loss on sale of tangible assets	14	-	6	-
Impairment on intangibles	11	657	-	23
Impairment of investment in Group Undertaking	-	-	2,402	418
Profit on sale of securities	-	5	-	-
Charge for pensions	(118)	52	(54)	19
Depreciation and amortisation of fixed assets	38	52	12	20
Amortisation and provisions on debt and equity securities	8	36	3	-
Provision for liabilities and charges	59	-	9	-
Exchange difference	(163)	476	(51)	(35)
Other non-cash items	217	(458)	226	(58)
Net cash flow from trading activities	676	573	457	137
Decrease/(increase) in loans and advances to banks and customers	5,276	(14,638)	(851)	613
(Increase)/decrease in securities	(395)	(607)	(67)	(577)
Decrease/(increase) in other assets	110	14	17	(16)
Decrease/(increase) in derivative assets	1,126	(907)	17	42
(Increase)/decrease in deferred tax assets	(112)	(18)	28	(1)
Changes in operating assets	6,005	(16,156)	(856)	61
(Decrease)/increase in deposits by banks and customers	(4,702)	15,768	(1,511)	1,825
(Decrease)/increase in debt securities in issue	(4,328)	(5,106)	(434)	(2,384)
Increase/(decrease) in other liabilities	126	106	190	83
(Decrease)/increase in derivative liabilities	(631)	640	(40)	16
(Decrease)/increase in deferred tax liabilities	(18)	(3)	(2)	(1)
Changes in operating liabilities	(9,553)	11,405	(1,797)	(461)
Total taxes received (paid)	6	(62)	8	(38)
Cash contribution to defined benefit pension schemes	(68)	(71)	(29)	(28)
Net cash outflow from operating activities	(2,934)	(4,311)	(2,217)	(329)

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

29. Interest received and paid

	Group		Bank	
	2009 £m	2008 £m	2009 £m	2008 £m
Interest received	2,041	3,637	429	823
Interest paid	(989)	(2,526)	(211)	(651)
	1,052	1,111	218	172

30. Analysis of changes in financing during the year

	Group					
	Share capital and share premium		Reserves		Subordinated Liabilities	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
At 1 January	1,619	1,619	-	-	1,318	1,062
Net cash inflows from financing	793	-	2,211	-	-	-
Currency translation and other adjustments	-	-	-	-	(75)	256
At 31 December	2,412	1,619	2,211	-	1,243	1,318

	Bank					
	Share capital and share premium		Reserves		Subordinated Liabilities	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
At 1 January	1,619	1,619	-	-	1,077	860
Net cash inflows from financing	793	-	2,211	-	-	-
Currency translation and other adjustments	-	-	-	-	(67)	217
At 31 December	2,412	1,619	2,211	-	1,010	1,077

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

31. Analysis of cash and cash equivalents

	Group	
	2009	2008
	£m	£m
At 1 January	3,444	6,770
Net cash inflow / (outflow)	556	(3,775)
Effect of exchange rate changes on cash and cash equivalents	(195)	449
At 31 December	3,805	3,444
Comprising:		
Cash and balances at central banks	860	346
Loans and advances to banks & debt securities	2,945	3,098

	Bank	
	2009	2008
	£m	£m
At 1 January	5,523	5,832
Net cash outflow	(1,491)	(334)
Effect of exchange rate changes on cash and cash equivalents	(192)	25
At 31 December	3,840	5,523
Comprising:		
Cash and balances at central banks	599	103
Loans and advances to banks & debt securities	3,241	5,420

ULSTER BANK GROUP

32. 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.

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

	Total Income		Group (loss)/profit on ordinary activities		Net Assets		Total Assets		Average Assets	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Geographical segments										
United Kingdom	417	353	(210)	(235)	241	1,334	11,502	11,273	11,377	15,686
Republic of Ireland	812	684	(1,158)	(459)	4,446	1,653	50,249	58,412	53,722	53,238
Total	1,229	1,037	(1,368)	(694)	4,687	2,987	61,751	69,685	65,099	68,924
Class of Business										
Retail Markets	412	395	116	176	-	-	17,232	19,082	17,531	16,438
Corporate Markets	580	618	(69)	424	-	-	21,205	23,115	21,562	19,184
Other	237	24	(1,415)	(1,294)	4,687	2,987	23,314	27,488	26,006	33,302
Total	1,229	1,037	(1,368)	(694)	4,687	2,987	61,751	69,685	65,099	68,924

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

33. Transactions with Directors

At 31 December 2009, the amounts outstanding in relation to transactions, arrangements and agreements entered into by authorised institutions in the Group, as defined in UK legislation, were £1,738,259 in respect of loans to any persons who were directors at any time during the financial period.

34. Related parties

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

The Company's ultimate holding company, 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 shareholding is managed by UK Financial Investments Limited, a company wholly-owned by the UK Government.

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 £
Transactions during the year				
Loans made during the year:				
- at a commercial rate	1	1	-	2,675,000
- at a preferential rate	1	-	-	122,200
Balances outstanding at the end of the year				
Loans:				
- at a preferential rate	3	4	2	393,834
- at a commercial rate	8	4	17	21,950,688

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

34. 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	2009 £m	2008 £m
Loans and advances to banks		
Parent	2,454	2,377
Other related parties, including fellow subsidiaries	-	165
	2,454	2,542
Loans and advances to customers		
Parent	5	-
Key management	3	3
Other related parties, including fellow subsidiaries	3	2
	11	5
Derivatives		
Parent	728	1,572
Total assets	3,193	4,119
Liabilities		
Deposits by banks		
Parent	13,923	16,015
Other related parties, including fellow subsidiaries	-	674
	13,923	16,689
Deposits by customers		
Parent	682	-
Other related parties, including fellow subsidiaries	23	450
	705	450
Derivatives		
Parent	1,455	1,890
Total liabilities	16,083	19,029

ULSTER BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS - for the year ended 31 December 2009

34. Related parties (continued)

As at 31 December 2009 balances with UK Government and UK controlled bodies were:

	Central Government (including the Bank of England) £m	Local Government £m	Banks, financial corporations and public corporations £m	2009 total £m
Assets				
Balances at central banks	9	-	-	9
Loans and Advances to customers	-	-	4	4
	9	-	4	13
Liabilities				
Customer accounts	12	158	33	203

No impairment losses were recognised by the Group in 2009 in respect of balances with UK Government and UK Government controlled bodies.

35. 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.

36. Post balance sheet events

On 15 February 2010, First Active plc surrendered its banking licence as part of the final phase of the merger of First Active plc and Ulster Bank Ireland Limited. The merger also involved the transfer of the majority of First Active plc's assets and liabilities to Ulster Bank Limited with no change in terms of conditions of the First Active plc's borrowers and investors.

On 29 January 2010, the Bank received a capital contribution of £502m from its parent, National Westminster Bank plc.

ULSTER BANK GROUP

DIRECTORS AND EXECUTIVES

Chairman

Sean Dorgan (58)

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 (47)

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 (41)

was appointed Group Finance Director in February 2008 and subsequently Chief Operating Officer in February 2009. 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 (48)

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 (48)

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 (60)

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 a Chartered Banker and Solicitor and was appointed a Fellow of the Chartered Institute of Bankers in 1992, later becoming President from 2007-2009

Trevor Bowen (60)

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, Amphitheatre Ireland Ltd, Spencer Dock Development Company Ltd and Readymix plc.

ULSTER BANK GROUP

DIRECTORS AND EXECUTIVES (continued)

Eileen Gleeson (49)

joined Ulster Bank Board in 2004. She joined First Active Board in 2003 and subsequently Ulster Bank Ireland Board in 2009. A Chartered Director, 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, the Coombe Women and Infants University Hospital and the DCU Ryan Academy for Entrepreneurship. She is a former Special Adviser to the President of Ireland, Mary McAleese.

Christopher Mills (62)

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 (56)

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 (62)

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.

Gordon Pell (59)

was formerly group director of Lloyds TSB UK Retail Banking. He joined National Westminster Bank Plc as a director in February 2000, going on to become Chief Executive, Retail Banking. He is also a director of Race for Opportunity, and a member of the FSA Practitioner Panel. He was appointed chairman of the Business Commission on Racial Equality in the Workplace in July 2006, and deputy Chairman of the Board of British Bankers Association in September 2007.

Sir Nigel Hamilton (61)

joined the Ulster Bank Board in April 2009, after recently retiring from his role as Head of the Northern Ireland Civil Service. During his time as Head of the Northern Ireland Civil Service he was also Head of the Office of the First Minister and Deputy First Minister and Secretary to the Northern Ireland Executive.

GROUP AUDIT COMMITTEE

Trevor Bowen, Chairman
Miller McLean
Sir Nigel Hamilton *

* joined in April 2009

ULSTER BANK GROUP

DIRECTORS AND EXECUTIVES (continued)

DIVISIONAL HEADS

M Bamber	Retail Markets
R Gallagher	Corporate Markets
S Daniels	Group Human Resources
S Murphy	Business Operations
E Graham	Business Services

COMPANY SECRETARIES

M Mullen
R Bergin

HEAD OFFICE

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