

Registered Number: R733

ULSTER BANK LIMITED

REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS

31 December 2010

ULSTER BANK LIMITED

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ULSTER BANK LIMITED

BOARD OF DIRECTORS AND SECRETARIES

Directors

M Bamber
T Bowen
C Campbell
S Dorgan (Chairman)
R Gallagher
E Gleeson
N Hamilton
C M Mills
C McCarthy
A McLaughlin
S Murphy
P Nolan
I Webb

Registered Office

11–16 Donegall Square East
Belfast
BT1 5UB

Secretaries

R Bergin
R Curran (Assistant secretary)
J Gribbon (Assistant secretary)

Auditors

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

ULSTER BANK LIMITED

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 2010. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

ACTIVITIES AND BUSINESS REVIEW

Principal activities

The Bank is a leading retail and commercial bank in Northern Ireland and the Republic of Ireland. It provides a comprehensive range of financial services through both its Retail Markets division, which has a network of branches and operates in the personal and bancassurance sectors, and its Corporate Markets division which provides services to business customers, corporate customers and institutional markets.

Business review

2010 was another challenging year for the Group's business, and for the wider banking industry in the key markets in which the Group operates. The economic environment remains fragile with heightened uncertainty arising from sovereign debt concerns in the Republic of Ireland. The Group's financial results reflect this, with charges for bad and non-performing loans continuing to have a negative impact.

In response, the Group has taken several steps to strengthen its underlying business and provide support to customers through these difficult times. In 2009 the Group set out a five-year strategy, and significant progress has been made throughout the year which highlights the Group's commitment to achieving these targets. The ambition is to become Ireland's most helpful bank. The Group recognises that helping its customers helps its business too, making it a stronger and more resilient business for the future.

In September the Group launched the 'Help For What Matters' programme. The Group recognises the benefit of listening to what customers need and developing customer commitments that focus on the issues that matter to them. The commitments make it clear what customers can expect. The Group is still at an early stage in the programme, but it is already delivering on these commitments. For example, in 2010 45 branches opened on a Saturday for the first time. The Group now has more branches open on Saturdays across Ireland than any other bank.

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

Financial performance

The Group's financial performance is presented in the Consolidated Income Statement on page 8.

Net interest income of £1,006m remained relatively flat on the same period in 2009, with higher lending margins and income from share capital offset by reduced deposit spreads.

Non interest income increased from £221m to £286m, primarily attributable to the gain on disposal of the merchant services business and favourable mark to market adjustment on derivatives.

Excluding the one-off gain in 2009 from the curtailment of the pension scheme, operating expenses decreased by 27% on prior year, reflecting the benefit of the Group's cost initiatives.

Impairment losses have increased from £1,905m to £3,843m due to ongoing challenging economic conditions, and were in line with expectations.

At the end of the year the total assets of the Group were £54,147m (2009: £61,751m).

ULSTER BANK LIMITED

REPORT OF THE DIRECTORS (continued)

Accounting policies

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

Risk management

The major risks associated with the Group's businesses are market, liquidity, credit, regulatory, reputational, operational and pension 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 and Note 26 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 and the Bank 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 changes to 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 79 to 80. From 1 January 2010 to date the following changes have taken place:

	<u>Appointed</u>	<u>Resigned</u>
<u>Directors</u>		
C Campbell	05 July 2010	
A McLaughlin	19 October 2010	
G Pell		01 April 2010
M McLean		11 June 2010
<u>Secretary</u>		
R Bergin	22 April 2010	
J Collister		11 February 2010
<u>Assistant secretary</u>		
J Gribbon	22 April 2010	
R Bergin		22 April 2010
M Mullen		09 December 2010

In accordance with the Articles of Association, 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").

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.

ULSTER BANK LIMITED

REPORT OF THE DIRECTORS (continued)

Staff involvement (continued)

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 through 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 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 the Managing Diversity Programme, the Group aims to value and engage individual difference and maximise inclusion to create a positive experience for its people and customers.

The Group's commitment to diversity underpins its desire to be the financial services provider of choice for customers and to be the employer of choice. 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 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 2010, 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.

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 include 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 2010, 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 29 days (2009: 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 £818,440 (2009: £780,693).

Branches outside the state

Included within the consolidated financial statements of the Group are branches (as defined in the Companies Act 2006 section 1046(3)) located outside of the United Kingdom.

ULSTER BANK LIMITED

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 and 26 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 market, credit and liquidity risks.

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 to 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.

Investments in group undertakings

The investments in Group undertakings are shown in Note 13. All of these companies are included in the Group's consolidated financial statements and all have an accounting reference date of 31 December with the exception of Ulster Bank Insurance Services Limited which has an accounting reference date of 30 November. This Company is due to be wound up within the next 12 months.

Dividends

The directors do not recommend the payment of a dividend on ordinary shares (2009: £nil).

Post balance sheet events

There have been no significant events between the year end and the date of approval of the financial statements which would require a change or additional disclosure or amendment in the financial statement.

Directors' disclosure to auditors

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

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

The auditors Deloitte & Touche have indicated their willingness to continue in office as auditors.

By order of the Board:

Rachel Curran
Assistant Secretary
11-16 Donegall Square East
Belfast
BT1 5UB

23 February 2011

Ulster Bank Limited is registered in Northern Ireland No. R733

ULSTER BANK LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable laws and regulation. Company law requires the directors to prepare such financial statements for each financial year. Under that law the directors have chosen to prepare Group and Bank financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Bank and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group and Bank's ability to continue as a going concern.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group and Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Bank and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for safeguarding the assets of the Group and 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:

Rachel Curran
Assistant Secretary
11-16 Donegall Square East
Belfast
BT1 5UB

23 February 2011

Ulster Bank Limited is registered in Northern Ireland No. R733

ULSTER BANK LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ULSTER BANK LIMITED

We have audited the financial statements of Ulster Bank Limited ("the Bank") and its subsidiaries (together "the Group") for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Balance Sheets, the Statements of Changes in Equity, the Cash Flow Statements, the Accounting Policies and related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of 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 auditor's 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 auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Bank's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the Group's and Bank's financial statements give a true and fair view of the state of the Group and of the Bank's affairs as at 31 December 2010 and of the Group's loss for the year then ended;
- the Group's financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Bank's financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Group's and Bank's financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Martin Reilly (Senior statutory auditor)
for and on behalf of Deloitte & Touche
Chartered Accountants and Statutory Auditors
Dublin, Ireland

23 February 2011

ULSTER BANK LIMITED

CONSOLIDATED INCOME STATEMENT for the year ended 31 December 2010

	Note	Group	
		2010 £m	2009 £m
Interest receivable		1,587	1,973
Interest payable		(581)	(965)
Net interest income	1	1,006	1,008
Fees and commission receivable		209	193
Fees and commission payable		(30)	(26)
Income from trading activities		40	(3)
Other operating income		67	57
Non interest income	2	286	221
Total income		1,292	1,229
Operating expenses	3	(682)	(681)
Operating profit before impairment losses		610	548
Impairment loss on loans	10	(3,843)	(1,905)
Impairment on intangibles		–	(11)
Operating loss before tax		(3,233)	(1,368)
Tax	6	145	193
Loss for the year		(3,088)	(1,175)
Loss attributable to:			
Non-controlling interests		(8)	(1)
Equity preference shareholders	7	–	(4)
Ordinary shareholders		(3,080)	(1,170)
		(3,088)	(1,175)

The accompanying accounting policies on pages 13 to 24 and the notes on pages 25 to 78 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 23 February 2011 and signed on its behalf by:

Sean Dorgan
Chairman

Cormac McCarthy
Group Chief Executive

Robert Gallagher
Director

Ulster Bank Limited is registered in Northern Ireland No. R733

ULSTER BANK LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2010

	Group	
	2010	2009
	£m	£m
Loss for the year	(3,088)	(1,175)
Other comprehensive income:		
Fair value gains on available-for-sale financial assets	(2)	19
Cash flow hedges	(2)	(5)
Exchange differences on translation of foreign operations	(162)	(179)
Actuarial gains on defined benefit plans and other movements	58	41
Other comprehensive income before tax	(108)	(124)
Tax relating to components of other comprehensive income	1	(5)
Other comprehensive income after tax	(107)	(129)
Total comprehensive income for the year	(3,195)	(1,304)
Attributable to:		
Non-controlling interests	(22)	(40)
Ordinary shareholders	(3,173)	(1,264)
	(3,195)	(1,304)

The accompanying accounting policies on pages 13 to 24 and the notes on pages 25 to 78 form an integral part of these financial statements.

ULSTER BANK LIMITED

BALANCE SHEETS as at 31 December 2010

	Note	Group		Bank	
		2010 £m	2009 £m	2010 £m	2009 £m
Assets					
Cash and balances at central banks	9	854	860	613	599
Loans and advances to banks	9	5,742	5,091	4,206	4,811
Loans and advances to customers	9	45,403	52,843	7,458	8,011
Debt securities subject to repurchase agreements		–	72	–	72
Other debt securities		379	840	195	183
Debt securities	9,11	379	912	195	255
Equity shares	9,12	4	2	–	–
Investments in Group undertakings	9,13	–	–	2,951	1,365
Derivatives	9,16	962	1,203	149	30
Property, plant and equipment	9,15	400	487	90	110
Prepayments, accrued income and other assets	9,17	176	173	142	88
Deferred taxation	9,20	226	180	4	10
Assets held for sale	9,18	1	–	–	–
Total assets		54,147	61,751	15,808	15,279
Liabilities					
Deposits by banks	9	14,135	20,446	2,722	4,554
Customer accounts	9	24,157	22,599	7,610	6,474
Debt securities in issue	9	6,842	9,866	114	521
Derivatives	9,16	1,396	1,574	162	29
Accruals, deferred income and other liabilities	9,19	1,115	1,267	812	815
Retirement benefit liabilities	4,9	17	53	10	27
Deferred taxation	9,20	14	16	11	13
Subordinated liabilities	9,21	1,215	1,243	986	1,010
Total liabilities		48,891	57,064	12,427	13,443
Equity					
Non-controlling interests		558	522	–	–
Shareholders' equity:					
Called up share capital	22	1,505	1,505	1,505	1,505
Reserves		3,193	2,660	1,876	331
Total equity	9	5,256	4,687	3,381	1,836
Total liabilities and equity		54,147	61,751	15,808	15,279

The accompanying accounting policies on pages 13 to 24 and the notes on pages 25 to 78 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 23 February 2011 and signed on its behalf by:

Sean Dorgan
Chairman

Cormac McCarthy
Group Chief Executive

Robert Gallagher
Director

Ulster Bank Limited is registered in Northern Ireland No. R733

ULSTER BANK LIMITED

STATEMENTS OF CHANGES IN EQUITY for the year ended 31 December 2010

	Group		Bank	
	2010 £m	2009 £m	2010 £m	2009 £m
Called up share capital				
At 1 January	1,505	712	1,505	712
Shares issued during the year	–	793	–	793
At 31 December	1,505	1,505	1,505	1,505
Share premium account				
At 1 January and 31 December	907	907	907	907
Available-for-sale reserve				
At 1 January	1	(12)	(2)	(19)
Unrealised (losses)/gains in the year	(2)	19	(2)	24
Realised gains in the year	–	1	–	–
Exchange losses in the year	(1)	(1)	(2)	–
Taxation	1	(6)	1	(7)
At 31 December	(1)	1	(5)	(2)
Cash flow hedging reserve				
At 1 January	2	6	–	–
Unrealised losses in the year	(7)	–	–	–
Gains/(losses) recycled on terminated hedges	5	(5)	–	–
Taxation	–	1	–	–
At 31 December	–	2	–	–
Foreign exchange reserve				
At 1 January	381	521	(260)	(260)
Retranslation of net assets	(148)	(140)	–	–
At 31 December	233	381	(260)	(260)
Retained earnings				
At 1 January	(842)	291	(2,525)	(6)
Actuarial gains/(losses) and other movements	58	41	(21)	–
Loss attributable to ordinary shareholders	(3,080)	(1,170)	(2,138)	(2,519)
Loss attributable to equity preference shareholders	–	(4)	–	–
At 31 December	(3,864)	(842)	(4,684)	(2,525)
Capital contribution				
At 1 January	2,211	–	2,211	–
Capital contribution	3,707	2,211	3,707	2,211
At 31 December	5,918	2,211	5,918	2,211
Shareholders' equity at 31 December	4,698	4,165	3,381	1,836
Non-controlling interests				
At 1 January	522	562	–	–
Additions	58	–	–	–
Currency translation adjustments	(14)	(39)	–	–
Loss attributable to non-controlling interests	(8)	(1)	–	–
At 31 December	558	522	–	–
Total equity at 31 December	5,256	4,687	3,381	1,836

Total comprehensive loss recognised in the Statement of Changes in Equity is attributable as follows:

Non-controlling interests	(22)	(40)	–	–
Ordinary shareholders	(3,173)	(1,264)	(2,162)	(2,502)
	(3,195)	(1,304)	(2,162)	(2,502)

The accompanying accounting policies on pages 13 to 24 and the notes on pages 25 to 78 form an integral part of these financial statements.

ULSTER BANK LIMITED

CASH FLOW STATEMENTS for the year ended 31 December 2010

	Note	Group		Bank	
		2010 £m	2009 £m	2010 £m	2009 £m
Operating activities					
Operating loss before tax		(3,233)	(1,368)	(2,229)	(2,583)
Adjustments for:					
Depreciation and amortisation		32	38	11	12
Impairment of intangible assets		–	11	–	–
Interest on subordinated liabilities		22	38	14	23
Charge for defined benefit pension schemes		35	(118)	11	(54)
Losses on loans and advances written off net of recoveries		3,794	1,872	575	462
Impairment of investments in Group undertakings		–	–	1,829	2,402
Elimination of foreign exchange differences		(184)	(163)	1	(51)
Other non-cash items		18	366	(186)	246
Net cash flows from trading activities	28	484	676	26	457
Cash contribution to defined benefit pension schemes		(75)	(68)	(29)	(29)
Changes in operating assets and liabilities		(4,163)	(3,548)	(50)	(2,653)
Net cash flows from operating activities before tax		(3,754)	(2,940)	(53)	(2,225)
Income taxes received		102	6	73	8
Net cash flows from operating activities	28	(3,652)	(2,934)	20	(2,217)
Investing activities					
Sale and maturity of securities		440	581	51	185
Purchase of equity shares		(2)	–	–	–
Purchase of property, plant and equipment		(40)	(61)	(1)	(6)
Sale of property, plant and equipment		13	–	3	–
Investment in subsidiary undertakings		–	–	(3,415)	(2,434)
Net cash flows from investing activities		411	520	(3,362)	(2,255)
Financing activities					
Issue of ordinary shares		–	793	–	793
Capital contribution		3,707	2,211	3,707	2,211
Dividends paid		–	4	–	–
Interest on subordinated liabilities		(22)	(38)	(14)	(23)
Net cash flows from financing activities		3,685	2,970	3,693	2,981
Effect of exchange rate changes on cash and cash equivalents		(69)	(195)	(15)	(192)
Net increase/(decrease) in cash and cash equivalents		375	361	336	(1,683)
Cash and cash equivalents 1 January		3,805	3,444	3,840	5,523
Cash and cash equivalents 31 December		4,180	3,805	4,176	3,840

The accompanying accounting policies on pages 13 to 24 and the notes on pages 25 to 78 form an integral part of these financial statements.

ULSTER BANK LIMITED

ACCOUNTING POLICIES

1. Presentation of financial statements

The consolidated financial statements are prepared on a going concern basis and 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 Group and Bank's 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 Group's financial statements are prepared in accordance with IFRS as issued by the IASB.

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, available-for-sale financial assets and investment property. 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 Bank (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 non-controlling shareholders is stated at their share of the fair value of the subsidiary's net assets.

The results of subsidiaries are included in the consolidated income statement from the date control passes until the Group ceases to control them through a 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 method. The effective interest 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 at 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 LIMITED

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

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

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

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

4. Assets held for sale

A non-current asset (or disposal group) is classified as held for sale if the Group will recover the carrying amount principally through a sale transaction rather than through continuing use. A non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. If the asset (or disposal group) is acquired as part of a business combination it is initially measured at fair value less costs to sell. Assets and liabilities of disposal groups classified as held for sale and non-current assets classified as held for sale are shown separately on the face of the balance sheet.

5. 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 percent 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 LIMITED

ACCOUNTING POLICIES (continued)

6. Intangible assets and goodwill

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. The intangible assets of the Group and Bank were fully impaired during 2008 and 2009.

7. Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and accumulated 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

8. Impairment of property, plant and equipment

At each reporting date, the Group assesses whether there is any indication that its 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. 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 cost 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 a 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 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.

9. Investment properties

Investment property comprises freehold and leasehold properties that are held to earn rentals or for capital appreciation or both. They are stated at fair value based on valuations by officers of the company. A selection of properties may be valued by external appointed surveyors from time to time as the commercial need arises. Fair value is based on current prices for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in profit or loss. Rental income from investment property is recognised on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Where there are put and call agreements in place which fix the future resale price of the property in the event that the option is exercised, depreciation is charged to reduce the carrying value of the properties in line with the agreements.

ULSTER BANK LIMITED

ACCOUNTING POLICIES (continued)

10. 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.

11. Leases

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

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

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

12. Provisions and contingent liabilities

The Group recognises a provision for a present obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably.

Provision is made for restructuring costs, including the costs of redundancy, when the Group has a constructive obligation to restructure. An obligation exists when the Group has a detailed formal plan for the restructuring and has raised a valid expectation in those affected by starting to implement the plan or announcing its main features.

If the Group has a contract that is onerous, it recognises the present obligation under the contract as a provision. An onerous contract is one where the unavoidable costs of meeting the obligations under it exceed the expected economic benefits. When the Group vacates a leasehold property, a provision is recognised for the costs under the lease less any expected economic benefits (such as rental income).

Contingent liabilities are possible obligations arising from past events whose existence will be confirmed only by uncertain future events or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

13. 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.

ULSTER BANK LIMITED

ACCOUNTING POLICIES (continued)

14. 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.

Designated as 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 as 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 as 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.

ULSTER BANK LIMITED

ACCOUNTING POLICIES (continued)

15. 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. For collateralised loans and receivables, estimated future cash flows include cash flows that may result from foreclosure less the costs of obtaining and selling the collateral, whether or not foreclosure is probable.

Where, in the course of the orderly realisation of a loan it is exchanged for equity shares or properties, the exchange is accounted for as the sale of the loan and the subsequent acquisition of equity securities or investment properties. Where the Group's interest in equity shares following the exchange is such that the Group controlling an entity that entity is consolidated.

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

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

Impaired loans and receivables are written off, i.e. the impairment provision is applied in writing down the loan's carrying value partially or in full, when the Group concludes that there is no longer any realistic prospect of recovery of part or all of the loan. For portfolios that are collectively assessed for impairment, the timing of write off principally reflects historic recovery experience for each portfolio. For loans that are individually assessed for impairment, the timing of write off is determined on a case-by-case basis. Such loans are reviewed regularly and write offs will be prompted by bankruptcy, insolvency, restructuring and similar events. Amounts recovered after a loan has been written off are credited to the loan impairment charge for the period in which they are received.

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.

ULSTER BANK LIMITED

ACCOUNTING POLICIES (continued)

16. Financial liabilities

On initial recognition financial liabilities are classified into held-for-trading; designated as at fair value through profit or loss; or amortised cost.

Held-for-trading - 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.

Designated as at fair value through profit or loss - 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.

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.

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.

Amortised cost - 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.

17. 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. On the redemption or settlement of debt securities (including subordinated liabilities) issued by the Group, the Group derecognises the debt instrument and records a gain or loss being the difference between the debt's carrying amount and the cost of redemption or settlement. The same treatment applies where the debt is exchanged for a new debt issue that has terms substantially different from those of the existing debt. The assessment of whether the terms of the new debt instrument are substantially different takes into account qualitative and quantitative characteristics including a comparison of the discounted present value of the cash flows under the new terms with the discounted present value of the remaining cash flows of the original debt issue.

ULSTER BANK LIMITED

ACCOUNTING POLICIES (continued)

18. 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. However, where securities borrowed are transferred to third parties, a liability for the obligation to return the securities to the stock lending counterparty is recorded.

19. 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. Where it does not intend to settle the amounts net or simultaneously the assets and liabilities concerned are presented gross.

20. 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.

21. 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 a 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.

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 method is used, any cumulative adjustment is amortised to profit or loss over the life of the hedged item using a recalculated effective interest method (see accounting policy 3).

ULSTER BANK LIMITED

ACCOUNTING POLICIES (continued)

21. Derivatives and hedging (continued)

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.

22. 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.

23. Shares in Group entities

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

ULSTER BANK LIMITED

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. UK 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 2010, gross loans and advances to customers totalled £51,381m (2009: £55,308m) and customer loan impairment provisions amounted to £5,978m (2009: £2,465m).

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.

Deferred tax

The Group makes provision for deferred tax on short-term and other temporary differences where tax recognition occurs at a different time from accounting recognition.

The Group has recognised deferred tax assets in respect of losses and short-term timing differences. Deferred tax assets are recognised in respect of unused tax losses to the extent that it is probable that there will be future taxable profits against which the losses can be utilised. Business projections prepared for impairment reviews indicate that sufficient future taxable income will be available against which to offset these recognised deferred tax assets within 7 years.

ULSTER BANK LIMITED

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, pension increases, earnings growth and employee life expectancy. 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 to the financial statements. The Group pension deficit recognised in the balance sheet at 31 December 2010 was £17m (2009: £53m).

The UK Pension Bill, which will be enacted later this year, includes changes that mean that increases to pensions in payment for some UK schemes will in future reference the CPI rather than RPI measure of UK inflation. The Group's conclusion is that the Ulster Bank Pension Scheme is one of those affected and therefore the assumption used for the affected tranches of pension has been revised to reflect this.

The Group has also reduced the allowance made for future discretionary increases to pensions in payment, in light of recent experience.

Fair value - financial instruments

Financial instruments classified as held-for-trading or designated as at fair value through profit or loss and financial assets classified as available-for-sale are recognised in the financial statements at fair value. All derivatives are measured at fair value. In the balance sheet, financial assets carried at fair value are included within Debt securities and Derivatives as appropriate. Financial liabilities carried at fair value are included within Deposits by banks, Customer accounts and Debt securities in issue. 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. Fair value for a net open position in a financial instrument in an active market is the number of units of the instrument held times the current bid price (for financial assets) or offer price (for financial liabilities). In determining the fair value of derivative financial instruments gross long and short positions measured at current mid market prices are adjusted by bid-offer reserves calculated on a portfolio basis.

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

ULSTER BANK LIMITED

ACCOUNTING POLICIES (continued)

Accounting developments

The International Accounting Standards Board (IASB) issued 'Improvements to IFRS' in January 2010 implementing minor changes to IFRS, making non-urgent but necessary amendments to standards, primarily to remove inconsistency and to clarify wording. The revisions are effective for annual periods beginning on or after 1 July 2010 and are not expected to have a material effect on the Group or the Bank. A further revision was issued in May 2010 and is effective for annual periods beginning on or after 1 January 2011, which are also not expected to have a material effect on the Group or the 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 financial assets are measured at fair value. Changes in the value of financial assets measured at fair value are generally taken to profit or loss.

In October 2010, IFRS 9 was updated to include the classification and measurement of liabilities. It is not markedly different from IAS 39 except for liabilities measured at fair value; where the movement is due to changes in the credit rating of the issuer it is recognised in Other Comprehensive Income rather than in profit or loss.

The standard is effective for annual periods beginning on or after 1 January 2013.

This 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 changes relating to the classification and measurement of liabilities carried at fair value will have a less significant effect on the Group. The Group is assessing these impacts which are likely to depend on the outcome of the other phases of IASB's IAS 39 replacement project.

The IASB issued 'Disclosures - Transfers of Financial Assets' (Amendments to IFRS 7) in October 2010 to extend the standard's disclosure requirements about derecognition to align with US GAAP. The revisions are effective for annual periods beginning on or after 1 July 2011 and will not affect the financial position or reported performance of the Group or the Bank.

The IASB issued an amendment to IAS 12 'Income Taxes' in December 2010 to clarify that recognition of deferred tax should have regard to the expected manner of recovery or settlement of the asset or liability. The amendment and consequential withdrawal of SIC 21 'Deferred Tax: Recovery of Underlying Assets', effective for annual periods beginning on or after 1 January 2012, is not expected to have a material effect on the Group or the company.

The International Financial Reporting Interpretations Committee issued interpretation IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' in December 2009. The interpretation clarifies that the profit or loss on extinguishing liabilities by issuing equity instruments should be measured by reference to fair value, preferably of the equity instruments. The interpretation, effective for the Group for annual periods beginning on or after 1 January 2011, is not expected to have a material effect on the Group or the Bank.

The IASB reissued IAS 24, '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 annual periods beginning on or after 1 January 2011.

The Group has adopted the revised IFRS 3 'Business Combinations' and related revisions to IAS 27 'Consolidated and Separate Financial Statements' issued in January 2008 and also IFRIC 17 'Distributions of Non-Cash Assets to Owners' and the IASB's consequential amendments to IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations' issued in December 2008. They apply to transactions on or after 1 January 2010 and have not resulted in the restatement of previously published financial information. There have been no material acquisitions in the period and no disposals have been affected.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

1. Net interest income

	Group	
	2010	2009
	£m	£m
Loans and advances to customers	1,460	1,786
Loans and advances to banks	110	114
Debt securities	17	73
Interest receivable	1,587	1,973
Customer accounts	(317)	(314)
Deposits by banks	(171)	(354)
Debt securities in issue	(71)	(261)
Subordinated liabilities	(22)	(36)
Interest payable	(581)	(965)
Net interest income	1,006	1,008

2. Non-interest income

	Group	
	2010	2009
	£m	£m
Fees and commission receivable	209	193
Fees and commission payable	(30)	(26)
Income from trading activities:		
Foreign exchange ⁽¹⁾	63	123
Interest rates ⁽²⁾	(23)	(126)
Other operating income:		
Profit on sale of disposal of Ulster Bank Merchant Services	28	–
Other operating income	39	57
Non-interest income	286	221

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

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 rates: interest rate swaps, forward foreign exchange contracts, forward rate agreements, interest rate options, interest rate futures and related hedges and funding.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

3. Operating expenses

	Group	
	2010	2009
	£m	£m
Wages, salaries and other staff costs	277	286
Restructure costs	17	78
Social security costs	27	26
Pension costs (see Note 4)	35	68
Pension costs curtailment gains (see Note 4)	–	(186)
Staff costs	356	272
Property, plant and equipment depreciation (see Note 15)	32	38
Impairment of property, plant and equipment (see Note 15)	35	25
Impairment of intangible assets (see Note 14)	–	11
Depreciation, amortisation and impairment	67	74
Premises	132	195
Administration	127	140
Other expenses	259	335
	682	681
<i>Integration costs included in operating expenses comprises:</i>		
Other administrative expenses	–	2

The auditors' remuneration for statutory audit work was £1,172k for the Group (2009: £974k). Remuneration paid to the auditors for non-audit work for the Group was £342k, this comprises Corporate finance £130k, Other services pursuant to legislation £8k and Other services £204k (2009: £240k). Other than the amounts disclosed above, no additional remuneration was payable to the auditors for any other services.

The average number of persons employed by the Group during the year, excluding temporary staff was 5,717 (2009: 6,164). The average number of temporary employees during 2010 was 167 (2009: 131). The number of persons employed by the Group as at 31 December, excluding temporary staff, was as follows:

Employee numbers	Group	
	2010	2009
	Number	Number
Retail Markets	2,410	2,412
Corporate Markets/Other	3,289	3,314
	5,699	5,726

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

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

The schemes were closed to new entrants in 2009, when a new defined contribution scheme was launched.

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 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 2010 by independent actuaries, using the following assumptions:

Principal actuarial assumptions at 31 December (weighted average)	Group	
	2010	2009
Discount rate	5.50% – 5.60%	5.25% – 5.90%
Expected return on plan assets	6.09% – 6.35%	6.30% – 6.63%
Rate of increase in salaries	1.75%	1.75%
Rate of increase in pensions in payment	1.50% – 2.70%	2.00% – 3.50%
Inflation assumption	2.00% – 3.30%	2.00% – 3.50%

Major classes of plan assets as a percentage of total plan assets	Group	
	2010	2009
Equities	44%	46%
Index-linked bonds	–	13%
Government fixed interest bonds	15%	2%
Corporate and other bonds	15%	21%
Property	6%	6%
Cash and other assets	20%	12%

The expected return on plan assets at 31 December 2010 is based upon the weighted average of the following assumptions of the returns on the major classes of plan assets:

	Group	
	2010	2009
Equities	7.70%	8.00%
Index-linked bonds	–	4.30% – 4.50%
Government fixed interest bonds	3.70% – 4.20%	4.30% – 4.50%
Corporate and other bonds	4.70% – 5.50%	5.25% – 5.90%
Property	6.70%	6.10% – 6.20%
Cash and other assets	3.50% – 6.00%	1.00% – 5.42%

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

4. Pension costs (continued)

Principal actuarial assumptions at 31 December	Bank	
	2010	2009
Discount rate	5.50%	5.90%
Expected return on plan assets (weighted average)	6.35%	6.60%
Rate of increase in salaries	1.75%	1.75%
Rate of increase in pensions in payment	2.00% – 2.70%	3.50%
Inflation assumption	3.30%	3.50%

Major classes of plan assets as a percentage of total plan assets	Bank	
	2010	2009
Equities	43%	45%
Index-linked bonds	–	14%
Government fixed interest bonds	15%	–
Corporate and other bonds	15%	21%
Property	7%	6%
Cash other assets	20%	14%

The expected return on plan assets at 31 December 2010 is based upon the weighted average of the following assumptions of the returns on the major classes of plan assets:

	Bank	
	2010	2009
Equities	7.70%	8.00%
Index-linked bonds	–	4.50%
Government fixed interest bonds	4.20%	–
Corporate and other bonds	5.50%	5.90%
Property	6.70%	6.20%
Cash other assets	4.00% – 6.00%	5.42%

Post-retirement mortality assumptions (Main scheme)	Bank	
	2010	2009
Longevity at age 70 for current pensioners (years)		
Males	16.9	16.7
Females	18.4	18.3
Longevity at age 63 for future pensioners (years)		
Males	23.5	23.3
Females	25.2	25.1

These post-retirement mortality assumptions are derived from standard mortality tables used by the scheme actuary to value the liabilities for the main scheme.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

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 2010	1,012	(1,272)	(260)
Currency translation and other adjustments	(16)	21	5
<i>Income statement:</i>			
Expected return	65	–	65
Interest cost	–	(68)	(68)
Current service cost	–	(30)	(30)
Past service cost	–	(2)	(2)
	65	(100)	(35)
Actuarial gain	44	137	181
Contributions by employer	75	–	75
Contributions by plan participants	5	(5)	–
Benefits paid	(39)	39	–
At 31 December 2010	1,146	(1,180)	(34)
Unrecognised actuarial gains			17
			(17)

The Group expects to contribute £71.2m to its defined benefit pension schemes in 2011.

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
			(53)

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

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 2010	458	(557)	(99)
<i>Income statement:</i>			
Expected return	31	–	31
Interest cost	–	(33)	(33)
Current service cost	–	(9)	(9)
	31	(42)	(11)
Actuarial gains	25	54	79
Contributions by employer	29	–	29
Contributions by plan participants	1	(1)	–
Benefits paid	(19)	19	–
At 31 December 2010	525	(527)	(2)
Unrecognised actuarial losses			(8)
Retirement benefit liabilities at 31 December 2010			(10)

The Bank expects to contribute £35.4m to its defined benefit pension scheme in 2011.

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)
<i>Income statement:</i>			
Expected return	27	–	27
Interest cost	–	(30)	(30)
Current service cost	–	(13)	(13)
Gains on curtailments	–	71	71
Past service cost	–	(1)	(1)
	27	27	54
Actuarial gain/(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)

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

4. Pension costs (continued)

History of defined benefit schemes (Group)	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Present value of defined benefit obligations	(1,180)	(1,272)	(1,233)	(1,099)	(1,029)
Fair value of plan assets	1,146	1,012	867	940	861
Net deficit	(34)	(260)	(366)	(159)	(168)
Experience gains/(losses) on plan liabilities	137	(184)	(18)	(38)	15
Experience gains/(losses) on plan assets	44	83	(299)	23	16
Actual return on pension scheme assets	110	139	(232)	21	66

History of defined benefit schemes (Bank)	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Present value of defined benefit obligations	(527)	(557)	(462)	(532)	(519)
Fair value of plan assets	525	458	388	451	430
Net deficit	(2)	(99)	(74)	(81)	(89)
Experience gains/(losses) on plan liabilities	54	(137)	1	(4)	4
Experience gains on plan assets	25	29	(108)	(9)	1
Actual return on pension scheme assets	55	56	(76)	20	28

The table below sets out the sensitivities of the pension cost for the year and the present value of defined benefit obligations at the balance sheet dates to a change in the principal actuarial assumptions:

	Group			
	Increase/(decrease) in pension cost for the year		Increase/(decrease) in obligation at 31 December	
	2010 £m	2009 £m	2010 £m	2009 £m
0.25% increase in the discount rate	(3)	(6)	(60)	(64)
0.25% increase in inflation	7	10	64	67
0.25% additional rate of increase in pensions in payment	3	5	38	41
0.25% additional rate of increase in deferred pensions	1	–	8	7
0.25% additional rate of increase in salaries	3	3	18	(18)
Longevity increase of 1 year	2	5	25	37

	Bank			
	Increase/(decrease) in pension cost for the year		Increase/(decrease) in obligation at 31 December	
	2010 £m	2009 £m	2010 £m	2009 £m
0.25% increase in the discount rate	(1)	(2)	(26)	(27)
0.25% increase in inflation	2	4	28	28
0.25% additional rate of increase in pensions in payment	1	2	18	19
0.25% additional rate of increase in deferred pensions	–	–	3	2
0.25% additional rate of increase in salaries	1	1	7	(7)
Longevity increase of 1 year	1	2	11	17

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

5. Emoluments of directors

	2010 £	2009 £
Non-executive directors - emoluments	182,703	167,620
Chairman and executive directors - emoluments	2,050,677	2,137,367
Total emoluments received by directors	2,233,380	2,304,987

Two of the non-executive directors of the Bank, Andrew McLaughlin and Christopher Campbell, are employed by The Royal Bank of Scotland plc and are remunerated for their services to RBS 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 £683,644 (2009: £710,589). During the year the highest paid director did not exercise share options.

The prior year emoluments figures have been restated to reflect the appropriate disclosure of employer pension contributions.

The executive directors may also participate in the RBS Group's executive share option and sharesave schemes.

6. Tax

	Group	
	2010 £m	2009 £m
Current taxation:		
<i>United Kingdom Corporation Tax at 28%</i>		
Credit for the year	(113)	(71)
Under/(over) provision in respect of prior periods	24	(1)
	(89)	(72)
<i>Overseas Tax at 12.5% (2009: 12.5%):</i>		
Credit for the year	–	–
(Over)/under provision in respect of prior periods	(4)	10
Total current taxation	(93)	(62)
Deferred taxation:		
Credit for the year	(71)	(115)
Under/(over) provision in respect of prior periods	19	(16)
Total deferred taxation	(52)	(131)
Tax credit for the year	(145)	(193)

The actual tax credit differs from the expected tax charge computed by applying the standard rate of UK Corporation Tax of 28% (2009: 28%) as follows:

	2010 £m	2009 £m
Operating loss before tax	(3,233)	(1,368)
Expected tax credit	(905)	(383)
<i>Factors affecting the charge for the year:</i>		
Foreign tax charged other than the standard rate of UK tax	108	197
Non-deductible/taxable items	(4)	–
Unrecognised losses	617	–
Adjustments to tax charge in respect of prior periods	39	(7)
Actual tax credit for the year	(145)	(193)

The effective tax rate for the year was 4.5% (2009: 14.3%).

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

7. Dividends to equity preference shareholders

	Group	
	2010 £m	2009 £m
Dividends refunded: 100m Non-cumulative preference shares of €1 each	–	(4)

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

In accordance with the exemption contained within Section 408(3) of the Companies Act 2006 the primary financial statements of the Bank do not include an Income Statement or Statement of Comprehensive Income. Included within Group loss after tax at 31 December 2010 is £2,138m (2009: £2,517m loss) 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						
	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	Total £m
2010							
Assets							
Cash and balances at central banks ⁽¹⁾	–	–	–	854	–	–	854
Loans and advances to banks ⁽²⁾	–	–	–	5,742	–	–	5,742
Loans and advances to customers ⁽³⁾	–	–	–	45,403	–	–	45,403
Debt securities	–	–	379	–	–	–	379
Equity shares	–	–	4	–	–	–	4
Derivatives	962	–	–	–	–	–	962
Property, plant and equipment	–	–	–	–	–	400	400
Prepayments, accrued income and other assets	–	–	–	–	–	176	176
Deferred taxation	–	–	–	–	–	226	226
Assets held for sale	1	–	–	–	–	–	1
	963	–	383	51,999	–	802	54,147
Liabilities							
Deposit by banks ⁽⁴⁾	17	–	–	–	14,118	–	14,135
Customer accounts ⁽⁵⁾	74	1,292	–	–	22,791	–	24,157
Debt securities in issue ⁽⁶⁾	–	–	–	–	6,842	–	6,842
Derivatives	1,396	–	–	–	–	–	1,396
Accruals, deferred income and other liabilities	–	–	–	–	–	1,115	1,115
Retirement benefit liabilities	–	–	–	–	–	17	17
Deferred taxation	–	–	–	–	–	14	14
Subordinated liabilities	–	–	–	–	1,215	–	1,215
	1,487	1,292	–	–	44,966	1,146	48,891
Equity							5,256
							54,147

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

9. Financial instruments (continued)

2009	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	
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
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⁾	–	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

(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 £18m (2009: £nil) and items in the course of collection from other banks of Group £265m (2009: £300m) and Bank £87m (2009: £111m).

(3) Ulster Bank Group has advances secured on residential properties and corporate and commercial loans subject to non-recourse funding. Under IAS 39, these securitised mortgages qualify for full recognition on the balance sheet at 31 December 2010. As at 31 December 2010, £15,034m (2009: £14,501m) are included in loans and advances to customers.

(4) Includes repurchase agreements of £3,001m (2009: £4,946m) and items in the course of transmission to other banks of Group £252m (2009: £245m) and Bank £39m (2009: £38m).

(5) The carrying amount of other customer accounts designated as at fair value through profit or loss is £20m less (2009: £8m less) than the principal amount.

(6) Comprises Bonds and medium term notes of £6,394m (2009: £8,490m) and Certificates of deposit and other commercial paper of £448m (2009: £1,376m)

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

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	
2010							
Assets							
Cash and balances at central banks	–	–	–	613	–	–	613
Loans and advances to banks ⁽¹⁾	–	–	–	4,206	–	–	4,206
Loans and advances to customers ⁽¹⁾	–	–	–	7,458	–	–	7,458
Debt securities	–	–	195	–	–	–	195
Investments in Group undertakings	–	–	–	–	–	2,951	2,951
Derivatives	149	–	–	–	–	–	149
Property, plant and equipment	–	–	–	–	–	90	90
Prepayments, accrued income and other assets	–	–	–	–	–	142	142
Deferred taxation	–	–	–	–	–	4	4
	149	–	195	12,277	–	3,187	15,808
Liabilities							
Deposit by banks ⁽²⁾	–	–	–	–	2,722	–	2,722
Customer accounts	–	451	–	–	7,159	–	7,610
Debt securities in issue	–	–	–	–	114	–	114
Derivatives	162	–	–	–	–	–	162
Accruals, deferred income and other liabilities	–	–	–	–	–	812	812
Retirement benefit liabilities	–	–	–	–	–	10	10
Deferred taxation	–	–	–	–	–	11	11
Subordinated liabilities	–	–	–	–	986	–	986
	162	451	–	–	10,981	833	12,427
Equity							3,381
							15,808

	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

(1) Includes amounts due from subsidiaries.

(2) Includes amounts due to subsidiaries.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

9. Financial instruments (continued)

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

	Group							
	2010				2009			
	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	184	195	–	379	572	340	–	912
Equity shares	–	4	–	4	–	–	2	2
Derivatives	–	962	–	962	–	1,203	–	1,203
Total	184	1,161	–	1,345	572	1,543	2	2,117
Liabilities								
Deposits by banks and customers	–	1,383	–	1,383	–	1,352	–	1,352
Derivatives	–	1,396	–	1,396	–	1,574	–	1,574
Total	–	2,779	–	2,779	–	2,926	–	2,926
	Bank							
	2010				2009			
	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	–	195	–	195	–	255	–	255
Derivatives	–	149	–	149	–	30	–	30
Total	–	344	–	344	–	285	–	285
Liabilities								
Deposits by banks and customers	–	451	–	451	–	457	–	457
Derivatives	–	162	–	162	–	29	–	29
Total	–	613	–	613	–	486	–	486

(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.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

9. Financial instruments (continued)

The following tables show the carrying values and the fair values of financial instruments on the balance sheet carried at amortised cost:

	Group			
	2010 Carrying value £m	2010 Fair value £m	2009 Carrying value £m	2009 Fair value £m
Financial assets				
Cash and balances at central banks	854	854	860	860
Loans and advances to banks				
Loans and receivables	5,742	5,702	5,091	5,091
Loans and advances to customers				
Loans and receivables	45,403	36,500	52,843	50,696
Financial liabilities				
Deposit by banks	14,118	14,117	20,446	20,446
Customer accounts	22,791	22,880	22,599	22,612
Debt securities in issue	6,842	5,023	9,866	7,758
Subordinated liabilities	1,215	1,227	1,243	1,243
	Bank			
	2010 Carrying value £m	2010 Fair value £m	2009 Carrying value £m	2009 Fair value £m
Financial assets				
Cash and balances at central banks	613	613	599	599
Loans and advances to banks				
Loans and receivables	4,206	4,206	4,811	4,811
Loans and advances to customers				
Loans and receivables	7,458	5,918	8,011	7,844
Financial liabilities				
Deposit by banks	2,722	2,722	4,554	4,554
Customer accounts	7,159	7,169	6,474	6,474
Debt securities in issue	114	114	521	521
Subordinated liabilities	986	986	1,010	1,010

The 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. Quoted market values are used where available; otherwise, fair values have been estimated based on discounted expected future cash flows and other valuation techniques. These techniques involve uncertainties and require assumptions and judgments covering prepayments, credit risk and discount rates.

Changes in these assumptions would significantly affect estimated fair values. The fair values reported would not necessarily be realised in an immediate sale or settlement. As a wide range of valuation techniques are available, it may be inappropriate to compare the Group's fair value information to independent markets or other financial institutions' fair values.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

9. Financial instruments (continued)

The assumptions and methodologies underlying the calculation of fair values of financial instruments at the balance sheet date are set out below:

The fair value of financial instruments which are of short maturity (3 months or less) approximates their carrying value. This applies mainly to cash and balances at central banks, items in the course of collection from other banks, settlement balances, items in the course of transmission to other banks and demand deposits.

The Group uses a number of methodologies to determine the fair values of financial instruments for which observable prices in active markets for identical instruments are not available. These techniques include: relative value methodologies based on observable prices for similar instruments; present value approaches where future cash flows from the asset or liability are estimated and then discounted using a risk-adjusted interest rate; option pricing models (such as Black-Scholes or binomial option pricing models) and simulation models such as Monte-Carlo.

The principal inputs to these valuation techniques are listed below. Values between and beyond available data points are obtained by interpolation and extrapolation. When utilising valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk.

- Bond prices - quoted prices are generally available for government bonds, certain corporate securities and some mortgage-related products.
- Credit spreads - where available, these are derived from prices of credit default swaps or other credit based instruments, such as debt securities. For others, credit spreads are obtained from pricing services.
- Interest rates - these are principally benchmark interest rates such as the London Inter-Bank Offered Rate (LIBOR) and quoted interest rates in the swap, bond and futures markets.
- Foreign currency exchange rates - there are observable markets both for spot and forward contracts and futures in the world's major currencies.

Loans and advances to banks and customers

Fair value is estimated by grouping loans into homogeneous portfolios and applying a discount rate to the cash flows. The discount rate is based on the market rate applicable at the balance sheet date for a similar portfolio with similar maturity and credit risk characteristics.

Debt securities

Fair values are determined using quoted prices where available or by reference to quoted prices of similar instruments.

Deposits by banks and customer accounts

The fair values of deposits are estimated using discounted cash flow valuation techniques.

Debt securities in issue and subordinated liabilities

Fair values are determined using quoted prices where available or by reference to valuation techniques and adjusting for own credit spreads where appropriate.

Remaining maturity

	Group		Total £m
	Less than 12 months £m	More than 12 months £m	
2010			
Assets			
Cash and balances at central banks	854	–	854
Loans and advances to banks	5,742	–	5,742
Loans and advances to customers	12,269	33,134	45,403
Debt securities	352	27	379
Equity shares	–	4	4
Derivatives	525	437	962
Liabilities			
Deposits by banks	14,135	–	14,135
Customer accounts	23,103	1,054	24,157
Debt securities in issue	1,728	5,114	6,842
Derivatives	939	457	1,396
Subordinated liabilities	8	1,207	1,215

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

9. Financial instruments (continued)

	Group		Total £m
	Less than 12 months £m	More than 12 months £m	
2009			
Assets			
Cash and balances at central banks	860	–	860
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

	Bank		Total £m
	Less than 12 months £m	More than 12 months £m	
2010			
Assets			
Cash and balances at central banks	613	–	613
Loans and advances to banks	4,206	–	4,206
Loans and advances to customers	3,606	3,852	7,458
Debt securities	195	–	195
Derivatives	80	69	149
Liabilities			
Deposits by banks	2,722	–	2,722
Customer accounts	7,610	–	7,610
Debt securities in issue	114	–	114
Derivatives	119	43	162
Subordinated liabilities	6	980	986

	Bank		Total £m
	Less than 12 months £m	More than 12 months £m	
2009			
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

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

10. Financial assets – impairments

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

	Group			Total 2010 £m	Total 2009 £m
	Individually assessed	Collectively assessed	Latent		
	£m	£m	£m		
At 1 January	1,729	452	284	2,465	811
Currency translation and other adjustments	(24)	(8)	(5)	(37)	(48)
Amounts written-off ⁽¹⁾	(6)	(43)	–	(49)	(34)
Charged to the income statement	3,114	399	330	3,843	1,905
Unwind of discount	(197)	(47)	–	(244)	(169)
At 31 December ⁽²⁾	4,616	753	609	5,978	2,465

	Bank			Total 2010 £m	Total 2009 £m
	Individually assessed	Collectively assessed	Latent		
	£m	£m	£m		
At 1 January	445	93	70	608	194
Amounts written-off ⁽¹⁾	–	(16)	–	(16)	(16)
Charged to the income statement	487	48	56	591	478
Unwind of discount	(46)	(3)	–	(49)	(48)
At 31 December ⁽²⁾	886	122	126	1,134	608

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

⁽²⁾ Impairment losses at 31 December 2010 do not include any loans and advances to banks.

Loan impairment

At 31 December 2010, the Group's non-accrual loans and loans past due 90 days amounted to £13,659m (2009: £9,048m) and £2,853m (2009: £2,294m) for Bank. Loan impairment provisions of £5,369m (2009: £2,180m) were held against the Group loans and £1,008m (2009: £539m) against the Bank loans.

	Group		Bank	
	2010 £m	2009 £m	2010 £m	2009 £m
Gross income not recognised but which would have been recognised under the original terms of non-accrual and restructured loans:				
Domestic	98	57	98	10
Foreign	454	211	–	37
	552	268	98	47

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 LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

10. Financial assets – impairments (continued)

The following table shows analysis of impaired financial assets.

Group	2010			2009		
	Cost £m	Provision £m	Net book value £m	Cost £m	Provision £m	Net book value £m
Impaired financial assets						
Loans and advances to customers	13,211	(5,368)	7,843	8,426	(2,180)	6,246
Equity shares	1	(1)	–	2	–	2
	13,212	(5,369)	7,843	8,428	(2,180)	6,248

Bank	2010			2009		
	Cost £m	Provision £m	Net book value £m	Cost £m	Provision £m	Net book value £m
Impaired financial assets						
Loans and advances to customers	2,708	(1,008)	1,700	2,106	(539)	1,567

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	
2010					
Loans and advances to customers	1,835	719	435	448	3,437

2009					
Loans and advances to customers	1,370	406	302	622	2,700

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	
2010					
Loans and advances to customers	121	33	13	145	312

2009					
Loans and advances to customers	176	20	15	188	399

	Group		Bank	
	2010 £m	2009 £m	2010 £m	2009 £m
Impaired financial assets – individually assessed:				
Loans and advances to customers	4,616	1,729	886	445

Loans that have been renegotiated in the past 12 months that would otherwise have been past due or impaired amounted to £1,545m as at 31 December 2010 (2009: £341m) for the Group and £31m (2009: £54m) for the Bank.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

11. Debt securities

	Group							
	2010				2009			
	Other central and local government £m	Bank and building society £m	Mortgage backed securities £m	Total £m	Other central and local government £m	Bank and building society £m	Mortgage backed securities £m	Total £m
2010								
Available-for-sale	184	125	70	379	618	222	72	912
Gross unrealised gains	4	5	-	9	4	-	-	4
Gross unrealised losses	-	(10)	(2)	(12)	-	(3)	-	(3)

	Bank							
	2010				2009			
	Other central and local government £m	Bank and building society £m	Mortgage backed securities £m	Total £m	Other central and local government £m	Bank and building society £m	Mortgage backed securities £m	Total £m
2010								
Available-for-sale	-	125	70	195	-	183	72	255
Gross unrealised losses	-	(5)	(2)	(7)	-	(2)	-	(2)

12. Equity shares

	Group	
	2010 Unlisted £m	2009 Unlisted £m
Available-for-sale	4	2

As at 31 December 2010, the Bank held £135,054 unlisted equity shares (2009: £216,378).

Unquoted equity investments whose fair value cannot be reliably measured are carried at cost and classified as available-for-sale financial assets.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

13. Investments in Group undertakings

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

	Bank	
	2010	2009
	£m	£m
At 1 January	1,365	1,333
Additional investments in Group undertakings	3,415	2,434
Impairment in Ulster Bank (Ireland) Holdings	(1,829)	(2,402)
At 31 December	2,951	1,365
	2010	2009
	£m	£m
Subsidiary undertakings comprise:		
– Banks	236	488
– Other	2,715	877
Total – all unlisted	2,951	1,365

The principle related undertakings of the Bank are shown below. Their capital consists of ordinary shares which are unlisted. All of these undertakings are owned directly or indirectly through intermediate holding companies and are all wholly owned.

Undertaking	Nature of business	Country of incorporation
Ulster Bank Ireland Limited ⁽¹⁾	Banking services, corporate and investment banking, foreign exchange services	Republic of Ireland
First Active plc ⁽²⁾	Banking services	Republic of Ireland

(1) Ulster Bank Ireland Limited and its subsidiaries also operate in Northern Ireland.

(2) On 15 February 2010 First Active plc surrendered its banking licence on the amalgamation of the banking businesses of First Active plc and Ulster Bank Ireland Limited.

The above information is provided in relation to the principal related undertakings as permitted by section 410(2) of the Companies Act 2006. Full information on all related undertakings will be included in the Annual Return filed with the UK Companies House. All of these undertakings are included in the Group's consolidated financial statements and have an accounting reference date of 31 December with the exception of one undertaking, Ulster Bank Insurance Services Limited, which has an accounting reference date of 30 November. It is the intention of the directors to wind up this company. As such no application has been made to align the accounting reference dates.

There are a number of entities in which the Group holds less than half the voting rights which are consolidated when the substance of the relationship between the Group and the entity indicates that the entity is controlled by the Group. Such entities are deemed to be controlled by the Group when relationships with such entities give rise to benefits that are in substance no different from those that would arise were the entity a subsidiary.

14. Intangible assets

Intangible assets comprising goodwill, computer software and other acquired intangibles were fully impaired during 2008. The remaining intangible asset class, core deposit intangibles, was fully impaired in 2009. No further intangible assets were developed or acquired in the current or the previous year.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

15. 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
2010						
Cost:						
At 1 January 2010	117	189	61	93	262	722
Currency translation and other adjustments	(4)	(5)	(1)	(4)	(3)	(17)
Additions	–	16	1	15	8	40
Disposals	–	(30)	–	(18)	(30)	(78)
At 31 December 2010	113	170	61	86	237	667
Accumulated depreciation and amortisation:						
At 1 January 2010	3	44	8	16	164	235
Currency translation and other adjustments	–	(1)	–	–	(3)	(4)
Disposals	–	(7)	–	(2)	(22)	(31)
Impairments	–	31	4	–	–	35
Depreciation charge for the year	–	4	1	8	19	32
At 31 December 2010	3	71	13	22	158	267
Carrying amount at 31 December 2010	110	99	48	64	79	400

	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						
Cost:						
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
Accumulated depreciation and amortisation:						
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
Carrying amount at 31 December 2009	114	145	53	77	98	487

There was no profit on disposal of freehold land and buildings during the year (2009: £nil).

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

15. Property, plant and equipment (continued)

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Fair value is based on current prices in an active market for similar properties in the same location and condition using internal valuation models based on yield comparables and any available recent market transactions taking cognisance of the principles of Royal Institute of Chartered Surveyors (RICS) valuation methodology.

Fair value of the investment properties is determined on at least an annual basis by officers of the Company. A selection of properties may be valued by external appointed surveyors from time to time as the commercial need arises. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Rental income from investment property is recognised on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Profit on disposal of freehold land and buildings during the year was £3m (2009: £nil).

Rental income from investment properties was £1m (2009: £1m). Direct operating expenses of investment properties were £1m (2009: £1m).

	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	
2010					
Cost:					
At 1 January 2010	56	21	10	106	193
Currency translation and other adjustments	(1)	–	–	–	(1)
Additions	–	–	–	1	1
Disposals	(3)	–	–	–	(3)
At 31 December 2010	<u>52</u>	<u>21</u>	<u>10</u>	<u>107</u>	<u>190</u>
Accumulated depreciation and amortisation:					
At 1 January 2010	10	3	1	69	83
Impairments	4	2	–	–	6
Depreciation charge for the year	1	–	1	9	11
At 31 December 2010	<u>15</u>	<u>5</u>	<u>2</u>	<u>78</u>	<u>100</u>
Carrying amount at 31 December 2010	<u>37</u>	<u>16</u>	<u>8</u>	<u>29</u>	<u>90</u>

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

15. 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
Carrying amount at 31 December 2009	46	18	9	37	110

16. 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					
	2010			2009		
	Notional amounts £m	Assets £m	Liabilities £m	Notional amounts £m	Assets £m	Liabilities £m
Free standing derivatives						
Exchange rate contracts:						
Spot, forwards and futures	7,434	90	110	11,270	166	135
Currency swaps	1,586	52	221	1,578	82	282
Interest rate contracts:						
Interest rate swaps	62,423	704	1,045	71,885	846	1,130
Options purchased	1,729	13	–	658	29	–
Options written	1,268	–	19	1,104	–	8
Futures and forwards	1,824	14	1	1,802	19	19
Equity and commodity contracts	1,258	89	–	1,318	61	–
	77,522	962	1,396	89,615	1,203	1,574

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

16. Derivatives (continued)

	Bank					
	2010			2009		
	Notional amounts £m	Assets £m	Liabilities £m	Notional amounts £m	Assets £m	Liabilities £m
Free standing derivatives						
Exchange rate contracts:						
Spot, forwards and futures	1,819	17	20	290	4	4
Interest rate contracts:						
Interest rate swaps	13,970	109	142	1,519	8	25
Equity and commodity contracts	447	23	–	448	18	–
	16,236	149	162	2,257	30	29

17. Prepayments, accrued income and other assets

	Group		Bank	
	2010 £m	2009 £m	2010 £m	2009 £m
Prepayments	21	32	3	2
Accrued income	8	2	3	2
Other assets	147	139	136	84
	176	173	142	88

18. Assets held for sale

	Group	
	2010 £m	2009 £m
Analysis of held for sale assets:		
Other assets	1	–
	1	–

To comply with EC State Aid requirements, the RBS Group has agreed to make a series of divestments within four years from December 2009. During 2010, the RBS Group successfully completed the disposal of the majority of Global Merchant Services which included Ulster Bank Merchant Services. The transaction is expected to be complete by December 2011. The divestment met the criteria for classification as held for sale at 31 December 2010.

19. Accruals, deferred income and other liabilities

	Group		Bank	
	2010 £m	2009 £m	2010 £m	2009 £m
Notes in circulation	700	717	700	717
Accruals	277	341	71	60
Deferred income	45	33	–	22
Other liabilities	93	176	41	16
	1,115	1,267	812	815

Provisions for liabilities and charges of £61m (2009: £60m) for the Group and £11m (2009: £9m) for the Bank are included in other liabilities.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

20. Deferred taxation

Provision for deferred taxation has been made as follows:

	Group		Bank	
	2010 £m	2009 £m	2010 £m	2009 £m
Deferred tax asset	226	180	4	10
Deferred tax liability	(14)	(16)	(11)	(13)
Net deferred tax	212	164	(7)	(3)

	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 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 1 January 2010	4	3	1	(15)	–	1	(3)	173	164
(Charge) / credit to income statement	(7)	–	(1)	–	1	(1)	–	60	52
Credit to equity directly	2	–	–	–	–	–	–	–	2
Other	4	(3)	–	–	–	–	–	(7)	(6)
At 31 December 2010	3	–	–	(15)	1	–	(3)	226	212

Deferred tax liabilities of £148m 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.

	Bank 2010 £m
Provisions for Deferred Tax	
Balance at 1 January 2009	23
Charge to income statement	(21)
Credit directly to equity	4
Exchange and other movements	(9)
At 1 January 2010	(3)
Charge to income statement	(5)
Credit directly to equity	2
Exchange and other movements	(1)
At 31 December 2010	(7)

The Finance Act 2010 has reduced the corporation tax rate from 28% to 27% with effect from 1 April 2011. As a consequence the closing deferred tax assets and / or liabilities of the bank have been recognised at an effective rate of 27%.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

21. Subordinated liabilities

	Group		Bank	
	2010 £m	2009 £m	2010 £m	2009 £m
Dated loan capital	968	991	883	903
Undated loan capital	103	107	103	107
Dated subordinated bonds	66	66	–	–
Undated perpetual subordinated bonds	78	79	–	–
	1,215	1,243	986	1,010
	Group		Bank	
	2010 £m	2009 £m	2010 £m	2009 £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	345	355	345	–
Euro loan capital repayable 2020				
– held by RBS plc	155	160	155	160
Euro loan capital repayable 2022				
– held by RBS plc	328	336	243	603
	968	991	883	903
Undated loan capital:				
– held by RBS plc	103	107	103	107
	103	107	103	107
Dated subordinated bonds				
£60m 6.375% subordinated bonds 2018 (callable April 2013)	66	66	–	–
	66	66	–	–
Undated perpetual subordinated bonds				
€38m 11.375% perpetual tier two capital	50	51	–	–
£20m 11.75% perpetual tier two capital	26	26	–	–
£1.3m floating rates	2	2	–	–
	78	79	–	–
Total	1,215	1,243	986	1,010

Dated 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 plc other than the holders of the perpetual subordinated bonds.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

21. Subordinated liabilities (continued)

Perpetual subordinated bonds

The subordinated perpetual bonds were issued by First Active plc, 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 Ulster Bank Ireland Limited. These bonds were transferred from First Active plc to Ulster Bank Ireland Ltd on 15 February 2010.

Undated Loan Capital

The Sterling loan stock, which is perpetual, is held by another Group company and is repayable at the option of the Bank only with prior consent of the Central Bank of Ireland.

22. Share capital

	Group and Bank			
	Allotted, called up and fully paid		Authorised	
	1 January 2010 £m	31 December 2010 £m	2010 £m	2009 £m
<i>Equity shares:</i>				
Ordinary shares of £1	1,208	1,208	2,000	2,000
<i>Equity preference shares:</i>				
Non-cumulative redeemable preference shares of €1 each	297	297	346	346
Total share capital	1,505	1,505	2,346	2,346
	Allotted, called up and fully paid		Authorised	
	2010 Millions	2009 Millions	2010 Millions	2009 Millions
Number of shares				
<i>Equity shares:</i>				
Ordinary shares of £1	1,208	1,208	2,000	2,000
<i>Equity Preference shares:</i>				
Non-cumulative redeemable preference shares of €1 each	450	450	500	500
Total share capital	1,658	1,658	2,500	2,500

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.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

23. Leases

Minimum amounts payable under non-cancellable leases:

Year in which payment will occur:	Group							
	2010				2009			
	Within 1 year £m	After 1 year but within 5 years £m	After 5 years £m	Total £m	Within 1 year £m	After 1 year but within 5 years £m	After 5 years £m	Total £m
Operating lease obligations: Future minimum lease payables:								
Premises	22	83	187	292	24	87	203	314
Equipment	2	2	–	4	3	2	–	5
	24	85	187	296	27	89	203	319

Year in which payment will occur:	Bank							
	2010				2009			
	Within 1 year £m	After 1 year but within 5 years £m	After 5 years £m	Total £m	Within 1 year £m	After 1 year but within 5 years £m	After 5 years £m	Total £m
Operating lease obligations: Future minimum lease payables:								
Premises	2	6	89	97	2	6	91	99

	Group		Bank	
	2010 £m	2009 £m	2010 £m	2009 £m
Amounts recognised as expense				
Operating lease payables – minimum payments	22	23	3	3

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

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 as collateral in accordance with normal market 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 and ROI, the recipient of 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 on the balance sheet were £nil (2009: £72m). Securities received as collateral under reverse repurchase agreements amounted to £18m (2009: £nil).

Other collateral given

	Group	
	2010 £m	2009 £m
Group assets charged as security for liabilities		
Loans and advances to customers	17,289	16,916
	Group	
	2010 £m	2009 £m
Liabilities secured by charges on assets		
Debt securities in issue	5,101	3,507
Deposits by banks	1,552	1,758
	6,653	5,265

Of the assets above, £15.0 billion (2009: £14.5 billion) relate to securitisations.

Included in deposits by banks is Ulster Bank Ireland Limited's obligation to the Central Bank of Ireland under the terms of the Mortgage Backed Promissory Note programme. These obligations are secured by way of a floating charge to the CBI over all its right, title, interest and benefit.

Securitisations and other asset transfers

The Group arranges securitisations to facilitate client transactions and undertakes securitisations to sell financial assets or to fund specific portfolios of assets. In a securitisation, assets, or interests in a pool of assets, are transferred generally to a special purpose entity (SPE) which then issues liabilities to third party investors. SPEs are vehicles established for a specific, limited purpose, usually do not carry out a business or trade and typically have no employees. They take a variety of legal forms - trusts, partnerships and companies - and fulfil many different functions.

It is primarily the extent of risks and rewards assumed that determines whether these entities are consolidated in the Group's financial statements. The following section aims to address the significant exposures which arise from the Group's activities through specific types of SPEs.

The table below sets out the asset categories together with the carrying amounts of the assets and associated liabilities for those securitisations where substantially all the risks and rewards of the asset have been retained by the Group and continue to be presented in its balance sheet.

	2010		2009	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Residential mortgages	13,952	5,101	14,501	3,507
Corporate and commercial loans	1,082	—	—	—

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

25. Risk management

The major risks associated with the Group's businesses are market, liquidity, credit, regulatory, reputational, operational and pension 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 market factors. The risk factors include 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. The RBS Group manages market risk within its trading and non-trading portfolios through a comprehensive market risk management framework. This framework includes limits based on, but not limited to VaR, scenario analysis, position and sensitivity analyses. The Group in conjunction with RBS Group Market Risk and Group Treasury annually agree sub limits based on the Group's approved market risk appetite.

At the RBS Group level, the risk appetite is expressed in the form of a combination of VaR, sensitivity and scenario limits. VaR is a technique that produces estimates of the potential change in the market value of a portfolio over a specified time horizon at given confidence levels. For internal risk management purposes, the Group's VaR assumes a time horizon of one trading day and confidence level of 99% as it is considered that this provides greater clarity in respect of more severe potential economic outcomes. The Group's VaR model is based on a historical simulation model utilising data from the previous two years trading results.

The VaR disclosure is broken down into trading and non-trading, where trading VaR relates to the trading activities and non-trading reflects the VaR associated with reclassified assets, money market business and the management of internal funds flow within the Group's businesses.

The Group calculates VaR using historical simulation models but does not make any assumption about the nature or type of underlying loss distribution other than implied by history. The methodology uses the previous 500 trading days of market data and calculates both general market risk (the risk due to movement in general market benchmarks) and idiosyncratic market risk (the risk due to movements in the value of securities by reference to specific issuers). The Group VaR should be interpreted in light of the limitations of the methodology used as follows:

- Historical simulation VaR may not provide the best estimate of future market movements. It can only provide a prediction of the future based on events that occurred in the time series horizon. Therefore, events that are more severe than those in the historical data series cannot be predicted;
- VaR that uses a 99% confidence level does not reflect the extent of potential losses beyond that percentile;
- VaR that uses a one-day time horizon will not fully capture the profit or loss implications of positions that cannot be liquidated or hedged within one day; and
- The Group computes the VaR of trading portfolios and non-trading money markets portfolio at the close of business. Treasury Interest Rate risk VaR is computed monthly.

A 'Risks not in VaR' framework has been developed to address those market risks not adequately captured by the market standard VaR methodology. Where risks are not included in the model, various non-VaR controls (for example, position monitoring, sensitivity limits, triggers or stress limits) are in place. These limitations mean that the Group cannot guarantee that losses will not exceed the VaR.

(i) Trading portfolios

The Group eliminates its market risk in these portfolios by entering into back-to-back positions with its ultimate parent company RBS Group.

The VaR for the Group's dealing is presented in the table below:

	31 December 2010 £k	Maximum £k	Minimum £k	Average £k
Value-at-Risk	0.4	11.7	0.2	1.8

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

25. Risk management - market risk (continued)

(ii) Non-trading

The principal market risks arising from the Group's non-trading activities are interest rate risk and currency risk. Non-trading risk is managed by both the Money Market Desk and Treasury and arises from mismatches between the repricing of assets and liabilities in its wholesale markets, retail, business and corporate bank.

STMF interest rate VaR

The money market desk is responsible for raising funding in the international wholesale and repo markets and funding the corporate loan book. The VaR limit is a sub limit of the Group limit and is monitored daily.

The VaR for the Group's dealing is presented in the table below:

	31 December 2010 £m	Maximum £m	Minimum £m	Average £m
Value-at-Risk	0.9	2.2	0.6	1.4

Treasury 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 example with non-interest bearing current accounts, the repricing maturity is determined by the stability of the portfolio. The repricing maturities used are approved by RBS 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 VaR 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 is split between Euro and Sterling currency balances to which separate risk limits are applied. At 31 December 2010, Sterling VaR was calculated to be £232,000 (2009: £161,000). Euro VaR was calculated to be €303,000 (2009: €185,000).

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 LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

25. Risk management - market risk (continued)

Foreign Exchange Risk in the Banking Book represents exposures to changes in the values of current holdings and future cash flows denominated in other currencies. Hedging instruments used to mitigate these risks include foreign currency options, currency swaps, futures, forwards and deposits. Foreign exchange risk results from the RBS Group's investments in overseas subsidiaries, associates and branches in three principal forms:

- Structural foreign currency exposures that arise from net investment in overseas subsidiaries, associates and branches;
- Transactional/commercial foreign currency exposures that arise from mismatches in the currency balance sheet; and
- Foreign currency profit streams.

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 foreign currency exposures as at 31 December 2010:

	2010				2009			
	Net investments £m	Currency borrowings £m	Economic hedges £m	Structural foreign currency exposures £m	Net investments £m	Currency borrowings £m	Economic hedges £m	Structural foreign currency exposures £m
Euro	4,521	(1,293)	(1,719)	1,509	4,543	(1,332)	(1,770)	1,441

At 31 December 2010, a 5% strengthening of foreign currencies would result in a gain of £75 million in equity and a 5% weakening of foreign currencies would result in a loss of £75 million in equity. At 31 December 2009, the Group had no net investment hedge relationships.

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 2010 exchange losses of £149m (2009: losses £179m) have been charged to reserves.

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 international money and debt markets continued to be very constrained during 2010. The continuing dislocation in the wholesale markets impacted the pricing and availability of liquidity and term funds for the Group, as it did with most other financial institutions. This market dislocation led to the continuance of a range of exceptional liquidity provision measures by Monetary Authorities and the Group continued to participate in the liquidity schemes of the European Central Bank, who provided funding under various collateralised schemes.

Following the announcement of international assistance for the Republic of Ireland (ROI) in November 2010 by the European Union, the European Commission and the International Monetary Fund, the ROI Sovereign rating was downgraded by Fitch to BBB+/F2 (stable) on 9 December 2010, Moody's to Baa1/P2 (negative) on 17 December 2010, and Standard & Poor's to A-/A2 (watch negative) on 2 February 2011. The Group's ratings were unaffected and affirmed by Fitch at A+/F1+ (stable) and Moody's at A2/P1 (negative). However based on the methodology used by Standard & Poor's, they impose a "sovereign ceiling" on the rating of UBIL whereby UBIL cannot have a rating that is higher than the ROI sovereign rating. Consequently when the ROI sovereign rating was lowered on 2 February, the

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

25. Risk management - liquidity risk (continued)

rating of UBIL was also lowered at that time to A-/A2 (watch negative). Due to the relative size of UBIL to the Ulster Bank Group, Ulster Bank Limited's rating was also lowered on 2 February 2011 to A-/A2 (watch negative).

On 9 December 2009, the Committee of European Banking Supervisors issued a paper entitled "Guidelines on Liquidity Buffers & Survival Periods". Member states of the European Union, including ROI, were expected to apply these guidelines by 30 June 2010. Ulster Bank Ireland Limited, through consultation with the Financial Regulator, applied the guidelines by the due date and consequently holds a liquidity buffer to address liquidity stress events.

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. The Ulster Bank Group Asset and Liability Committee (GALCO), chaired by the Group Finance Director, is responsible for defining and approving the Group's liquidity policy and setting acceptable parameters and risk limits that aligns with the overall Group standards and risk appetite. The Group's liquidity policy is subject to annual, or more frequent, review as appropriate. Group Treasury is the functional area with responsibility for the monitoring and control of the Group's funding and liquidity positions.

Liquidity risk is constantly monitored to evaluate the Group's position having regard to its risk appetite and key metrics. Daily, weekly and monthly monitoring and control processes are in place, which allow management to take appropriate action.

The contractual maturity of on balance sheet assets and liabilities, shown in the tables overleaf, highlight the maturity transformation which underpins the role of banks to lend longer-term but funded predominantly by short-term liabilities such as customer deposits. In practice, the behaviour profile of many assets and liabilities exhibit greater stability and longer maturity than the contractual maturity.

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 to meet its obligations as they fall due. Other sources of funding and liquidity include retail, wholesale and central bank liquidity.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

25. Risk management - liquidity risk (continued)

The table below analyses the contractual undiscounted cash flows receivable and payable up to a period of twenty years including future receipts and payments of interest of the on balance sheets by contractual maturity.

	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
2010						
Assets by contractual maturity						
Cash and balances at central banks	854	-	-	-	-	-
Loans and advances to banks	3,231	358	901	986	-	-
Debt securities	-	157	151	-	-	72
Finance leases	23	7	-	-	-	-
Total maturing assets	4,108	522	1,052	986	-	72
Loans and advances to customers	7,439	8,095	6,909	3,447	9,085	8,321
Total assets	11,547	8,617	7,961	4,433	9,085	8,393
Liabilities by contractual maturity						
Deposits by banks	7,522	6,297	32	33	-	-
Debt securities in issue	405	1,295	41	1	-	-
Subordinated liabilities	-	5	62	-	623	449
Other liabilities	700	-	-	-	-	-
Total maturing liabilities	8,627	7,597	135	34	623	449
Customer accounts	18,707	3,461	1,505	443	104	-
Total liabilities	27,334	11,058	1,640	477	727	449
Maturity gap	(15,787)	(2,441)	6,321	3,956	8,358	7,944
Cumulative maturity gap	(15,787)	(18,228)	(11,907)	(7,951)	407	8,351

	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						
Assets by contractual maturity						
Cash and balances at central banks	860	-	-	-	-	-
Loans and advances to banks	2,694	1,361	433	284	-	-
Debt securities	212	149	457	58	19	35
Finance leases	1	4	2	16	8	32
Total maturing assets	3,767	1,514	892	358	27	67
Loans and advances to customers	8,897	6,281	7,675	6,755	13,727	18,040
Total assets	12,664	7,795	8,567	7,113	13,754	18,107
Liabilities by contractual maturity						
Deposits by banks	17,689	1,649	54	1,092	-	-
Debt securities in issue	2,028	1,331	444	408	-	-
Subordinated liabilities	-	5	14	111	57	1,104
Other liabilities	658	-	-	-	-	-
Total maturing liabilities	20,375	2,985	512	1,611	57	1,104
Customer accounts	17,552	1,591	1,245	1,117	81	-
Total liabilities	37,927	4,576	1,757	2,728	138	1,104
Maturity gap	(25,263)	3,219	6,810	4,385	13,616	17,003
Cumulative maturity gap	(25,263)	(22,044)	(15,234)	(10,849)	2,767	19,770

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

25. Risk management - liquidity risk (continued)

2010	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
Assets by contractual maturity						
Cash and balances at central banks	613	–	–	–	–	–
Loans and advances to banks	591	558	1,405	1,565	–	–
Debt securities	–	–	123	–	–	72
Total maturing assets	1,204	558	1,528	1,565	–	72
Loans and advances to customers	1,013	2,899	699	378	1,397	889
Total assets	2,217	3,457	2,227	1,943	1,397	961
Liabilities by contractual maturity						
Deposits by banks	2,650	–	–	32	–	–
Debt securities in issue	114	–	–	–	–	–
Subordinated liabilities	–	–	–	–	623	362
Other liabilities	700	–	–	–	–	–
Total maturing liabilities	3,464	–	–	32	623	362
Customer accounts	5,564	1,124	804	107	23	–
Total liabilities	9,028	1,124	804	139	646	362
Maturity gap	(6,811)	2,333	1,423	1,804	751	599
Cumulative maturity gap	(6,811)	(4,478)	(3,055)	(1,251)	(500)	99

2009	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
Assets by contractual maturity						
Cash and balances at central banks	599	–	–	–	–	–
Loans and advances to banks	471	1,219	426	270	100	–
Debt securities	28	66	104	39	14	35
Total maturing assets	1,098	1,285	530	309	114	35
Loans and advances to customers	2,160	1,672	817	771	1,758	2,420
Total assets	3,258	2,957	1,347	1,080	1,872	2,455
Liabilities by contractual maturity						
Deposits by banks	2,230	5	–	–	–	–
Debt securities in issue	396	80	28	26	–	–
Subordinated liabilities	1	–	–	–	455	–
Other liabilities	712	–	–	–	–	–
Total maturing liabilities	3,339	85	28	26	455	–
Customer accounts	5,509	414	290	267	77	–
Total liabilities	8,848	499	318	293	532	–
Maturity gap	(5,590)	2,458	1,029	787	1,340	2,455
Cumulative maturity gap	(5,590)	(3,132)	(2,103)	(1,316)	24	2,479

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

25. Risk management – liquidity risk (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
2010						
Operating leases	6	18	44	41	68	118
Contractual obligations to purchase goods or services	2	4	5	–	–	–
	8	22	49	41	68	118

	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

	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
2010						
Operating leases	1	1	4	2	2	87
Contractual obligations to purchase goods or services	–	1	2	–	–	–
	1	2	6	2	2	87

	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

Financial assets have been reflected in the time band of the latest date on which they could be repaid unless earlier repayment can be demanded by the reporting entity; financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty.

If the repayment of a financial asset or liability is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the asset is included in the latest date on which it can repay regardless of early repayment whereas the liability is included at the earliest possible date that the conditions could be fulfilled without considering the probability of the conditions being met. For example, if a structured note is automatically prepaid when an equity index exceeds a certain level, the cash outflow will be included in the less than three months period whatever the level of the index at the year end. The settlement date of debt securities in issue issued by certain securitisation vehicles consolidated by the Group depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of the cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date. As the repayment of assets and liabilities are linked, the repayment of assets in securitisations are shown on the earliest date that the asset can be prepaid as this is the basis used for liabilities.

The principal amounts of financial assets and liabilities that are repayable after 20 years or where the counterparty has no right to repayment of the principal are excluded from the table as are interest payments after 20 years.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

25. Risk management (continued)

Credit risk

Credit risk is the risk of financial loss owing to the failure of customers or counterparties to meet payment obligations. The quantum and nature of credit risk assumed in the Group's different businesses varies considerably, while the overall credit risk outcome usually exhibits a high degree of correlation to the macroeconomic environment.

Credit risk organisation

The existence of a strong credit risk management organisation is vital to support the goals of the Group. The potential for loss through economic cycles is mitigated through the embedding of a robust credit risk culture within the business units and a focus on the importance of sustainable lending practices. The role of the credit risk management organisation is to provide the business with the support necessary to develop and maintain a sound lending franchise within risk appetite while providing strong independent oversight and challenge.

RBS Group is responsible for the development of RBS Group-wide policies, credit risk frameworks, RBS Group-wide portfolio management and assessment of provision adequacy. Ulster Bank Credit Risk (UBCR) is responsible for the execution of these policies and frameworks within Ulster Bank Group. Activities within UBCR include credit approval, transaction and portfolio analysis, early problem recognition and ongoing credit risk stewardship.

Credit risk appetite

Credit risk appetite is set by the Ulster Bank Board through: a combination of quantitative measures, limit thresholds and authorities and is maintained by receiving regular analysis, monitoring and reporting on Ulster Bank's portfolios.

Credit risk appetite is managed and controlled through a series of frameworks designed to limit concentration by sector, counterparty, country or asset class. These are supported by a suite of policies setting out the risk parameters within which business units may operate.

For wholesale, credit approval authority is discharged by way of a framework of individual delegated authorities that requires at least two individuals to approve each credit decision, one from the business and one from the credit risk management function. Both parties must hold sufficient delegated authority under the Group-wide authority grid. The level of authority granted to an individual is dependent on their experience and expertise with only a small number of Senior Executives holding the highest authority provided under the framework.

Daily monitoring of individual counterparty limits is undertaken. For certain counterparties early warning indicators are also in place to detect deteriorating trends which are of concern in limit utilisation or account performance.

As a minimum, credit relationships are reviewed and re-approved annually. The renewal process addresses: borrower performance, including reconfirmation or adjustment of risk parameter estimates; the adequacy of security; and compliance with terms and conditions.

Product/asset class

- Retail: a formal risk appetite framework establishes Group-level statements and thresholds that are cascaded to business lines. These include measures that relate to both aggregate portfolios and origination asset quality that are monitored frequently to ensure consistency with Group standards and appetite. This appetite setting and monitoring then informs the processes and parameters employed in origination activities that require a large volume of small scale credit decisions, typically involving an application for a new product or a change in facilities on an existing product. A high proportion of these decisions are based upon automated strategies utilising credit and behaviour scoring techniques. Scores and strategies are typically segmented by product, brand and other significant drivers of credit risk. These data driven strategies utilise a wide range of credit information relating to a customer including, where appropriate, information across a customer's holdings. Where an automated decision is not made these applications are subject to additional manual underwriting by authorised approvers in specialist units. These include higher value more complex small business transactions and some residential mortgage applications.
- Wholesale: Where the nature of credit risk incurred could represent a concentration risk, or a specific or heightened risk, formal policies, specialised tools and expertise, tailored monitoring and reporting and in certain cases specific limits and thresholds are deployed to address these risks across the Group. Such portfolios are subject to formal governance, including periodic review.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

25. Risk management - credit risk (continued)

Sector

Across wholesale portfolios, exposures are assigned to, and reviewed in the context of, a defined set of industry sectors. Through this sector framework, appetite and portfolio strategies are agreed and set at both aggregate and more granular levels where exposures have the potential to represent excessive concentration or where trends in both external factors and internal portfolio performance give cause for concern. Formal periodic reviews are undertaken, depending on materiality, that include an assessment of the Group's franchise in a particular sector, an analysis of the outlook (including downside outcomes) and identification of key vulnerabilities. Specific reporting on trends in sector risk is provided to senior management and the Board.

Single name

Within wholesale portfolios, much of the activity undertaken by the credit risk function is organised around the assessment, approval and management of the credit risk associated with a borrower or group of related borrowers.

A formal single name concentration framework addresses the risk of excessive exposure to a borrower or borrower group. The framework includes specific and elevated approval requirements; additional reporting and monitoring; and the requirement to develop plans to address and reduce excess exposures over an appropriate timeframe.

Country

Country risk arises from sovereign events (for example, default or restructuring); economic events (for example, contagion of sovereign default to other parts of the economy, cyclical economic shock); political events (for example, convertibility restrictions and expropriation or nationalisation); and natural disaster or conflict. Such events have the potential to impact elements of the Group's credit portfolio that are directly or indirectly linked to the affected country and can also give rise to market, liquidity, operational and franchise risk related losses.

Global Restructuring Group (GRG)

GRG manages problem and potential problem exposures in Ulster Bank's wholesale credit portfolios. Its primary function is to proactively manage any problem lending. This may include the restructuring of a customer's business and/or renegotiation of credit. Originating business units liaise with GRG upon the emergence of a potentially negative event or trend that may impact a borrower's ability to service its debt. This may be a significant deterioration in some aspect of the borrower's activity, such as trading, where a breach of covenant is likely or where a borrower has missed or is expected to miss a material contractual payment to the Group or another creditor. On transfer of the relationship to GRG a bespoke strategy is devised to optimise the recovery of debt. This strategy may include a restructuring of loans such as amendments to the loan's original term, business restructuring, asset realisation or purchase, or debt for equity transactions.

Retail collections and recoveries

There are collections and recoveries functions in each of the consumer businesses. Their role is to provide support and assistance to customers who are currently experiencing difficulties meeting their financial obligations. Where possible, the aim of the collections and recoveries teams is to return the customer to a satisfactory position, by working with them to restructure their finances. If this is not possible, the team has the objective of reducing the loss to the Group.

Forbearance policies are the main response to managing mortgage customers in financial difficulty which is deployed through Group's Forbearance initiative. Forbearance is applied to secured retail products where temporary relief is offered through the renegotiation of the original contract, although on terms not generally available on a commercial basis. This may include offering contract revision by various means including reduced repayment, interest only arrangements, negative amortisation and/ or payment moratorium; these forbearance arrangements offer no economic concession over the contract life and are subject to heightened monitoring.

Ulster Bank forbearance offered to customers where an impairment loss provision has previously been recognised remains classified as non-performing. Where the customer met the loan terms prior to modification and there is a realistic expectation that the customer will adhere to forbearance terms, these loans are classified as performing loans and, in recognising their credit risk profile, carry a provision incorporating an expectation of failure of some to comply with the terms of the forbearance together with the associated loss rate.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

25. Risk management - credit risk (continued)

Credit risk mitigation

The Group employs a number of structures and techniques to mitigate credit risk. Netting of debtor and creditor balances will be undertaken in accordance with relevant regulatory and internal policies. Exposure on over-the-counter (OTC) derivative and secured financing transactions is further mitigated by the exchange of financial collateral and documented on market standard terms. Further mitigation may be undertaken in a range of transactions, from retail mortgage lending to large wholesale financing, by structuring a security interest in a physical or financial asset.

The use and approach to credit risk mitigation varies by product type, customer and business strategy. Minimum standards applied across the Group cover: general requirements, including acceptable credit risk mitigation types and any conditions or restrictions applicable to those mitigants; the means by which legal certainty is to be established, including required documentation and all necessary steps required to establish legal rights; acceptable methodologies for the initial and any subsequent valuations of collateral and the frequency with which they are to be revalued; actions to be taken in the event the current value of mitigation falls below required levels; management of the risk of correlation between changes in the credit risk of the customer and the value of credit risk mitigation; management of concentration risks, for example, setting thresholds and controls on the acceptability of credit risk mitigants and on lines of business that are characterised by a specific collateral type or structure; and collateral management to ensure that credit risk mitigation remains legally effective and enforceable.

Measurement

Credit risk models are used throughout the Group to support the quantitative risk assessment element of the credit approval process, ongoing credit risk management, monitoring and reporting and portfolio analytics. Credit risk models used by the Group may be divided into three categories.

Probability of default/customer credit grade (PD)

These models assess the probability that a customer will fail to make full and timely repayment of its obligations. The probability of a customer failing to do so is measured over a one year period through the economic cycle, although certain retail scorecards use longer periods for business management purposes.

- Wholesale businesses: as part of the credit assessment process, each counterparty is assigned an internal credit grade and a default probability. There are a number of different credit grading models in use across the Group, each of which considers risk characteristics particular to that type of customer. The credit grading models score a combination of quantitative inputs (for example, recent financial performance) and qualitative inputs, (for example, management performance or sector outlook).
- Retail businesses: each customer account is separately scored using models based on the most material drivers of default. In general, scorecards are statistically derived using customer data. Customers are assigned a score which in turn, is mapped to a probability of default. The probabilities of default are used to group customers into risk pools. Pools are then assigned a weighted average probability of default using regulatory default definitions.

Exposure at default (EAD)

Facility usage models estimate the expected level of utilisation of a credit facility at the time of a borrower's default. For revolving and variable draw down type products which are not fully drawn, the EAD will typically be higher than the current utilisation. The methodologies used in EAD modelling provide an estimate of potential exposure and recognise that customers may make more use of their existing credit facilities as they approach default.

Loss given default (LGD)

These models estimate the economic loss that may be experienced (the amount that cannot be recovered) by the Group on a credit facility in the event of default. The Group's LGD models take into account both borrower and facility characteristics for unsecured or partially unsecured facilities, as well as the quality of any risk mitigation that may be in place for secured facilities, plus the cost of collections and a time discount factor for the delay in cash recovery.

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.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

25. Risk management - credit risk (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.

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.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

25. Risk management - credit risk (continued)

Credit risk assets

Credit risk asset quality

Using the PD models described on page 62, customers are assigned credit grades and scores, which are used for internal management reporting across portfolios, including a Group level asset quality scale, as shown below.

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

Internal reporting and oversight of risk assets is principally differentiated by credit grade. 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 (illustrated above), used for external financial reporting, and a master grading scale for wholesale exposures used for internal management reporting across portfolios. Accordingly, measurement of risk is easily aggregated and can be reported at increasing levels of granularity depending on stakeholder or business need.

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

	Group						Contingent liabilities £m
	Cash and balances at central banks £m	Loans and advances to banks £m	Loans and advances to customers £m	Derivatives £m	Commitments £m		
2010							
AQ1	854	5,736	362	639	374	54	
AQ2	–	–	90	17	94	1	
AQ3	–	–	238	9	207	62	
AQ4	–	–	905	8	630	57	
AQ5	–	–	5,775	68	933	161	
AQ6	–	1	7,686	82	862	51	
AQ7	–	5	11,825	6	479	122	
AQ8	–	–	3,578	20	173	15	
AQ9	–	–	4,124	73	103	12	
AQ10	–	–	150	40	259	85	
Accruing past due	–	–	3,437	–	–	–	
Non-accrual	–	–	13,211	–	–	–	
Impairment provisions	–	–	(5,978)	–	–	–	
Total	854	5,742	45,403	962	4,114	620	

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

25. Risk management - credit risk (continued)

Group						
	Cash and balances at central banks £m	Loans and advances to banks £m	Loans and advances to customers £m	Derivatives £m	Commitments £m	Contingent liabilities £m
2009						
AQ1	860	5,071	662	1,016	348	2
AQ2	–	–	70	8	67	8
AQ3	–	2	222	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	1,203	5,290	602

Bank						
	Cash and balances at central banks £m	Loans and advances to banks £m	Loans and advances to customers £m	Derivatives £m	Commitments £m	Contingent liabilities £m
2010						
AQ1	613	4,206	51	149	40	2
AQ2	–	–	9	–	26	–
AQ3	–	–	16	–	13	–
AQ4	–	–	502	–	184	34
AQ5	–	–	1,660	–	427	27
AQ6	–	–	1,189	–	342	9
AQ7	–	–	819	–	148	13
AQ8	–	–	655	–	58	4
AQ9	–	–	537	–	32	–
AQ10	–	–	134	–	69	16
Accruing past due	–	–	312	–	–	–
Non-accrual	–	–	2,708	–	–	–
Impairment provisions	–	–	(1,134)	–	–	–
Total	613	4,206	7,458	149	1,339	105

Bank						
	Cash and balances at central banks £m	Loans and advances to banks £m	Loans and advances to customers £m	Derivatives £m	Commitments £m	Contingent liabilities £m
2009						
AQ1	599	4,810	52	22	3	7
AQ2	–	–	22	–	21	–
AQ3	–	–	17	–	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	30	1,540	464

Loans and advances to customers, past due at balance sheet date but not considered impaired are shown in Note 10.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

25. Risk management - credit risk (continued)

Credit risk assets by industry and geography

Industry analysis plays an important part in assessing the potential for concentration risk in the loan portfolio. Particular attention is given to industry sectors where the Group believes there is a high degree of risk or potential for volatility in the future. The table below analyses credit risk assets by industry sector and geography.

	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
2010					
UK					
Central and local government	–	–	–	–	–
Manufacturing	309	–	–	309	8
Construction	427	–	–	427	18
Finance	419	195	6	620	1
Service industries and business activities	873	–	–	873	49
Agriculture, forestry and fishing	317	–	–	317	48
Property	3,876	–	–	3,876	28
Individuals					
Home mortgages	2,222	–	–	2,222	–
Other	475	–	–	475	–
Interest accruals	19	–	–	19	–
Total UK	8,937	195	6	9,138	152
Rest of Europe					
Central and local government	51	–	–	51	–
Manufacturing	993	–	–	993	6
Construction	670	–	–	670	13
Finance	5,608	188	956	6,752	1
Service industries and business activities	5,845	–	–	5,845	48
Agriculture, forestry and fishing	778	–	–	778	21
Property	13,991	–	–	13,991	5
Individuals					
Home mortgages	18,955	–	–	18,955	5
Other	1,215	–	–	1,215	–
Interest accruals	80	–	–	80	–
Total Rest of Europe	48,186	188	956	49,330	99
Total					
Central and local government	51	–	–	51	–
Manufacturing	1,302	–	–	1,302	14
Construction	1,097	–	–	1,097	31
Finance	6,027	383	962	7,372	2
Service industries and business activities	6,718	–	–	6,718	97
Agriculture, forestry and fishing	1,095	–	–	1,095	69
Property	17,867	–	–	17,867	33
Individuals					
Home mortgages	21,177	–	–	21,177	5
Other	1,690	–	–	1,690	–
Interest accruals	99	–	–	99	–
	57,123	383	962	58,468	251

⁽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 LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

25. Risk management - credit risk (continued)

	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
2009					
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 LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

25. Risk management – credit risk (continued)

	Bank				
	Gross loans and advances to banks and customers £m	Debt securities and equity shares £m	Derivatives £m	Total £m	Netting and offset ⁽¹⁾ £m
2010					
UK					
Central and local government	–	–	–	–	–
Manufacturing	309	–	–	309	8
Construction	443	–	–	443	18
Finance	4,284	195	149	4,628	1
Service industries and business activities	903	–	–	903	49
Agriculture, forestry and fishing	318	–	–	318	48
Property	3,919	–	–	3,919	28
Individuals					
Home mortgages	2,222	–	–	2,222	–
Other	474	–	–	474	–
Interest accruals	(74)	–	–	(74)	–
Total UK	12,798	195	149	13,142	152

	Bank				
	Gross loans and advances to banks and customers £m	Debt securities and equity shares £m	Derivatives £m	Total £m	Netting and offset ⁽¹⁾ £m
2009					
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	–

⁽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 LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

25. Risk management – credit risk (continued)

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.

Reputational risk

Reputational risk is defined as the potential loss in reputation that could lead to negative publicity, loss of revenue, costly litigation, or a decline in the customer base or the exit of key Group employees.

Reputational risk can arise from actions taken by the Bank or a failure to take action, such as failing to assess the environmental, social or ethical impacts of clients or projects that the Bank has provided products or services to.

The Group seeks to safeguard its reputation by considering the impact on the value of its franchise from how it conducts business, its choice of customers and the way stakeholders view the Group. Managing reputation is the joint responsibility of all employees, and reputational considerations should, as part of standard practise, be integrated into the Group's day-to-day decision making structures.

The Board has ultimate responsibility for managing any impact on the reputation of the Group arising from its operations. The Ulster Bank Corporate Sustainability Working Group sets the overall strategy and approach for the management of Group Sustainability. However, all parts of the Group take responsibility for reputation management.

Currently the Group manages reputational risk through a number of functions, such as the Communications & Corporate Services division. At RBS Group level there is a Group Sustainability management function and also an Environmental, Social and Ethical (ESE) Risk management function. This latter function is responsible for assessing ESE risks associated with business engagements and divisions.

The risk is viewed as material given the central nature of the Group's market reputation in the strategic risk objectives.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

25. Risk management (continued)

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

Pension risk

The Group is exposed to risk from its defined benefit pension schemes to the extent that the assets of the schemes do not fully match the timing and amount of the schemes' liabilities. Pension scheme liabilities vary with changes to long-term interest rates, inflation, pensionable salaries and the longevity of scheme members as well as changes in legislation. Ultimate responsibility of the Group's pension schemes is separate from Group management. The Group is exposed to the risk that the market value of the schemes' assets, together with future returns and any additional future contributions could be considered insufficient to meet the liabilities as they fall due. In such circumstances, the Group could be obliged, or may choose, to make additional contributions to the schemes.

The Ulster Bank Pension Scheme and the Ulster Bank Pension Scheme (Republic of Ireland) are the largest of the schemes and the main sources of pension risk. They both operate under trust deeds under which the corporate trustees are wholly owned subsidiaries of the Group. Both trustee boards comprise six directors selected by the Group and three directors nominated by members.

The trustees are solely responsible for the investment of the schemes' assets which are held separately from the assets of the Group. The Group and the trustee must agree on the investment principles and the funding plan.

In November 2009, both schemes were closed to new employees. In April 2010, the Group confirmed that it was making changes to both of these schemes and the Group's other defined benefit scheme, the First Active Pension Scheme. In some cases the Group has limited the amount by which pensionable salary would increase in future (the "pensionable salary cap") to 2% per annum (or CPI inflation, if lower). For those who decided not to accept terms which included the pensionable salary cap, and were not in the Provident Fund sections of the schemes, the Group agreed with the trustees of the schemes a reduction in the accrual rate from 60ths to 80ths for future service, in return for improvements in future funding of the schemes.

Risk appetite and investment policy are agreed by the trustees with quantitative and qualitative input from the scheme actuaries and investment advisers. The trustees also consult with the Group to obtain its view on the appropriate level of risk within the pension fund. The Group independently monitors risk within its pension funds as part of the ICAAP process.

The most recent funding valuations of the schemes were carried out at 31 March 2010 (UBPS) and 31 December 2009 (UBPSROI). Further details are given in note 4 to the accounts.

All schemes are invested in diversified portfolios of quoted and private equity, government and corporate fixed-interest and index-linked bonds, and other assets including property and hedge funds. In the last few months arrangements have been set up to allow the schemes to enter into inflation and interest rate swaps, thereby hedging some of their inflation and interest rate risks, and some activity is expected to take place over 2011.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

26. Capital resources

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

	31 Dec 2010 Basel II Actual £m	31 Dec 2009 Basel II Actual £m
Composition of regulatory capital		
Tier 1:		
Ordinary Shareholder's equity	4,698	4,165
Non-controlling interests	558	522
Adjustment for:		
Other Regulatory adjustments	(69)	15
Core Tier 1 capital	5,187	4,702
Tier 1 Regulatory Deductions	(481)	(494)
Total tier 1 capital	4,706	4,208
Tier 2:		
Reserves arising from revaluation of property and unrealised gains on available-for-sale equities	–	–
Latent impairment allowances	4	3
Perpetual subordinated debt	103	107
Term subordinated debt	1,097	1,091
Tier 2 Regulatory Deductions	(1,105)	(1,137)
Total tier 2 Capital	99	64
Total regulatory capital	4,805	4,272
Risk weighted assets	40,772	36,561
	2010	2009
Capital ratios	%	%
Tier 1 ratio	11.5	11.5
Total capital ratio	11.8	11.7

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.

In carrying out this policy the Group has regard to the supervisory requirements of the FSA. The FSA uses Risk Asset Ratio (RAR) as a measure of capital adequacy for Republic of Ireland banks, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are 'weighted' to reflect the inherent credit and other risks); by international agreement, the RAR should not be less than 8% with a Tier 1 component of not less than 4%. The Group has complied with the FSAs capital requirements throughout the year.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

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 2010. 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	
	2010 £m	2009 £m	2010 £m	2009 £m
Contingent liabilities:				
Guarantees and assets pledged as collateral security	318	233	41	313
Other contingent liabilities	302	369	64	151
	620	602	105	464
Commitments:				
Documentary credits and other short-term trade related transactions	9	28	3	2
- less than one year	2,982	3,776	1,172	1,349
- one year and over	1,123	1,486	164	189
	4,114	5,290	1,339	1,540

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.

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 £nil (2009: £252m) for which there are corresponding obligations by counterparties.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

27. Memorandum items (continued)

Contractual obligations for future expenditure not provided in the accounts

The following table shows contractual obligations for future expenditure not provided for in the accounts at the year end:

	Group		Bank	
	2010 £m	2009 £m	2010 £m	2009 £m
Property, plant and equipment				
Other capital expenditure	–	2	–	–
Contracts to purchase goods or services	9	1	4	2
	9	3	4	2

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.

28. Net cash outflow from operating activities

	Group		Bank	
	2010 £m	2009 £m	2010 £m	2009 £m
Operating loss before tax	(3,233)	(1,368)	(2,229)	(2,583)
Loans and advances written off net of recoveries	3,794	1,872	575	462
Impairment on intangibles	–	11	–	–
Impairment of investment in Group Undertaking	–	–	1,829	2,402
Charge for pensions	35	(118)	11	(54)
Depreciation and amortisation of fixed assets	32	38	11	12
Exchange difference	(184)	(163)	1	(51)
Other non cash items	40	404	(172)	269
Net cash inflow from trading activities	484	676	26	457
Decrease/(increase) in loans and advances to banks and customers	3,568	5,276	866	(851)
Decrease/(increase) in debt securities	150	(395)	96	(67)
Decrease in other assets	4	110	82	17
Decrease/(increase) in derivative assets	241	1,126	(119)	17
(Increase) in assets held for sale	(1)	–	–	–
(Increase)/decrease in deferred tax assets	(46)	(112)	6	28
Changes in operating assets	3,916	6,005	931	(856)
(Decrease) in deposits by banks and customers	(4,753)	(4,702)	(696)	(1,511)
(Decrease) in debt securities in issue	(3,024)	(4,328)	(407)	(434)
(Decrease)/increase in other liabilities	(122)	126	(9)	190
(Decrease)/increase in derivative liabilities	(178)	(631)	133	(40)
(Decrease) in deferred tax liabilities	(2)	(18)	(2)	(2)
Changes in operating liabilities	(8,079)	(9,553)	(981)	(1,797)
Cash contribution to defined benefit pension schemes	(75)	(68)	(29)	(29)
Total taxes received	102	6	73	8
Net cash (outflow)/inflow from operating activities	(3,652)	(2,934)	20	(2,217)

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

29. Interest received and paid

	Group		Bank	
	2010 £m	2009 £m	2010 £m	2009 £m
Interest received	2,000	2,041	460	429
Interest paid	(529)	(989)	(135)	(211)
	1,471	1,052	325	218

30. Analysis of changes in financing during the year

	Group					
	Share capital and share premium		Reserves		Subordinated liabilities	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
At 1 January	2,412	1,619	2,211	–	1,243	1,318
Net cash inflows from financing	–	793	3,707	2,211	–	–
Currency translation and other adjustments	–	–	–	–	(28)	(75)
At 31 December	2,412	2,412	5,918	2,211	1,215	1,243

	Bank					
	Share capital and share premium		Reserves		Subordinated liabilities	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
At 1 January	2,412	1,619	2,211	–	1,010	1,077
Net cash inflows from financing	–	793	3,707	2,211	–	–
Currency translation and other adjustments	–	–	–	–	(24)	(67)
At 31 December	2,412	2,412	5,918	2,211	986	1,010

31. Analysis of cash and cash equivalents

	Group	
	2010 £m	2009 £m
At 1 January		
Cash	860	346
Cash equivalents	2,945	3,098
	3,805	3,444
Net cash inflow	444	556
Effect of exchange rate changes on cash and cash equivalents	(69)	(195)
At 31 December	4,180	3,805

Comprising:

Cash and balances at central banks	854	860
Loans and advances to banks & debt securities	3,326	2,945

	Bank	
	2010 £m	2009 £m
At 1 January		
Cash	599	103
Cash equivalents	3,241	5,420
	3,840	5,523
Net cash inflow/(outflow)	351	(1,491)
Effect of exchange rate changes on cash and cash equivalents	(15)	(192)
At 31 December	4,176	3,840

Comprising:

Cash and balances at central banks	613	599
Loans and advances to banks & debt securities	3,563	3,241

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

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. The directors manage the Group primarily by class of business (based on net interest income) and present the segmental analysis on that basis. Segments charge market prices for services rendered to other parts of the Group; funding charges between segments are determined by Group Treasury, having regard to commercial demands. The segment measure is operating profit/(loss) before tax, which differs from that reported previously in that it excludes the fair value of own debt. Comparative data has been restated accordingly.

The Group's reportable segments are on a divisional basis as follows:

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 business services, finance, human resources and head office divisions.

Other comprises Non-Core and Central functions.

Non-Core consists of assets that the Group intends to run off or dispose.

Central functions comprise Group and corporate functions such as treasury, funding and finance, risk management, legal, communications and human resources.

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

Class of Business	Total income			Operating expenses	Depreciation and amortisation	Impairment losses	Operating (loss)/profit before tax
	Interest income	Non-interest income	Total				
2010	£m	£m	£m	£m	£m	£m	£m
Retail Markets	378	87	465	(122)	–	(342)	1
Corporate Markets	395	126	521	(101)	(4)	(819)	(403)
Other	233	73	306	(392)	(63)	(2,682)	(2,831)
Total	1,006	286	1,292	(615)	(67)	(3,843)	(3,233)

Class of Business	Total income			Operating expenses	Depreciation and amortisation	Impairment losses	Operating (loss)/profit before tax
	Interest income	Non-interest income	Total				
2009	£m	£m	£m	£m	£m	£m	£m
Retail Markets	344	68	412	(156)	–	(140)	116
Corporate Markets	448	132	580	(107)	(4)	(538)	(69)
Other	216	21	237	(355)	(59)	(1,238)	(1,415)
Total	1,008	221	1,229	(618)	(63)	(1,916)	(1,368)

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

32. Segmental analysis (continued)

Class of Business	2010		2009	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Retail Markets	21,401	(21,401)	17,232	(17,232)
Corporate Markets	16,485	(16,485)	21,205	(21,205)
Other	16,261	(11,005)	23,314	(18,627)
Total	54,147	(48,891)	61,751	(57,064)

Geographical segments	2010			2009		
	United Kingdom £m	Republic of Ireland £m	Total £m	United Kingdom £m	Republic of Ireland £m	Total £m
Total Income	272	1,020	1,292	417	812	1,229
Operating loss before tax	(504)	(2,729)	(3,233)	(210)	(1,158)	(1,368)
Net Assets	(705)	5,961	5,256	241	4,446	4,687
Total Assets	11,150	42,997	54,147	11,502	50,249	61,751

33. Transactions with directors

At 31 December 2010, the amounts outstanding in relation to transactions, arrangements and agreements entered into by authorised institutions in the Group, as defined in UK legislation, were £1,262,668 (2009: £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 which is incorporated in Great Britain.

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 accounts for The Royal Bank of Scotland Group plc can be obtained from The Secretary, 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 accounts for this subgroup can be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

UK Government

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland Group plc. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly-owned by the UK Government. As a result the UK Government and UK Government controlled bodies became related parties of the Group.

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

34. Related parties (continued)

As at 31 December 2010 balances with UK Government and UK controlled bodies were:

2010	Central Government (including the Bank of England) £m	Local Government £m	Banks, financial corporations and public corporations £m	Total £m
Assets				
Balances at central banks	299	–	–	299
Debt securities	–	–	7	7
Loans and advances to customers	–	–	4	4
	299	–	11	310
Liabilities				
Customer accounts	10	69	19	98

No impairment losses were recognised by the Group in 2010 or 2009 in respect of balances with UK Government and UK Government controlled bodies.

2009	Central Government (including the Bank of England) £m	Local Government £m	Banks, financial corporations and public corporations £m	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

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	–	–	3	7,272,136
– at a preferential rate	1	–	–	122,500
Balances outstanding at the end of the year				
Loans:				
– at a preferential rate	5	1	–	350,883
– at a commercial rate	13	7	30	28,956,371

ULSTER BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

34. Related parties (continued)

(b) Related party transactions

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

	Group		Bank	
Assets	2010	2009	2010	2009
	£m	£m	£m	£m
Loans and advances:				
Parent companies	2,796	2,459	2,401	1,558
Key management	2	3	2	3
Other related parties, including fellow subsidiaries	2	3	1,458	2,881
	2,800	2,465	3,861	4,442
Derivatives:				
Parent companies	567	728	143	23
Total assets	3,367	3,193	4,004	4,465
Liabilities				
Deposits:				
Parent companies	11,583	14,605	3,453	2,903
Other related parties, including fellow subsidiaries	789	23	242	2,290
	12,372	14,628	3,695	5,193
Derivatives:				
Parent companies	1,281	1,455	161	26
Total liabilities	13,653	16,083	3,856	5,219

35. Post balance sheet events

There have been no significant events between the year end and the date of approval of the financial statements which would require a change or additional disclosure or amendment in the financial statement.

ULSTER BANK LIMITED

DIRECTORS AND EXECUTIVES

Chairman

Sean Dorgan (59)

was appointed deputy Chairman in July 2008 and subsequently Chairman in September 2008. He also serves as Chairman of Tesco Ireland, the governing board of Dublin Institute of Technology and CRANN Nanoscience Institute at Trinity College, Dublin. 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 (48)

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 (42)

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 (49)

was appointed 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 (49)

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

Trevor Bowen (61)

joined the 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.

Eileen Gleeson (50)

joined the Bank Board in 2004. She joined First Active Board in 2003 and subsequently Ulster Bank Ireland Limited 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, 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 (63)

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.

ULSTER BANK LIMITED

DIRECTORS AND EXECUTIVES (continued)

NON-EXECUTIVE DIRECTORS (continued)

Dr Philip Nolan (57)

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 and Chairman of Infinis Limited and Sepura plc from 2007 to 2010. He currently is Chairman of the Irish Management Institute and John Laing plc. He is also a non-executive director of Providence Resources and senior advisor to Warburg Pincus Private Equity Group

Ian Webb (63)

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.

Sir Nigel Hamilton (62)

joined the Ulster Bank Board in April 2009, after retiring from his role as Head of the Northern Ireland Civil Service in July 2008. 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. He is a Non Executive Director of Belfast City Airport, and Chairman of Bryson Charitable Group and the Northern Ireland Council of the Prince's Trust. He is also Vice Lord Lieutenant for the City and Borough of Belfast.

Dr Andrew McLaughlin (42)

is a member of the RBS Group's Management Committee holding the position of Director of Communications and Group Chief Economist. His overall experience as a senior RBS executive and his expertise in communications, reputation management and the economic field are particularly relevant to the Bank given the challenging banking and economic markets in which it operates. He is also leading the Bank's work in regards to the UK Independent Commission on Banking.

Christopher Campbell (52)

joined RBS Group in August 2005 as Deputy General Counsel and Director, Group Legal and became Group General Counsel in May 2010. Prior to joining RBS Group, he was a partner for 18 years in Scotland's largest law firm, Dundas & Wilson, and was Managing Partner from 1996 until he joined RBS Group in 2005. He is an Honorary Professor in Commercial Law at the University of Glasgow.

GROUP AUDIT COMMITTEE

Trevor Bowen, Chairman
Sir Nigel Hamilton
Dr Philip Nolan
Christopher Campbell

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

R Bergin
R Curran
J Gribbon

HEAD OFFICE

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

