ULSTER BANK GROUP

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ULSTER BANK GROUP

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

ULSTER BANK GROUP

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ULSTER BANK GROUP

REPORT OF THE DIRECTORS

The Directors of Ulster Bank Limited ("the Bank") have pleasure in presenting their report, together with audited financial statements of the Company and its subsidiaries ("the Group") for the year ended 31 December 2006. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

ACTIVITIES AND BUSINESS REVIEW

Activity

Ulster Bank Group brings together Ulster Bank and First Active to provide a highly effective challenger to the larger competitors in the Irish banking market. Serving personal customers, Ulster Bank Retail Markets provides branch banking, bancassurance and direct banking throughout the Republic of Ireland and Northern Ireland. Ulster Bank Corporate Markets provide a wide range of investment banking products and services to the corporate and institutional markets, which include foreign exchange, money market services, international trade finance and fixed income and derivative products

Review of the year

Business review

Ulster Bank made good progress in both personal and corporate banking in the Republic of Ireland and in Northern Ireland, with total income rising by 20% to £1,000 million in the period. A principal focus during 2006 was the expansion of our corporate banking franchise, and we succeeded in increasing corporate customer numbers by 7% in the Republic of Ireland and by 4% in Northern Ireland. This contributed to strong growth in both corporate lending, where average loans and advances increased by 32%, and deposits, with Ulster Bank winning a share of new business current accounts well in excess of its historic market share, particularly in the Republic of Ireland. Average mortgage balances grew by 26%, although the rate of growth was slower in the second half when there was some evidence of a more subdued pace of expansion in the mortgage market. The change in business mix resulting from strong growth in corporate lending and mortgages, together with some competitive pressures, led to a reduction in net interest margin.

During 2006 the Programme to migrate Ulster Bank technology and processes to the Royal Bank of Scotland (RBS) platform was substantially completed. As a result, Ulster Bank now has access to the complete RBS product range. This has been the largest single change programme in the history of the Group which positions the Group and its customers to be able to benefit from the world leading products and services available now and in the future from the RBS platform.

The credit environment remains benign. Impairment losses rose by £13 million to £71 million, consistent with growth in lending.

Financial performance

The Group's financial performance is presented in the Income Statement on Page 16. Income grew by £170 million to reach £1,000 million in the year. Total expenses increased by £147 million as we continued our investment programme to support the growth of the business. We recruited additional customer-facing staff, particularly in corporate banking, opened three new business centres and continued with our branch improvement programme. By the end of 2006, 70% of Ulster Bank branches had been upgraded. Expenses included an amount of £61 million in relation to integration costs incurred during the year as the group moved many of its operations onto the Royal Bank of Scotland operating platform. After impairment provisions of £71 million, the profit for the year was £363 million, an increase of 3% over 2005.

At the end of the year total assets were £45,489 million.

Other matters

The company is funded by facilities from The Royal Bank of Scotland plc and National Westminster Bank Plc. It seeks to minimise its exposure to external financial risks other than credit risk. Further information on financial risk management policies and exposures is disclosed in Notes 32 and 33.

Directorate

The names and brief biographical details of the current members of the Board who served throughout the year are shown on pages 73 to 75. From 1 January 2006 to date the following changes have taken place:

Directors	Appointed	Resigned
Christopher Mills	28 February 2006	
Philip Nolan	16 March 2006	
Ian Webb	13 February 2006	
Martin Wilson		31 March 2006

Mr William Burgess was a member of the board until he passed away on 8 February 2006.

Directors' Interests
No Director had an interest in the shares of the Bank. A table showing the interests of Directors in the Ordinary Shares of The Royal Bank of Scotland Group plc is set out in note 39 to the financial statements.

Directors' Indemnities
In terms of Article 317c of The Companies (Northern Ireland) Order 1986 (as amended), all directors have been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc.

Share Capital
Analysis of the changes to the share capital can be found in Note 28 to the financial statements.

Employees
The average number of persons employed by the Group was 5,475. Of these 2,210 worked wholly or mainly in the United Kingdom and the remuneration paid or payable to them was £85 million in total. Employees are split by Retail 2,587 and Corporate Markets/Others 2,889.

Staff Involvement
The Group encourages employee involvement through a process of communication and consultation held by senior managers. This involves internal communications activities through a corporate intranet, an in-house magazine, team meetings led by line managers, briefings held by senior managers and regular dialogue with employees and employee representatives.

The importance the Group places on consultation is evidenced by its annual Group-wide opinion survey, which seeks views on a variety of topics including leadership, communications, involvement, training and development.

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

It is very important to us that our people are able to share in the success of The Royal Bank of Scotland Group plc through profit sharing and sharesave schemes. These programmes reinforce the shared goals between the organisation and its people as well as encouraging positive motivation, commitment and productivity.

Employment of Disabled Persons
The Group's policy is that disabled persons are considered for employment and subsequent training, career development and promotion based on merit. If members of staff become disabled, it is the Group's policy, wherever possible, to retain them in their existing jobs or to re-deploy them in other suitable alternative duties.

Diversity
The attainment of an effective equal opportunities policy is a natural and integral part of good management practice. Key elements of our policy are an intention to develop and treat people fairly and create an environment within which staff can develop to their full potential. It is the Group's policy to comply with the relevant provisions of legislation and have regard to Codes of Practice affecting employment practices. Through our Managing Diversity Programme, we aim to value and engage individual difference and maximise inclusion to create a positive experience for our people and our customers.

Our commitment to diversity underpins our desire to be the financial services provider of choice for our customers and to be the employer of choice for our people. The Group will recruit, retain, develop and promote people based solely on merit regardless of their disability, gender, political opinion, race, religious belief or any other characteristics.

Financial Instruments
The major risks associated with the Group's businesses are Market risk, Liquidity risk, Credit risk and Operational risks. The Group has established a comprehensive framework for managing these risks, which is centrally evolving as the Group's business activities change in response to market, credit, product and other developments. The Group's policies for managing each of these risks and its exposure thereto are detailed in note 32 to the financial statements.

Post Balance Sheet Events
There were no material Post Balance Sheet events.

Health and Safety
The Group is committed to ensuring the health, safety and welfare of its employees and customers. There is a continuous programme of monitoring and evaluating policies and procedures to ensure that they comply with legislation and best practice whilst ensuring they meet operational business requirements.

Policy and Practice on Payment of Creditors

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

At 31 December 2006, the amount owed to trade creditors by the Group and the Bank, expressed as a proportion of the amounts invoiced by suppliers during the year then ended, was 22 and 21 days respectively (2005: 23 and 22 days respectively).

Elective Regime

The company has passed Elective Resolutions electing to dispense with the requirement to hold annual general meetings, lay accounts before a general meeting and re-appoint auditors annually.

Charitable Contributions

During the year the Group made donations totalling £28,211 (2005: £63,510) to charitable organisations in the United Kingdom.

Auditors

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors.

By Order of the Board

Secretary

11-16 Donegall Square East
Belfast
BT1 5UB

27 February 2007

ULSTER BANK GROUP

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies (Northern Ireland) Order 1986 to prepare a directors' report and financial statements for each financial year and have elected to prepare them in accordance with International Financial Reporting Standards, as adopted by the European Union. They are responsible for preparing financial statements that present fairly the financial position, financial performance and cash flows of the Group and the Bank. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Bank will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Bank and to enable them to ensure that the directors' report and financial statements comply with the Companies (Northern Ireland) Order 1986. They are also responsible for safeguarding the assets of the Group and the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that these financial statements comply with the aforementioned requirements.

By order of the Board.

Secretary

11-16 Donegall Square East
Belfast
BT1 5UB

27 February 2007

ULSTER BANK GROUP

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 2006 which comprise the accounting policies, the consolidated income statement, the consolidated and Bank statement of recognised income and expense, the balance sheets, the cash flow statements and the related Notes 1 to 42. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of Directors and auditors

As described in the directors' report, the Bank's Directors are responsible for the preparation of the Directors' Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements. In addition we report to you if, in our opinion, the Bank has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Bank and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the Bank financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the requirements of the Companies (Northern Ireland) Order 1986, of the individual Bank's affairs as at 31 December 2006;
- the financial statements have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986;
- the information given in the Directors' report is consistent with the financial statements.

Separate opinion in relation to IFRS

As explained in the accounting policies, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

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

In our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended.

Deloitte & Touche LLP Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Belfast, United Kingdom

ACCOUNTING POLICIES

1. Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

2. Accounting convention

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

3. Basis of consolidation

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

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

The results of subsidiaries acquired are included in the consolidated income statement from the date control passes to the Group. The results of subsidiaries sold are included up until the Group ceases to control them.

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

4. Revenue recognition

Interest income on financial assets that are classified as loans and receivables, available-for-sale and interest expense on financial liabilities other than those at fair value through profit or loss is determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount.

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

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

Payment services income comprises income received for payment services including cheques cashed and direct debits. These are generally charged on a per transaction basis. The income is earned when the payment or transaction occurs. Payment services income is usually charged 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 through profit or loss as the service is performed.
- Interchange received: as issuer, the Group receives a fee (interchange) each time a cardholder purchases goods and services. The Group also receives interchange fees from other card issuers for providing cash advances through its branch and Automated Teller Machine networks. These fees are accrued once the transaction has taken place.
- An annual fee payable by a business card holder is charged each year but is deferred and charged through profit or loss over the period of the service i.e. 12 months.

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

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

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

5. Pensions and other post-retirement benefits

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

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

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

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

6. Intangible assets and goodwill

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

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

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

7. Property, plant and equipment

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

Depreciation is charged through profit or loss on a straight-line basis so as to write off the depreciable amount of property, plant and equipment 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 intangible assets and property, plant and equipment

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

9. Foreign currencies

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

Transactions in foreign currencies are translated into sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in profit or loss except for differences arising on financial liabilities hedging 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.

10. Leases

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

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

statement on a receivable basis over the term of the lease. Operating lease assets are included within Property, plant and equipment and depreciated over their useful lives (see note 7 above).

11. Taxation

Provision is made for taxation at current 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 recognised for all deductible temporary differences to the extent that it is probable that the taxable profit will be available against which the deductible temporary difference can be utilised.

12. Financial assets

Financial assets are classified into available-for-sale financial assets; held for trading; designated as fair value through profit or loss; or loans and receivables.

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

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

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.

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 held for trading or designated as 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 adjusted cost using the effective interest method (see note 4 above) less any impairment losses.

Available-for-sale – financial assets that are not classified as held for trading; designated at fair value through profit or loss; or loans and receivables are classified as available for sale. Financial assets can be designated as available-for-sale on initial recognition. Available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. 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. Other changes in the fair value of available-for-sale financial assets are reported in a separate component of shareholders' equity. Interest calculated using the effective interest rate (see note 4 above) is recognised in profit or loss.

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

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

13. Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as 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 has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant and collectively for assets that are not individually significant. In making a collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted, on the basis of current observable data, to reflect the effects of current conditions not affecting the period of historical experience.

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

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

14. Financial liabilities

A financial liability is classified as held-for-trading if it is incurred principally for the purpose of repurchasing or selling out 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). The Group designates certain financial liabilities on initial recognition as liabilities at fair value through profit or loss. Held-for-trading financial liabilities and financial liabilities designated at fair value through profit or loss 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. All other financial liabilities are measured at amortised cost using the effective interest method (see (4) above).

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.

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.

15. Sale and repurchase transactions

Securities which have been sold with an agreement to repurchase continue to be shown on the balance sheet and the sale proceeds recorded as a deposit where the Group retains substantially all the risks and rewards of ownership of the securities. Securities acquired in reverse sale and repurchase transactions are not recognised on the balance sheet and the purchase price is treated as a loan if the Group is not exposed to the risks and rewards of ownership.

16. 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.

17. Derivatives and hedging

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

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

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

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

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

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 – where a foreign currency liability hedges a net investment in a foreign operation, the portion of foreign exchange differences arising on translation of the liability determined to be an effective hedge is recognised directly in equity. Any ineffective portion is recognised in profit or loss.

18. Cash and cash equivalents

Cash and cash equivalents comprises cash on hand 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 changes in value.

19. Shares in Group entities

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

Critical accounting estimates and judgements

The reported results of the Group for 2006 are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The Group's principal accounting policies are set out on pages 7 to 15. Northern Ireland company law and IFRS require the directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. Where accounting standards are not specific and management have to choose a policy, International Accounting Standard ("IAS") 8 'Accounting Policies, Changes in Accounting Estimates and Errors' requires them to adopt policies that will result 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 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.

Impairment provisions – financial assets

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 2006, gross loans and receivables totalled £41,192m (2005: £34,826m) and loan impairment provisions amounted to £249m (2005 £208m).

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 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 certainties 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.

Pensions

The Ulster Bank Pension Scheme and the Ulster Bank Pension Scheme (Republic of Ireland) are the Group's principal defined benefit pension schemes and there are also a number of smaller schemes within the Group. The assets of the 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 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). An asset is only recognised to the extent that the surplus can be recovered through reduced contributions in the future or through refunds from the scheme.

ACCOUNTING POLICIES (continued)

In determining the value of scheme liabilities assumptions are made as to price inflation, dividend growth, pension increases, earnings growth and employees. There is a range of assumptions that could be adopted in valuing the schemes' liabilities. Different assumptions could significantly alter the amount of the deficit recognised in the balance sheet and the pension cost charged through profit or loss. The assumptions underlying the 2006 deficit and pension cost are set out in Note 2 on the financial statements. The net deficit is most sensitive to changes in the discount rate, an increase or decrease of 0.10% would decrease or increase the deficit by some £22m.

Fair value

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

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

Financial assets carried at fair value include government and corporate debt securities, loans, corporate equity shares and derivatives. Financial liabilities carried at fair value include deposits. 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.

Goodwill

The Group capitalises goodwill arising on the acquisition of businesses, as disclosed in the accounting policies. Goodwill is the excess of the cost of an acquisition and the fair value of its net assets. The determination of the fair value of assets and liabilities of businesses acquired requires the exercise of management judgement; for example those financial assets and liabilities for which there are no quoted prices, and those non-financial assets where valuations reflect estimates of market conditions such as property. Different fair values would result in changes to the goodwill arising and to the post-acquisition performance of the acquisition. Goodwill is not amortised but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

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

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

Accounting Developments

International Financial Reporting Standards

The IASB issued IFRS 7 'Financial Instruments: Disclosures' in August 2005. The standard replaces IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' and the disclosure provisions in IAS32. IFRS 7 requires disclosure of the significance of financial instruments for an entity's financial position and performance and of qualitative and quantitative information about exposure to risks arising from financial instruments. The standard is effective for annual periods beginning on or after 1 January 2007.

Also in August 2005, the IASB issued an amendment. 'Capital Disclosures', to IAS 1 'Presentation of Financial Statements'. It requires disclosure about an entity's capital and the way it is managed. This amendment is also effective for annual periods beginning on or after 1 January 2007.
The Group is reviewing IFRS 7 and the amendment to IAS 1 to determine their effect on its financial reporting.

The International Financial Reporting Interpretations Committee ('IFRIC') issued interpretation IFRIC 9 'Reassessments of Embedded Derivatives' in March 2006. Entities are required to assess financial instruments for the existence of embedded derivatives; this interpretation prohibits subsequent reassessment unless there is a change of terms that significantly changes the terms of the financial instrument. The interpretation is effective for accounting periods starting on or after 1 June 2006 and is not expected to have a material effect on the Group or company.

The IFRIC issued interpretation IFRIC 10 'Interim Financial Reporting and Impairment' in July 2006. Entities recognising an impairment of intangible assets, goodwill or a financial asset in their interim financial statements are not allowed to reverse that impairment if the asset had recovered its value at the next reporting date. The interpretation is effective for accounting periods beginning on or after 1 November 2006 and is not expected to have a material effect on the Group or company.

The IFRIC issued interpretation IFRIC 11 'Group and Treasury Share Transactions' in November 2006. Entities which buy their own shares, or whose shareholders buy shares in the reporting entity, in order to provide incentives on an equity-settled basis. This principle applies also to the accounting by subsidiaries. The interpretation is effective for annual accounting periods beginning on or after 1 March 2007 and is not expected to have material effect on the Group or company.

The IFRIC issued interpretation IFRIC 12 'Service Concession Arrangements' in December 2006. Entities providing infrastructure and services to governments under concession arrangements shall account for each component of the arrangement separately. Infrastructure provided under these arrangements may be recognised as either a financial asset or an intangible asset. The interpretation is effective for accounting periods beginning on or after 1 January 2008 and is not expected to have a material effect on the Group or company.

The IASB issued IFRS 8 'Operating Segments' in December 2006. This will replace IAS 14 'Segment Reporting' for accounting periods beginning on or after 1 January 2009. IFRS 8 is very similar to US Statement of Financial Accounting Standards No. 131 and requires entities to report segment information as reported to management and reconcile it to the financial statements.

ULSTER BANK GROUP

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2006

	Notes	2006 £m	2005 £m
Interest receivable		**2,143**	1,484
Interest payable		**(1,422)**	(887)
Net interest income		**721**	597
Dividend income		**2**	-
Fees and commissions receivable		**178**	198
Fees and commissions payable		**(33)**	(41)
Income from trading activities	1	**54**	26
Other operating income		**78**	50
Non-interest income		**279**	233
Total income		**1,000**	830
Operating expenses		**(566)**	(419)
Operating profit before impairment losses		**434**	411
Impairment losses	16	**(71)**	(58)
Operating profit before tax	3	**363**	353
Tax on operating profit	6	**(90)**	(86)
Profit for the period		**273**	267
Profit attributable to:			
Minority interests		**4**	3
Equity preference shareholders	5, 8	**34**	14
Ordinary shareholders	29	**235**	250
		273	267

These financial statements were approved by the Board of Directors on 27 February 2007 and signed on its behalf by:

ULSTER BANK GROUP

CONSOLIDATED AND COMPANY STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 31 December 2006

	2006 Group £m	**2006 Bank £m**	2005 Group £m	2005 Bank £m
Available-for-sale investments:				
Valuation gains/(losses) taken to equity	(6)	1	(5)	-
Cash flow hedges				
Gains/(losses) taken direct to equity	(12)	1	(14)	-
Disposal of subsidiary	(10)	-	-	-
Exchange differences on translation of foreign operations	(37)	10	(19)	(8)
Income before tax on items recognised direct in equity	(65)	12	(38)	(8)
Tax on items recognised direct in equity	-	-	-	-
Net income recognised direct in equity	(65)	12	(38)	(8)
Retained profit for the year	273	228	267	143
Total recognised income and expense for the year	**208**	**240**	**229**	**135**
Attributable to:				
Equity holders of the parent	206	240	228	135
Minority interest	2	-	1	-
	208	**240**	**229**	**135**

ULSTER BANK GROUP

CONSOLIDATED BALANCE SHEET

as at 31 December 2006

	Notes	**2006 £m**	2005 £m
Assets			
Cash and balances at Central Banks	9	589	533
Items in the course of collection from other banks		268	228
Treasury and other eligible bills	10	1	1
Loans and advances to banks	11	4,356	4,754
Loans and advances to customers	12	36,587	29,864
Debt securities	13		
- subject to repurchase agreements		972	1,126
- not subject to repurchase agreements		750	1,406
Equity shares	14	18	11
Intangible fixed assets	17	553	524
Property, plant and equipment	18	306	236
Derivatives at fair value	19	907	676
Deferred tax asset	25	29	22
Other assets, prepayments and accrued income	20	153	411
Total assets		**45,489**	**39,792**
Liabilities			
Deposits by banks	21	9,030	11,366
Items in the course of transmission to other banks		35	31
Customer accounts	22	18,901	16,544
Debt securities in issue	23	12,004	7,488
Pension liability	2	191	197
Derivatives at fair value	19	871	626
Other liabilities, accruals and deferred income	24	834	695
Deferred taxation liabilities	25	14	30
Provisions for liabilities and charges	26	2	11
Subordinated liabilities	27	489	473
Total liabilities		**42,371**	**37,461**
Equity			
Minority interests	29	156	2
Shareholders' equity:			
Called up Share Capital	28	717	488
Reserves	29	2,245	1,841
Total equity		**3,118**	**2,331**
Total liabilities and equity		**45,489**	**39,792**
Memorandum Items			
Contingent liabilities:	33		
- acceptances and endorsements		-	1
- guarantees and assets pledged as collateral security		220	267
- other contingent liabilities		320	312
Total contingent liabilities		540	580
Commitments: - other commitments		6,600	5,556

These financial statements were approved by the Board of Directors on 27 February 2007 and signed on its behalf by:

Chairman   Group Chief Executive

ULSTER BANK GROUP

COMPANY BALANCE SHEET

as at 31 December 2006

	Notes	**2006** **£m**	2005 £m
Assets			
Cash and balances at Central Banks	9	477	389
Items in the course of collection from other banks		37	39
Loans and advances to banks	11	6,533	4,072
Loans and advances to customers	12	7,004	4,899
Debt securities	13	540	1,005
Equity shares	14	-	-
Shares in Group undertakings	15	1,209	833
Intangible fixed assets	17	48	26
Property, plant and equipment	18	140	95
Derivatives at fair value		32	30
Deferred tax asset	25	40	23
Other assets, prepayments and accrued income	20	12	-
Total assets		**16,072**	**11,411**
Liabilities			
Deposits by banks	21	5,172	3,141
Items in the course of transmission to other banks		4	11
Customer accounts	22	5,390	4,283
Debt securities in issue	23	2,452	1,727
Pension liability	2	112	112
Derivatives at fair value		34	21
Other liabilities, accruals and deferred income	24	536	414
Deferred tax liability	25	9	-
Subordinated liabilities	27	342	346
Total liabilities		**14,051**	**10,055**
Equity			
Shareholders' equity:			
Called up share capital	28	717	488
Reserves	29	1,304	868
Total equity		**2,021**	**1,356**
Total liabilities and equity		**16,072**	**11,411**
Memorandum items			
Contingent liabilities:	33		
- acceptances and endorsements		-	1
- guarantees and assets pledged as collateral security		4,065	4,499
- other contingent liabilities		92	61
Total contingent liabilities		4,157	4,561
Commitments: - other commitments		2,243	1,351

These financial statements were approved by the Board of Directors on 27 February 2007 and signed on its behalf by

ULSTER BANK GROUP

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2006

	Notes	**Group 2006 £m**	Group 2005 £m
Operating activities			
Group operating profit		363	353
Adjustments for:			
Depreciation and amortisation		31	27
Interest on subordinated liabilities		20	22
Cash contribution to defined benefit pension schemes		(45)	(19)
Pension charge for defined benefit schemes		50	37
Other non-cash items		162	(169)
Net cash inflow from trading activities	34	581	251
Changes in operating assets and liabilities		(1,449)	829
Net cash flows from operating activities before tax		(868)	1,080
Taxes paid		(125)	(82)
Cash flows from operating activities	34	(993)	998
Investing activities			
Purchase and redemption of securities		829	(544)
Sale of property, plant and equipment		-	3
Purchase of property, plant and equipment		(95)	(31)
Net investment in business interests and intangible assets		(50)	(50)
Cash flows from investing activities		684	(622)
Financing activities			
Issue of ordinary shares		110	200
Issue of equity preference shares		364	446
Net equity minority interest acquired		152	120
Repayments of subordinated liabilities		-	(357)
Dividends paid	8	(34)	(14)
Interest on subordinated liabilities		(20)	(22)
Cash flows from financing activities		**572**	**373**
Net increase in cash and cash equivalents		263	749
Opening cash and cash equivalents		3,987	3,295
Effect of exchange rate changes on cash and cash equivalents		(55)	(57)
Cash and cash equivalents 31 December	36	4,195	3,987

ULSTER BANK GROUP

COMPANY CASH FLOW STATEMENT

for the year ended 31 December 2006

	Notes	**Bank 2006 £m**	Bank 2005 £m
Operating activities			
Group operating profit		260	188
Adjustments for:			
Depreciation and amortisation		11	9
Interest on subordinated liabilities		-	22
Cash contribution to defined benefit pension schemes		(19)	(7)
Pension charge for defined benefit schemes		19	14
Other non-cash items		515	111
Net cash inflow from trading activities	34	786	337
Changes in operating assets and liabilities		1,595	951
Net cash flows from operating activities before tax		2,381	1,288
Taxes paid		(29)	(29)
Cash flows from operating activities	34	2,352	1,259
Investing activities			
Sale and maturity of securities		-	-
Purchase and redemption of securities		466	(339)
Sale of property, plant and equipment		-	-
Purchase of property, plant and equipment		(54)	(12)
Net investment in business interests and intangible assets		(414)	112
Cash flows from investing activities		(2)	(239)
Financing activities			
Issue of ordinary shares		110	200
Issue of equity preference shares		364	446
Issue of subordinated liabilities		-	-
Net equity minority interest acquired		-	-
Repayments of subordinated liabilities		-	(333)
Dividends paid		(34)	(14)
Interest on subordinated liabilities		(4)	(22)
Cash flows from financing activities		**436**	**277**
Net increase in cash and cash equivalents		**2,786**	**1,297**
Opening cash and cash equivalents		4,474	3,264
Effect of exchange rate changes on cash and cash equivalents		(417)	(87)
Closing cash and cash equivalents	36	6,843	4,474

1. Income from trading activities

	2006 £m	2005 £m
Foreign exchange	57	24
Interest rate derivatives	(3)	2
	54	26

Income from trading activities includes:	2006 £m	2005 £m
Net gains/(losses) on financial assets and liabilities classified as held for trading	48	25
Net gains/(losses) on financial assets and liabilities designated as at fair value through profit or loss	6	1
	54	26

2. 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
First Active Executives' Pension Scheme

The Group also makes contributions to a small number of Royal Bank of Scotland 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 value of gross assets and gross liabilities 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 2006 by independent actuaries, using the following assumptions:

Group

Principal actuarial assumptions at 31 December	**2006**	2005
Discount rate	**4.75% - 5.30%**	4.25% - 4.80%
Expected return on plan assets	**6.47% - 7.07%**	6.01% - 7.18%
Rate of increase in salaries	**3.25% - 3.90%**	3.25% - 3.70%
Rate of increase in pensions in payment	**2.25% - 2.90%**	2.25% - 2.70%
Inflation assumption	**2.25% - 2.90%**	2.25% - 2.70%

2. **Pension costs (continued)**

The expected return on plan assets at 31 December 2006 is based upon the weighted average of the following assumptions of the returns on the major classes of plan assets:

Equities	**7.70% - 8.10%**	7.20% - 7.70%
Index-linked bonds	**4.10% - 4.50%**	3.60% - 4.10%
Government fixed interest bonds	**4.10% - 4.50%**	3.60% - 4.10%
Corporate and other bonds	**4.75% - 5.30%**	4.25% - 4.80%
Property	**5.90% - 6.30%**	5.40% - 5.90%
Cash and other assets	**4.20% - 4.60%**	3.70% - 4.20%

Bank

Principal actuarial assumptions at 31 December	**2006**	2005
Discount rate	**5.30%**	4.80%
Expected return on plan assets	**6.97%**	6.55%
Rate of increase in salaries	**3.90%**	3.70%
Rate of increase in pensions in payment	**2.90%**	2.70%
Inflation assumption	**2.90%**	2.70%

The expected return on plan assets at 31 December 2006 is based upon the weighted average of the following assumptions of the returns on the major classes of plan assets:

Equities	**8.10%**	7.70%
Index-linked bonds	**4.50%**	4.10%
Government fixed interest bonds	**4.50%**	4.10%
Corporate and other bonds	**5.30%**	4.80%
Property	**6.30%**	5.90%
Cash and other assets	**4.60%**	4.20%

Post-retirement mortality assumptions (Main scheme)	**2006**	**2005**
Longevity at age 70 for current pensioners (years)		
Males	**14.9**	14.9
Females	**17.7**	17.7
Longevity at age 63 for future pensioners (years)		
Males	**21.6**	21.6
Females	**24.6**	24.6

2. Pension costs (continued)

Group **Changes in value of net pension liability**	**Fair value of plan assets £m**	**Present value of defined benefit obligations £m**	**Net pension liability £m**
At 1 January 2006	783	(1,051)	(268)
Income statement:			
Expected return	48	-	48
Interest cost	-	(48)	(48)
Current service cost	-	(45)	(45)
Less: direct contributions from other scheme members	-	-	-
Past service cost	-	(3)	(3)
Acquisition of subsidiaries	2	(3)	(1)
Amortisation of net unrecognised actuarial losses	-	(1)	(1)
Losses / (gains) on curtailment	-	-	-
	50	(100)	(50)
Currency translation and other adjustments	(12)	18	6
Actuarial gains / (losses)	15	84	99
Contributions by employer	45	-	45
Contributions by other scheme members	-	-	-
Contributions by plan participants	3	(3)	-
Benefits paid	(23)	23	-
Expenses included in service cost	-	-	-
Amortisation of net unrecognised actuarial losses	-	-	-
At 31 December 2006	861	(1,029)	(168)
Unrecognised actuarial gain			(23)
Currency translation adjustment on unrecognised actuarial losses			-
			(191)
Unfunded scheme liabilities included in post retirement benefit liabilities			-
Post retirement benefit liabilities at 31 December 2006			**(191)**

2. Pension costs (continued)

Changes in value of net pension liability	**Fair value of plan assets £m**	**Present value of defined benefit obligations £m**	**Net pension liability £m**
At 1 January 2005	666	(955)	(289)
Income statement:			
Expected return	45	-	45
Interest cost	-	(47)	(47)
Current service cost	-	(34)	(34)
Less: direct contributions from other scheme members	-	2	2
Past service cost	-	(1)	(1)
Amortisation of net unrecognised actuarial losses	-	(2)	(2)
Losses / (gains) on curtailment	-	-	-
	45	(82)	(37)
Currency translation and other adjustments	(8)	12	4
Actuarial gains / (losses)	81	(48)	33
Contributions by employer	19	-	19
Contributions by other scheme members	2	(2)	-
Contributions by plan participants	3	(3)	-
Benefits paid	(24)	24	-
Expenses included in service cost	(1)	1	-
Amortisation of net unrecognised actuarial losses	-	2	2
At 31 December 2005	783	(1,051)	(268)
Unrecognised actuarial loss			73
Currency translation adjustment on unrecognised actuarial losses			(1)
			(196)
Unfunded scheme liabilities included in post retirement benefit liabilities			(1)
Post retirement benefit liabilities at 31 December 2005			**(197)**

The Group expects to contribute £31m to its defined benefit pension schemes in 2007. Contributions for 2006 include £2.65m in relation to past service benefits for the Ulster Bank Pension Scheme and the Ulster Bank Pension Scheme (Republic of Ireland) and £1m in relation to special contributions to the First Active Pension Scheme and First Active Executives' Pension Scheme.

2. Pension costs (continued)

Bank

Changes in value of net pension liability	**Fair value of plan assets £m**	**Present value of defined benefit obligations £m**	**Net pension liability £m**
At 1 January 2006	394	(515)	(121)
Income statement:			
Expected return	25	-	25
Interest cost	-	(25)	(25)
Current service cost	-	(16)	(16)
Acquisition of subsidiaries	3	(5)	(2)
Past service cost	-	(1)	(1)
	28	(47)	(19)
Actuarial gains / (losses)	1	31	32
Contributions by employer	19	-	19
Contributions by plan participants	1	(1)	-
Benefits paid	(13)	13	-
At 31 December 2006			
Unrecognised actuarial losses	430	(519)	(89)
Unfunded scheme liabilities included in post retirement benefit liabilities			(23)
Post retirement benefit liabilities at 31 December 2006			**(112)**
At 1 January 2005	338	(472)	(134)
Income statement:			
Expected return	24	-	24
Interest cost	-	(25)	(25)
Current service cost	-	(12)	(12)
Past service cost	-	(1)	(1)
	24	(38)	(14)
Actuarial gains / (losses)	38	(18)	20
Contributions by employer	7	-	7
Contributions by plan participants	1	(1)	-
Benefits paid	(14)	14	-
At 31 December 2005	394	(515)	(121)
Unrecognised actuarial losses			9
			(112)
Unfunded scheme liabilities included in post retirement benefit liabilities			-
Post retirement benefit liabilities at 31 December 2005			**(112)**

2. Pension costs (continued)

Group

Major plan assets as a percentage of total plan	**2006**	2005
Equities	**62%**	64%
Index-linked bonds	**4%**	4%
Government fixed interest bonds	**13%**	13%
Corporate and other bonds	**9%**	10%
Property	**10%**	7%
Cash	**1%**	1%
Other assets	**1%**	1%

History of defined benefit schemes	**2006 £m**	2005 £m	2004 £m
Present value of defined benefit obligations	**(1,029)**	(1,051)	(955)
Fair value of plan assets	**861**	783	666
Net deficit	**(168)**	(268)	(289)
Experience (losses)/gains on plan liabilities	**15**	(14)	12
Experience (losses)/gains on plan assets	**16**	81	12

Bank

Major plan assets as a percentage of total plan	**2006**	2005
Equities	**62%**	61%
Index-linked bonds	**7%**	8%
Government fixed interest bonds	**10%**	10%
Corporate and other bonds	**8%**	9%
Property	**11%**	11%
Cash	**2%**	1%
Other assets	**0%**	0%

History of defined benefit schemes	**2006 £m**	2005 £m	2004 £m
Present value of defined benefit obligations	**(519)**	(515)	(472)
Fair value of plan assets	**430**	394	338
Net deficit	**(89)**	(121)	(134)
Experience (losses)/gains on plan liabilities	**4**	13	(1)
Experience (losses)/gains on plan assets	**1**	11	16

3. Operating profit before tax

Operating profit before tax is stated after taking account of the following:

	2006	2005
	£m	£m
Income		
Sales of available for sale securities	-	-
Administrative expenses		
Staff costs		
- Wages, salaries and other staff costs	271	195
- Pension costs (see Note 2)		
-defined benefit schemes	50	37
-defined contribution schemes	-	-
Revenue expenditure on premises and equipment	60	42
Integration expenditure included above comprises:		
Staff Costs	48	7
Other	13	5
Depreciation and amortisation		
Property plant and equipment (see note 18)	21	21
Intangible assets (see note 17)	10	6

The auditors' remuneration for statutory audit work was £175,218 for the Bank (2005: £111,038) and £588,000 for the Group (2005: £372,440). Remuneration paid to the auditors of the company for non-audit work for the Group was £nil for work in the United Kingdom (2005: £nil) and £191,343 for services relating to corporate finance transactions entered into by the Group in the Republic of Ireland (2005: £83,300).

4. Emoluments of Directors

	2006	2005
	£	£
Total emoluments received by Directors	2,330,885	2,098,000
Compensation for loss of office	828,735	517,000

	2006	2005
Number of Directors to whom retirement benefits are accruing under defined benefit schemes	5	6

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 £781,207. At 31 December 2006 the accrued pension, under a defined benefit scheme, for the highest paid Director was £98,555. During the year the highest paid Director did not exercise share options.

Sir F. Goodwin is a director of RBS Group and his interests in the ordinary shares and share options of RBS Group are disclosed in the 2006 Annual Report and Accounts of that company.

Details of share options exercised by Directors are separately disclosed in note 39.

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

5. Profit attributable to equity preference shareholders

	2006	2005
	£m	£m
Non-cumulative redeemable preference shares of €1 each	34	14

6. Tax on Operating Profit

	2006 £m	2005 £m
United Kingdom Corporation Tax at 30% (2005: 30%)		
Corporation Tax on profit for the year	31	37
Corporation Tax under provision for prior years	8	2
	39	39
Overseas Taxation ***(Republic of Ireland Corporation Tax at 12.5% (2005: 12.5%))***	52	51
Total Current Taxation	91	90
Deferred Taxation		
Current year deferred tax charge	-	(4)
Prior year deferred tax charge	(1)	-
	90	86

The standard rate of tax for the year, based on the UK Corporation Tax of 30%. The actual tax charge for the current and previous year is lower than the standard rate for the reasons set out below:

	2006 £m	2005 £m
Profit before Tax	**352**	353
Tax on profit at the standard rate	**106**	106
Factors affecting the charge for the year:		
Foreign tax charged other than the standard rate of UK tax	**(33)**	(31)
Income not taxable (primarily dividend income)	**(1)**	(1)
Other timing differences	**(1)**	2
Expenses not deductible for tax purposes	**1**	-
Government Levy	**-**	8
Other movements	**8**	1
Adjustments to tax charge in respect of prior years	**10**	1
Total tax charge for the year	**90**	86

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries as these earnings are continually reinvested in the business by the Group, therefore no tax is expected to be payable on them in the foreseeable future.

7. Profit dealt with in the financial statements of the Bank

Of the profit after tax for the financial year, £228m (2005: £143m) is attributable to the operations of the Bank. The Income Statement of the Bank is not presented by virtue of the exemption contained within Article 238 of the Companies (Northern Ireland) Order 1986.

8. Equity preference dividends

	2006 Dividends paid £m	2005 Dividends paid £m
160m Non-cumulative preference shares of €1 each	**4**	4
20m Non-cumulative preference shares of €1 each	**12**	10
100m Non-cumulative preference shares of €1 each	**18**	-
70m Non-cumulative preference shares of €1 each	**-**	-
100m Non-cumulative preference shares of €1 each	**-**	-
TOTAL EQUITY PREFERENCE DIVIDENDS	**34**	14

9. Cash and balances at Central Banks

Cash and balances at Central Banks include Bank of England notes held in respect of notes in circulation in Northern Ireland.

10. Treasury and other eligible bills

	2006 Group £m	**2006 Bank £m**	2005 Group £m	2005 Bank £m
Treasury bills and similar securities	**1**	**-**	1	-
Comprising:				
Available-for-sale	**1**	**-**	1	-
	1	**-**	1	-

11. Loans and advances to banks

	2006 Group £m	**2006 Bank £m**	2005 Group £m	2005 Bank £m
Designated as at fair value through profit or loss	**469**	**-**	282	-
Loans and receivables	**3,887**	**6,533**	4,472	4,072
	4,356	**6,533**	4,754	4,072

12. Loans and advances to customers

	2006 Group £m	**2006 Bank £m**	2005 Group £m	2005 Bank £m
Loans and receivables	**36,587**	**7,004**	29,864	4,899
	36,587	**7,004**	29,864	4,899

Ulster Bank Group has advances secured on residential property subject to non-recourse funding. Under IAS 39, these securitised mortgages qualify for full recognition on the balance sheet at 31 December 2006. As at 31 December 2006, £5,535m (2005: £2,245m) are included in loans and advances to customers.

13. Debt securities

Group

2006	**Government £m**	**Bank and building society £m**	**Other issuers £m**	**Total £m**
Available for sale	783	692	247	1,722
Available-for-sale				
Gross unrealised gains	3	-	-	3
Gross unrealised losses	(12)	(4)	-	(16)

Bank

2006	**Government £m**	**Bank and building society £m**	**Other issuers £m**	**Total £m**
Available-for-sale	-	386	154	540
At 31 December 2006	-	386	154	540
Available-for-sale	-	-	-	-
Gross unrealised losses	-	(1)	-	(1)

Group

2005	**Government £m**	**Bank and building society £m**	**Other issuers £m**	**Total £m**
Available for sale	832	916	784	2,532
Available-for-sale				
Gross unrealised gains	2	-	-	2
Gross unrealised losses	(3)	(1)	(3)	(7)

Bank

2005	**Government £m**	**Bank and building society £m**	**Other issuers £m**	**Total £m**
Available-for-sale	-	489	516	1,005
At 31 December 2005	-	489	516	1,005
Available-for-sale				
Gross unrealised losses	-	-	(1)	(1)

13. Debt securities (continued)

	Group Listed £m	Group Unlisted £m	Group Total £m	Bank Listed £m	Bank Unlisted £m	Bank Total £m
2006						
Available-for-sale	1,700	22	1,722	540	-	540
At 31 December 2006	1,700	22	1,722	540	-	540

	Group Listed £m	Group Unlisted £m	Group Total £m	Bank Listed £m	Bank Unlisted £m	Bank Total £m
2005						
Available-for-sale	2,500	32	2,532	1,005	-	1,005
At 31 December 2005	2,500	32	2,532	1,005	-	1,005

The following table categorises the Group and Bank's available-for-sale debt securities by maturity and yield (based on weighted averages) as at 31 December 2006:

Group

	Within 1 year		After 1 but within 5 years		After 10 years		Total	
	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %
Government	91	4.4	692	4.2	-	-	783	4.2
Mortgage backed securities	6	5.4	-	-	99	5.4	105	5.4
Bank and building society	121	5.4	571	4.1	-	-	692	4.3
Other	142	4.9	-	-	-	-	142	4.9
Total fair value	360	5.0	1,263	4.2	99	5.4	1,722	4.4

Bank

	Within 1 year		After 1 but within 5 years		After 10 years		Total	
	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %
Mortgage backed securities	6	5.4	-	-	99	5.4	105	5.4
Bank and building society	111	5.4	275	5.4	-	-	386	5.4
Other	49	5	-	-	-	-	49	5
Total fair value	166	5.3	275	5.4	99	5.4	540	5.3

There were no maturities within the 5-10 year time bucket.

14. Equity shares

Group	2006 Listed £m	2006 Unlisted £m	2006 Total £m	2005 Listed £m	2005 Unlisted £m	2005 Total £m
Available-for-sale	9	9	18	6	5	11
At 31 December	9	9	18	6	5	11

Bank	2006 Listed £m	2006 Unlisted £m	2006 Total £m	2005 Listed £m	2005 Unlisted £m	2005 Total £m
Available-for-sale	-	-	-			
At 31 December	-	-	-			

The Bank did not hold any listed or unlisted equity shares at 31 December 2006.

15. Shares in Group Undertakings

Bank	£m
At 1 January 2006	833
Additions	392
Disposal of subsidiary	(2)
Currency translations and other adjustments	(14)
At 31 December 2006	1,209

Subsidiary undertakings comprise:	2006 £m	2005 £m
- Banks	1,167	790
- Other	42	43
Total – all unlisted	1,209	833

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

Undertaking	Nature of business	Incorporated in	Accounting date
Ulster Bank Ireland Limited	Banking services, corporate and investment banking, foreign exchange services	Republic of Ireland	31 December
First Active plc	Banking Services	Republic of Ireland	31 December
Ulster Bank Finance plc	Issue of debt instruments	Republic of Ireland	31 December
Ulster Bank Commercial Services Limited	Debtor finance	Republic of Ireland	31 December
Easycash (Ireland) Limited	Provision of ATM services	Republic of Ireland	31 December
Ulster Bank (Ireland) Holdings	Holding company	Republic of Ireland	31 December
Ulster Bank Holdings (ROI) Limited	Investment company	Republic of Ireland	31 December
Ulster Investments Limited	Investment Company	Northern Ireland	31 December

15. Shares in Group Undertakings (continued)

The bank holds 100% of the ordinary share capital of all subsidiary undertakings apart from Ulster Bank Commercial Services Limited where the holding is 90.9%, and Ulster Bank Insurance Services Limited where the holding is 51.0%. In all cases, the holding is equal to the voting rights.

16. Impaired financial assets

The following table shows impairment provisions for loans and advances classified as loans and receivables.

Group	**2006 £m**	2005 £m
At 1 January	**208**	175
Implementation of IAS 39	**-**	5
Currency translation and other adjustments	**(4)**	(4)
Amounts written off	**(17)**	(18)
Recoveries of amounts previously written off	**1**	1
Charge through profit or loss	**71**	58
Unwind of discount	**(10)**	(9)
At 31 December	**249**	208

During the year impairment charges of nil were recognised on available-for-sale financial assets.

Bank	**2006 £m**	2005 £m
At 1 January	**48**	39
Implementation of IAS 39	**-**	(5)
Amounts written off	**(7)**	(5)
Recoveries of amounts previously written off	**1**	1
Charge through profit or loss	**26**	20
Unwind of discount	**(3)**	(2)
At 31 December	**65**	48

During the year impairment charges of nil were recognised on available-for-sale financial assets.

Impairment losses charged to profit or loss	**Group 2006 £m**	**Bank 2006 £m**	Group 2005 £m	Bank 2005 £m
Loans and receivables				
Loans and advances (see table above)	**71**	**26**	58	20
Total	**71**	**26**	58	20

16. **Impaired financial assets (continued)**

2006
Group

Impaired financial assets	Cost £m	Provision £m	**Net book value £m**
Loans and receivables			
Loans and advances	409	(186)	**223**
Available for sale			
Equity shares	3	(1)	**2**
Total	412	(187)	**225**

Financial assets past due as to principal or interest payments but not impaired	Past due by		
	More than 90 days but less than six months £m	More than six months but less than one year £m	More than one year £m
Loans and receivables			
Loans	15	4	5
Total	**15**	**4**	**5**

2006
Bank

Impaired financial assets	Cost £m	Provision £m	**Net book value £m**
Loans and receivables			
Loans and advances	98	(49)	**49**
Total	98	(49)	**49**

17. Intangible fixed assets

Group 2006	**Goodwill**	**Core Intangible**	**Other Intangibles**	**Computer Software**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Cost:					
At 1 January 2006	435	22	32	47	536
Currency translation and other adjustments	(9)	2	(3)	(1)	(11)
Additions	-	-	-	50	50
At 31 December 2006	426	24	29	96	575
Accumulated amortisation and impairment:					
At 1 January 2006	-	6	6	-	12
Currency translation and other adjustments	-	1	(1)	-	-
Charge for the year	-	3	3	4	10
At 31 December 2006	-	10	8	4	22
Net book value at 31 December 2006	426	14	21	92	553

Bank	**Computer Software**	**Total**
	£m	**£m**
Cost:		
At 1 January 2006	26	26
Additions	24	24
At 31 December 2006	**50**	**50**
Accumulated amortisation and impairment:		
At 1 January 2006	-	-
Other adjustments	-	-
Charge for the year	2	2
At 31 December 2005	**2**	**2**
Net book value at 31 December 2006	**48**	**48**

Goodwill, all of which relates to unquoted investments, has arisen primarily on the acquisitions of First Active plc and Easy Cash Limited. During 2006 there was no impairment of goodwill (2005: nil). Impairment testing is performed at least annually by comparing the carrying value of goodwill to the recoverable amount, which is based on a value in use calculation. This calculation uses cash flows based on management's projections, extrapolated in perpetuity. These cash flows are discounted at the groups internal investment hurdle rate.

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

17. Intangible fixed assets (continued)

Group 2005	**Goodwill**	**Core Intangible**	**Other intangibles**	**Computer Software**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Cost:					
At 1 January 2005	446	23	30	-	499
Currency translation and other adjustments	(11)	(1)	(1)	-	(13)
Additions	-	-	3	47	50
At 31 December 2005	435	22	32	47	536
Accumulated amortisation and impairment:					
At 1 January 2005	-	3	3	-	6
Charge for the year	-	3	3	-	6
At 31 December 2005	-	6	6	-	12
Net book value at 31 December 2005	435	16	26	47	524

Bank	**Computer Software**	**Total**
	£m	**£m**
Cost:		
At 1 January 2005	-	-
Additions	26	26
At 31 December 2005	**26**	**26**
Accumulated amortisation and impairment:		
At 1 January 2005 and 31 December 2005	-	-
Net book value at 31 December 2005	**26**	**26**

18. Property, plant and equipment

Group	Freehold land and buildings £m	Leases of 50 years or more unexpired £m	Leases of 50 years or less unexpired £m	Computer and other equipment £m	Total £m
Cost:					
At 1 January 2006	120	73	10	166	369
Exchange adjustments	(16)	(2)	(1)	12	(7)
Additions	21	3	10	61	95
Disposals	-	-	-	(36)	(36)
Other movements	25	(42)	18	(1)	-
At 31 December 2006	150	32	37	202	421
Accumulated depreciation and amortisation:					
At 1 January 2006	8	7	4	114	133
Currency translation and other adjustments	-	2	-	(5)	(3)
Other movements	3	(7)	4	-	-
Disposals	-	-	(1)	(35)	(36)
Depreciation charge for the year	2	1	1	17	21
At 31 December 2006	13	3	8	91	115
Net book value at 31 December 2006	**137**	**29**	**29**	**111**	**306**

Group	Freehold land and buildings £m	Leases of 50 years or more unexpired £m	Leases of 50 years or less unexpired £m	Computer and other equipment £m	Total £m
Cost:					
At 1 January 2005	103	72	9	179	363
Exchange adjustments	-	-	-	(3)	(3)
Additions	4	2	1	24	31
Disposals	-	(1)	-	(21)	(22)
Other movements	13	-	-	(13)	-
At 31 December 2005	120	73	10	166	369
Accumulated depreciation and amortisation:					
At 1 January 2005	6	7	4	111	128
Currency translation and other adjustments	-	-	-	3	3
Disposals	-	-	-	(19)	(19)
Depreciation charge for the year	2	-	-	19	21
At 31 December 2005	8	7	4	114	133
Net book value at 31 December 2005	**112**	**66**	**6**	**52**	**236**

18. Property, plant and equipment (continued)

Bank	Freehold land and buildings £m	Leases of 50 years or more unexpired £m	Leases of 50 years or less unexpired £m	Computer and other equipment £m	Total £m
Cost:					
At 1 January 2006	51	18	1	76	146
Additions	11	1	1	41	54
Disposals	-	-	-	(13)	(13)
At 31 December 2006	62	19	2	104	187
Accumulated depreciation and amortisation:					
At 1 January 2006	3	-	-	48	51
Disposals	-	-	-	(13)	(13)
Depreciation charge for the year	1	-	-	8	9
At 31 December 2006	4	-	-	43	47
Net book value at 31 December 2006	**58**	**19**	**2**	**61**	**140**

Bank	Freehold land and buildings £m	Leases of 50 years or more unexpired £m	Leases of 50 years or less unexpired £m	Computer and other equipment £m	Total £m
Cost:					
At 1 January 2005	51	17	1	73	142
Additions	1	1	-	10	12
Disposals	-	-	-	(7)	(7)
Other	(1)	-	-	-	(1)
At 31 December 2005	51	18	1	76	146
Accumulated depreciation and amortisation:					
At 1 January 2005	3	-	-	46	49
Disposals	-	-	-	(7)	(7)
Depreciation charge for the year	-	-	-	9	9
At 31 December 2005	3	-	-	48	51
Net book value at 31 December 2005	**48**	**18**	**1**	**28**	**95**

Capital commitments

Obligations for future capital expenditure not provided for in the accounts at the year end amounted to £nil.

19. Derivatives at fair value

The Group uses derivatives as an integral part of its trading activities and to manage its own interest and exchange rate position. Derivative financial instruments are recognised initially, and subsequently measured, at fair value. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

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

2006		Total derivatives	
	Notional amounts £m	Assets £m	Liabilities £m
Free standing derivatives			
Exchange rate contracts:			
Spot, forwards and futures	9,543	26	84
Currency swaps	14,367	214	238
Options purchased	1	-	-
Options written	405	-	25
Interest rate contracts:			
Interest rate swaps	46,178	529	517
Options purchased	3,010	7	-
Options written	14,499	-	7
Equity and commodity contracts	919	131	-
Credit Derivatives	107	-	-
	89,029	907	871

2005		Total derivatives	
	Notional amounts £m	Assets £m	Liabilities £m
Free standing derivatives			
Exchange rate contracts:			
Spot, forwards and futures	5,763	37	37
Currency swaps	6,588	110	151
Options purchased	275	44	-
Interest rate contracts:			
Interest rate swaps	30,763	393	432
Options purchased	3,065	6	-
Options written	3,059	-	6
Equity and commodity contracts	796	86	-
	50,309	676	626

19. Derivatives at fair value (continued)

Maturity of replacement cost of over the counter contracts (trading and non-trading)

Replacement cost is the sum of the fair values of all contracts with positive value. The following table sets forth the gross positive fair values by maturity. The gross replacement cost for derivatives is sensitive to both the volume of business written and the differential between current market rates and those prevailing at the inception of the contract. The replacement cost of internal trades is not included, as there is no credit risk associated with them.

2006	Within one year £m	One to five years £m	Over five years £m	Total £m
Before netting				
Exchange rate contracts	156	23	60	239
Interest rate contracts	128	180	229	537
Equity and commodity contracts	20	107	4	131
	304	310	293	907
Financial institutions				798
Others				109
				907

20. Other assets, prepayments and accrued income

	Group 2006 £m	**Bank 2006 £m**	Group 2005 £m	Bank 2005 £m
Prepayments	**16**	**1**	10	3
Accrued income	**12**	**6**	27	2
Other assets	**125**	**5**	374	(5)
	153	**12**	411	-

21. Deposits by banks

	Group 2006 £m	**Bank 2006 £m**	Group 2005 £m	Bank 2005 £m
Held for trading	**-**	**-**	1	-
Amortised cost	**9,030**	**5,172**	11,365	3,141
	9,030	**5,172**	11,366	3,141

As at 31 December 2005, included in deposits by banks was €303,581,840, comprising First Active's obligations to the Central Bank and Financial Services Authority of Ireland (CBFSAI) under the terms of the Mortgage Backed Promissory Note programme. At 31 December 2005, these obligations were secured by way of a floating charge to the CBFSAI over all its right, title, interest and benefit, €400,000,000 of loans and advances to customers. Otherwise than with the prior written consent of the CBFSAI, First Active has pledged under the terms of the floating charge to maintain the assets so charged free from any encumbrance and otherwise than in the ordinary course of business not to sell, transfer, lend or otherwise dispose of any part of the charged asset. As at the 31 December 2006 this amount was nil

22. Customer accounts

	Group 2006 £m	Bank 2006 £m	Group 2005 £m	Bank 2005 £m
Held for trading	13	-	16	-
Designated as at fair value through profit or loss	1,053	253	871	217
Amortised cost	17,835	5,137	15,657	4,066
	18,901	5,390	16,544	4,283

23. Debt securities in issue

	Group 2006 £m	Bank 2006 £m	Group 2005 £m	Bank 2005 £m
Amortised cost	12,004	2,452	7,488	1,727
	12,004	2,452	7,488	1,727

24. Other liabilities, accruals and deferred income

	Group 2006 £m	Bank 2006 £m	Group 2005 £m	Bank 2005 £m
Accruals	167	58	95	9
Deferred income	3	-	-	-
Notes in circulation	405	405	378	381
Income taxes	72	57	32	23
Other liabilities	187	16	190	1
	834	536	695	414

25. Deferred taxation

Provision for deferred taxation has been made as follows:

	Pension	Accelerated capital allowances	Provisions	Deferred gains	Fair value on financial instruments	Hedging	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2005	41	(23)	6	(17)	-	-	(21)	(14)
Charge through profit or loss	5	1	-	-	(1)	1	(2)	4
Charge to equity directly	-	-	1	-	6	(5)	-	2
Exchange adjustments	(1)	1	-	-	-	-	-	-
At 1 January 2006	45	(21)	7	(17)	5	(4)	(23)	(8)
Charge through profit or loss	(2)	-	2	-	-	1	(2)	(1)
Charge to equity directly	(5)	-	-	-	-	-	4	(1)
Other	-	18	4	-	-	-	1	23
Exchange adjustments	-	-	-	-	-	-	2	2
At 31 December 2006	38	(3)	13	(17)	5	(3)	(18)	15

The above is analysed as follows:	
- Deferred tax assets	29
- Deferred tax liabilities	(14)
	15

Full provision is made for all deferred taxation liabilities except for those which might arise in the event of the reserves of Republic of Ireland subsidiary undertakings, a substantial proportion of which are required to be retained by these undertakings to meet their local regulatory requirements, being remitted.

Provisions For Liabilities And Charges – Deferred Tax	Group	Bank
	£m	£m
Balance at 1 January 2006	(8)	23
Charge through profit or loss	(1)	-
Exchange and other movements	24	8
Balance at 31 December 2006	15	31

26. Provisions for liabilities and charges

Group	Restructuring	Other	Total
	£m	£m	£m
As at 1 January 2006	10	1	11
Charge through profit or loss	(7)	(1)	(8)
Provisions utilised	(1)	-	(1)
At 31 December 2006	**2**	**-**	**2**

27. Subordinated liabilities

	Group 2006 £m	Bank 2006 £m	Group 2005 £m	Bank 2005 £m
Amortised cost	489	342	473	346
Dated loan capital	261	261	264	264
Undated loan capital	81	81	82	82
Dated subordinated bonds	87	-	80	-
Undated perpetual subordinated bonds	60	-	47	-
	489	**342**	473	346

	Group 2006 £m	Bank 2006 £m	Group 2005 £m	Bank 2005 £m
Undated:				
Loan Capital				
- held by RBS plc	81	81	82	82
Perpetual Subordinated Bonds				
IR£ (fixed: 11.375%)	36	-	26	-
Stg£ (fixed: 11.75%)	23	-	20	-
Stg£ (floating rates)	1	-	1	-
	141	81	129	82
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 2020				
- held by RBS plc	121	121	124	124
	261	261	264	264
Subordinated Bonds				
US$ (floating rate)	22	-	20	-
Stg£ (floating rates)	65	-	60	-
	348	261	344	264
Total	**489**	**342**	**473**	**346**

27. Subordinated liabilities (continued)

Loan Capital

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

Interest on the sterling-dominated 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-dominated loan capital is payable quarterly at a margin over Euro Interbank Offer rates.

Early repayment of the dated loan 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.

Subordinated bonds

The US$ subordinated bonds mature on 5 December 2012 but may be prepaid at the option of the Group on 5 December 2007. Having taken account of swap arrangements the interest is determined by references to Libor. The Stg 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.

Perpetual subordinated bonds

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

28. Called up share capital

Group and Bank

	Allotted, called up and fully paid			**Authorised**	
	1 January 2006 £m	**Issued in the year £m**	**31 December 2006 £m**	**2006 £m**	**2005 £m**
Equity shares :					
Ordinary shares of £1	305	110	**415**	450	350
Equity preference shares:					
Non-cumulative redeemable preference shares of €1 each	183	119	**302**	336	343
Total share capital	488	229	**717**	786	693

Number of shares	**Allotted, called up and fully paid 2006 Millions**	**2005 Millions**	**Authorised 2006 Millions**	**2005 Millions**
Equity shares :				
Ordinary shares of £1	415	305	450	350
Equity Preference shares:				
Non-cumulative redeemable preference shares of €1 each	450	280	500	500
Total share capital	**865**	585	**950**	850

28. Called up share capital (continued)

Ordinary shares

On 30 August 2006, 25 million ordinary shares were issued at a premium of £3.00 per share.
On 28 September 2006, 10 million ordinary shares were issued at a premium of £2.00 per share.
On 18 December 2006, 50 million ordinary shares were issued at par.
On the 18 December 2006, the authorised share capital of the Bank was increased by the creation of an additional 100 million Ordinary Shares of £1 by written resolution of the members.
On 21 December 2006, 25 million ordinary shares were issued at a premium of £6.00 per share.

Non-cumulative redeemable preference shares

On 28 September 2006, 100 million non-cumulative redeemable preference shares of €1 each were issued at par.
On 18 December 2006, 70 million non-cumulative redeemable preference shares of €1 each were issued at par.

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

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

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

29. Reserves

	Group 2006 £m	Bank 2006 £m	Group 2005 £m	Bank 2005 £m
Share premium account				
At 1 January	656	656	272	272
Currency translation adjustments	(13)	(13)	(6)	(6)
Shares issued during the period	245	245	390	390
At 31 December	888	888	656	656
Available-for-sale reserves				
At 1 January 2006	(7)	-		
Implementation of IAS 32 and IAS 39 on 1 January 2005			(3)	-
Unrealised gains/(losses) in the year	(6)	(1)	(5)	-
Change in taxes	1	-	1	-
At 31 December	(12)	(1)	(7)	-
Cash flow hedging reserve				
At 1 January 2006	24	(1)		
Implementation of IAS 32 and IAS 39 on 1 January 2005	-	-	39	(1)
Gains/(losses) recycled on terminated hedges	(11)	1	(14)	-
Exchange gains/(losses)	(1)	-	-	-
Change in taxes	(1)	-	(1)	-
At 31 December	11	-	24	(1)
Revaluation reserve				
At 1 January	-	-	61	21
Currency translation adjustments and other movements	-	-	(2)	-
Restatement of previous revaluations as deemed cost	-	-	(59)	(21)
At 31 December	-	-	-	-

29. Reserves (continued)

	Group 2006 £m	**Bank 2006 £m**	Group 2005 £m	Bank 2005 £m
Profit and Loss Account				
At 1 January	**1,168**	**213**	904	58
Implementation of IAS 32 and IAS 39 on 1 January 2005	**-**	**-**	(28)	(1)
Currency translation adjustments and other movements	**(35)**	**10**	(17)	(8)
Disposal of subsidiary	**(10)**	**-**	-	-
Profit attributable to ordinary shareholders	**235**	**194**	250	143
Profit attributable to equity preference shareholders	**34**	**34**	14	14
Restatement of previous revaluations at deemed cost	**-**	**-**	59	21
Equity preference dividends paid	**(34)**	**(34)**	(14)	(14)
At 31 December	**1,358**	**417**	1,168	213
Closing shareholders' equity	**2,245**	**1,304**	1,841	868
Minority interests				
At 1 January	**2**	**-**	122	-
Currency translation adjustments and other movements	**(2)**	**-**	(2)	-
Profit for the period	**4**	**-**	3	-
Equity raised	**152**	**-**	-	-
Equity withdrawn	**-**	**-**	(121)	-
At 31 December	**156**	**-**	2	-
Closing total equity	**2,401**	**1,304**	1,843	868

Included in profit and loss account at 31 December 2006 is foreign exchange reserves of £20.1m (2005: £19.5m).

30. Leases

Minimum amounts receivable and payable under non-cancellable leases:

Group	**Year in which receipt or payment will occur**				
2006	**Within 1 year**	**After 1 year but within 3 years**	**After 3 years but within 5 years**	**After 5 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Operating lease obligations:					
Amounts payable					
Premises	10	20	20	171	221
Equipment	2	3	-	-	5
	12	**23**	**20**	**171**	**226**

Bank	**Year in which receipt or payment will occur**				
2006	**Within 1 year**	**After 1 year but within 3 years**	**After 3 years but within 5 years**	**After 5 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Operating lease obligations:					
Amounts payable					
Premises	1	2	2	91	96
Equipment	1	1	-	-	2
	2	**3**	**2**	**91**	**98**

Group	Year in which receipt or payment will occur				
2005	Within 1 year	After 1 year but within 3 years	After 3 years but within 5 years	After 5 years	Total
	£m	£m	£m	£m	£m
Operating lease obligations:					
Amounts payable					
Premises	11	23	22	203	259
Equipment	2	1	-	-	3
	13	24	22	203	262

Bank	Year in which receipt or payment will occur				
2005	Within 1 year	After 1 year but within 3 years	After 3 years but within 5 years	After 5 years	Total
	£m	£m		£m	£m
Operating lease obligations:					
Amounts payable					
Premises	1	2	2	95	100
Equipment	-	-	-	-	-
	1	2	2	95	100

30. Leases (continued)

	Group 2006 £m	Bank 2006 £m	Group 2005 £m	Bank 2005 £m
Amounts recognised as income and expense				
Operating lease payable - minimum payments	**16**	**2**	19	3

31. Collateral given and received

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers cash or securities as collateral in accordance with normal practice. Securities transferred under repurchase transactions included within securities on the balance sheet were as follows:

	Group 2006 £m	Bank 2006 £m	Group 2005 £m	Bank 2005 £m
Debt securities	**972**	**-**	1,126	-

Liabilities secured by charges to assets:

	Group 2006 £m	Bank 2006 £m	Group 2005 £m	Bank 2005 £m
Deposits by Banks	**639**	**-**	1,803	-

32. Financial instruments

Remaining maturity
2006

Group	On Demand	0-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Non-Financial Instruments	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Cash and Balances at Central Banks	589	-	-	-	-	-	-	589
Treasury bills and other eligible bills	-	1	-	-	-	-	-	1
Loans and advances to banks	833	2,570	343	95	38	477	-	4,356
Loans and advances to customers	3,031	1,967	1,108	4,827	7,072	18,582	-	36,587
Debt securities	1	201	65	93	1,263	99	-	1,722
Other assets, prepayments and accrued income	-	-	-	-	-	-	2,234	2,234
	4,454	4,739	1,516	5,015	8,373	19,158	2,234	45,489
Liabilities								
Deposits by banks	210	8,507	131	88	18	76	-	9,030
Customer accounts	13,354	4,213	483	309	487	55	-	18,901
Debt securities in issue	6,524	1,454	626	263	3,137	-	-	12,004
Other liabilities, accruals and deferred income	-	-	-	-	-	-	1,947	1,947
Shareholders Funds	-	-	-	-	-	-	3,118	3,118
Subordinated liabilities	-	-	-	-	-	-	489	489
	20,088	14,174	1,240	660	3,642	131	5,554	45,489

32. Financial instruments (continued)

Remaining Maturity
2006

Bank	On Demand	0-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Non-Financial Instruments	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Cash and Balances at Central Banks	-	477	-	-	-	-	-	477
Loans and advances to banks	725	5,610	20	51	26	101	-	6,533
Loans and advances to customers	2,530	1,115	85	123	74	3,077	-	7,004
Debt securities	-	19	94	53	275	99	-	540
Other Assets	-	-	-	-	-	-	1,518	1,518
	3,255	7,221	199	227	375	3,277	1,518	16,072
Liabilities								
Deposits by banks	703	4,469	-	-	-	-	-	5,172
Items in the course of transmission to other banks	-	-	-	-	-	-	-	-
Customer accounts	3,152	1,857	23	143	3	212	-	5,390
Debt securities in issue	-	2,357	35	45	15	-	-	2,452
Derivatives at fair value	-	-	-	-	-	-	-	-
Other liabilities, accruals and deferred income	-	-	-	-	-	-	695	695
Shareholders Funds	-	-	-	-	-	-	2,021	2,021
Subordinated liabilities	-	-	-	-	-	342	-	342
	3,855	8,683	58	188	18	554	2,716	16,072

32. Financial instruments (continued)

Remaining maturity
2005

Group	On Demand £m	0-3 months £m	3-6 months £m	6-12 months £m	1-5 years £m	Over 5 years £m	Non-Financial Instruments £m	Total £m
Assets								
Cash and Balances at Central Banks	-	533	-	-	-	-	-	533
Treasury bills and other eligible bills	-	1	-	-	-	-	-	1
Loans and advances to banks	544	2,590	224	509	49	838	-	4,754
Loans and advances to customers	3,978	3,550	397	650	1,579	19,710	-	29,864
Debt securities	-	319	443	255	1,434	81	-	2,532
Other assets, prepayments and accrued income	-	-	-	-	-	-	2,108	2,108
	4,522	6,993	1,064	1,414	3,062	20,629	2,108	39,792
Liabilities								
Deposits by banks	805	10,134	262	132	8	25	-	11,366
Customer accounts	5,478	8,938	322	498	1,074	234	-	16,544
Debt securities in issue	-	4,089	2,221	1,020	107	51	-	7,488
Other liabilities, accruals and deferred income	-	-	-	-	-	-	1,590	1,590
Shareholders Funds	-	-	-	-	-	-	2,331	2,331
Subordinated liabilities	-	-	-	-	-	473	-	473
	6,283	23,161	2,805	1,650	1,189	783	3,921	39,792

32. Financial instruments (continued)

Remaining Maturity
2005

Bank	On Demand	0-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Non-Financial Instruments	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Cash and Balances at Central Banks	-	389	-	-	-	-	-	389
Loans and advances to banks	453	3,566	9	14	9	21	-	4,072
Loans and advances to customers	1,774	756	60	90	60	2,159	-	4,899
Debt securities	-	66	329	189	340	81	-	1,005
Other Assets	-	-	-	-	-	-	1,046	1,046
	2,227	4,777	398	293	409	2,261	1,046	11,411
Liabilities								
Deposits by banks	465	2,676	-	-	-	-	-	3,141
Items in the course of transmission to other banks	-	-	-	-	-	-	-	-
Customer accounts	2,513	1,595	13	38	1	123	-	4,283
Debt securities in issue	-	1,659	5	15	-	48	-	1,727
Derivatives at fair value	-	-	-	-	-	-	-	-
Other liabilities, accruals and deferred income	-	-	-	-	-	-	558	558
Shareholders Funds	-	-	-	-	-	-	1,356	1,356
Subordinated liabilities	-	-	-	-	-	346	-	346
	2,978	5,930	18	53	1	517	1,914	11,411

32. Financial instruments (continued)

Risk Management

The major risks associated with the Group's businesses are market risk, liquidity risk, credit risk and operational risk. The Group has established a comprehensive framework for managing these risks which is continually evolving as the Group's business activities change in response to market, credit, product and other developments.

The Group has established clear risk policies, including limits, reporting lines and control procedures. This framework is designed to provide tight control and is reviewed regularly by both Executive and Board Committees.

Market Risk

Market risk is the risk that changes in interest rates, foreign exchange rates, equity prices and other rates, prices, volatilities, correlations or other market conditions, such as liquidity, will have an adverse impact on the Group's financial condition or results.

The principal market risks to which the Group is exposed are interest rate risk and foreign exchange risk. Activity in debt securities, interest-rate derivatives and money-market instruments is the primary source of interest rate risk in the Group's dealing, money-market and debt investment portfolios. Mismatches between the repricing dates of the Group's assets and liabilities account for most of the interest rate risk associated with its commercial banking activities.

(i) Trading

The Group's dealing, money-market and debt investment portfolios comprise derivative financial instruments (forwards, swaps and options), debt and equity securities, loans, deposits and other debt obligations. So as to be able to meet customer demand, the Group carries portfolios of cash and marketable financial instruments. The Group eliminates its market risk in these portfolios by entering into back-to-back positions with its ultimate parent company Royal Bank of Scotland Group plc.

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

VaR is a technique that produces a single estimate of the potential negative change in the market value of a portfolio over a specified time horizon at a given confidence level. The Group's VaR assumes a time horizon of one day and a confidence level of 95%. In other words, the Group expects to suffer a one-day loss greater than VaR only 5% of the time, i.e. one day in 20. The Group has made use of historical simulation models for its VaR assessment.

32. Financial instruments (continued)

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

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

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

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

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

	31 December 2006 £m	Maximum £m	Minimum £m	Average £m
Value-at-Risk	0.108	0.260	0.077	0.153

(ii) Non-trading

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

Interest Rate Risk

Structural interest rate risk arises where assets and liabilities in the Group's commercial banking activities have different repricing dates. Group policy seeks to minimise the sensitivity of net interest income to changes in interest rates. The policy requires that all material interest rate risk arising from retail and corporate banking activities be transferred to a trading or treasury unit for management within its approved limits. Potential exposures to interest rate movements in the medium to long term are measured and controlled using a version of the same VaR methodology, but without discount factors, that is used in trading portfolios. 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.

VaR for the Group's commercial banking activities is split between EUR and GBP currency balances to which separate risk limits are applied. At 31 December 2006, GBP VaR was calculated to be £471,000 (2005: £474,000). EUR VaR was calculated to be £271,000 (2005: £58,000). On 18 and 21 December 2006 the Group increased its ordinary share capital which increased the GBP VaR at the year-end. This was hedged post year-end.

32. Financial instruments (continued)

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

For the principal non-trading business units, when the actual interest rate repricing characteristics differ from the contractual maturity, the repricing maturity is determined by the market interest rate most closely correlated to the historical behaviour of the product interest rate. Non-interest bearing current accounts are behaviouralised on the basis of their inherent stability and fixed rate characteristics and included at the corresponding maturity in the gap report. It is Group policy to include non-financial assets and liabilities, mainly tangible fixed assets and the Group's capital and reserves, spread over medium and longer-term maturities, in the gap report.

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.

32. Financial instruments (continued)

The table below summarises the contractual interest rate sensitivity gap for the Group's non-trading book as at 31 December 2006. It is not necessarily indicative of the positions at other times. A liability (or negative) gap position exists when liabilities reprice more quickly or in greater proportion than assets during a given period and tends to benefit net interest income in a declining interest rate environment. An asset (or positive) gap position exists when assets reprice more quickly or in greater proportion than liabilities during a given period and tends to benefit net interest income in a rising interest rate environment.

Interest rate sensitivity:

2006	3 months or less	After 3 months but less than 6 months	After 6 months but less than 1 year	After 1 year but less than 5 years	Over 5 years	Non interest earning /bearing	Total	Fair value through the profit or loss	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets									
Cash and balances at central banks	437	-	-	-	-	152	589	-	589
Treasury bills and other eligible bills	1	-	-	-	-	-	1	-	1
Loans and advances to banks	2,292	376	856	83	40	709	4,356	-	4,356
Loans and advances to customers	30,405	638	1,027	2,454	1,670	393	36,587	-	36,587
Debt securities	1,481	62	98	55	25	1	1,722	-	1,722
Derivatives at fair value	215	32	45	310	305	-	907	-	907
Other assets	-	-	-	-	-	1,382	1,382	-	1,382
Total assets	**34,831**	**1,108**	**2,026**	**2,902**	**2,040**	**2,582**	**45,489**	**-**	**45,489**
Liabilities and equity									
Deposits by banks	8,298	477	240	15	(14)	14	9,030	-	9,030
Customer accounts	16,362	385	594	1,281	279	-	18,901	-	18,901
Debt securities in issue	8,284	736	338	35	2,611	-	12,004	-	12,004
Settlement balances and short positions	-	-	-	-	-	-	-	-	-
Derivatives at fair value	220	28	32	353	238	-	871	-	871
Subordinated liabilities	372	-	-	-	117	-	489	-	489
Other liabilities	-	-	-	-	-	1,076	1,076	-	1,076
Minority interests	-	-	-	-	-	156	156	-	156
Shareholders' equity	-	-	-	-	-	3,118	3,118	-	3,118
Total liabilities and equity	**33,536**	**1,626**	**1,204**	**1,684**	**3,231**	**4,208**	**45,489**	**-**	**45,489**
Interest rate sensitivity gap	1,295	(518)	822	1,218	(1,191)	(1,626)	-	-	-

32. Financial instruments (continued)

Interest rate sensitivity:

2005	3 months or less	After 3 months but less than 6 months	After 6 months but less than 1 year	After 1 year but less than 5 years	Over 5 years	Non interest earning /bearing	Total	Fair value through the profit or loss	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets									
Cash and balances at central banks	-	-	-	-	-	533	533	-	533
Treasury bills and other eligible bills	1	-	-	-	-	-	1	-	1
Loans and advances to banks	2,201	363	802	77	38	991	4,472	282	4,754
Loans and advances to customers	25,692	420	688	1,694	1,050	320	29,864	-	29,864
Debt securities	2,178	91	144	81	37	1	2,532	-	2,532
Derivatives at fair value	160	33	49	276	158	-	676	-	676
Other assets	-	-	-	-	-	1,432	1,432	-	1,432
Total assets	**30,232**	**907**	**1,683**	**2,128**	**1,283**	**3,277**	**39,510**	**282**	**39,792**
Liabilities and equity									
Deposits by banks	10,420	582	293	18	-	53	11,366	-	11,366
Customer accounts	13,447	337	521	1,123	245	-	15,673	871	16,544
Debt securities in issue	4,090	2,221	1,019	107	51	-	7,488	-	7,488
Settlement balances and short positions	-	-	-	-	-	-	-	-	-
Derivatives at fair value	158	20	23	254	171	-	626	-	626
Subordinated liabilities	-	-	-	-	473	-	473	-	473
Other liabilities	-	-	-	-	-	964	964	-	964
Minority interests	-	-	-	-	-	2	2	-	2
Shareholders' equity	-	-	-	-	-	2,329	2,329	-	2,329
Total liabilities and equity	**28,115**	**3,160**	**1,856**	**1,502**	**940**	**3,348**	**38,921**	**871**	**39,792**
Interest rate sensitivity gap	2,117	(2,253)	(173)	626	343	(71)	589	(589)	-

32. Financial instruments (continued)

Currency Risk

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

The table below sets out the Group's structural currency exposures as at 31 December 2006:

Functional currency of the net investment	Foreign currency net investments	Foreign currency liabilities hedging net investments	Structural foreign currency exposures
	£m	£m	£m
Euro	2,261	1,323	938

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 2006 exchange gains of £50m (2005: Gain £14.5m) have been charged to reserves.

Currency balance sheet:

2006	Sterling £m	US Dollars £m	Euro £m	Other £m	Total £m
Assets					
Cash and balances at Central Banks	472	1	116	-	589
Items in the course of collection from other banks	37	-	231	-	268
Treasury bills and other eligible bills	-	-	1	-	1
Loans and advances to banks	1,116	786	2,359	95	4,356
Loans and advances to customers	7,800	291	28,420	76	36,587
Debt securities	664	18	1,040	-	1,722
Equity shares	-	-	18	-	18
Intangible assets	62	-	491	-	553
Property, plant and equipment	131	-	175	-	306
Derivatives at fair value	-	-	800	107	907
Other assets, prepayments and accrued income	44	138	-	-	182
Total assets	10,326	1,234	33,651	278	45,489
Liabilities and equity					
Deposits by banks	690	1,480	6,682	178	9,030
Items in the course of transmission to other banks	4	-	31	-	35
Customer accounts	6,248	1,356	11,297	-	18,901
Debt securities in issue	2,839	1,148	7,836	181	12,004
Derivatives at fair value	41	-	830	-	871
Other liabilities, accruals and deferred income	566	4	249	29	848
Post-retirement benefit liabilities	89	-	102	-	191
Provisions for liabilities and charges	-	-	2	-	2
Subordinated liabilities	-	-	489	-	489
Shareholders' equity	1,805	-	1,313	-	3,118
Total liabilities and equity	12,282	3,988	28,831	388	45,489

32. Financial instruments (continued)

Currency balance sheet:

2005	Sterling £m	US Dollars £m	Euro £m	Other £m	Total £m
Assets					
Cash and balances at Central Banks	384	2	149	(2)	533
Items in the course of collection from other banks	228	-	-	-	228
Treasury bills and other eligible bills	1	-	-	-	1
Loans and advances to banks	1,218	857	2,575	104	4,754
Loans and advances to customers	6,367	237	23,198	62	29,864
Debt securities	976	27	1,529	-	2,532
Equity shares	-	-	11	-	11
Intangible assets	-	-	524	-	524
Property, plant and equipment	89	-	147	-	236
Derivatives at fair value	3	-	593	80	676
Other assets, prepayments and accrued income	196	293	-	(56)	433
Total assets	9,462	1,416	28,726	188	39,792
Liabilities and equity					
Deposits by banks	868	1,863	8,411	224	11,366
Items in the course of transmission to other banks	31	-	-	-	31
Customer accounts	6,169	1,257	9,110	8	16,544
Debt securities in issue	1,895	465	5,104	24	7,488
Derivatives at fair value	41	53	532	-	626
Other liabilities, accruals and deferred income	498	(344)	558	(17)	695
Post-retirement benefit liabilities	150	-	47	-	197
Deferred taxation liabilities	4	-	26	-	30
Provisions for liabilities and charges	3	-	8	-	11
Subordinated liabilities	81	20	372	-	473
Shareholders' equity	1,350	-	981	-	2,331
Total liabilities and equity	11,090	3,314	25,149	239	39,792

Liquidity Risk

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

The Group's liquidity policy covers both sterling and currency activities. A portfolio of liquid assets is held against the Group's currency obligations, in addition to those required by the Financial Services Authority for sterling. The policy also requires expected cash outflows for both sterling and currency to be managed within prescribed limits for the next working day, week and 30 days.

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

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

32. Financial instruments (continued)

Credit Risk

Credit Risk is the risk that companies, financial institutions, individuals and other counterparties will be unable to meet their obligations to the Group. Credit risk arises principally from the Group's lending activities but also from other transactions involving on and off-balance sheet instruments.

Group Risk has specific responsibility for establishing the Group's credit risk principles and for the implementation of Group credit policy for all activities (including securities, transactions and derivatives), for monitoring geographic, product and market sector concentrations within the Group's portfolio of credit risks and for managing the Group's most significant credit risk exposures and special situations. Day to day credit management is conducted by dedicated teams in each business unit, where there are continual reviews of the effectiveness of credit control practices and procedures. Particular attention is paid to the manner in which new risks are assessed, on-going management and monitoring of credit risks within the book, the early detection of loan quality deterioration and the structure and composition of the credit portfolio in relation to market opportunities, the competitive environment and economic projections. Credit quality remains a high priority for Ulster Bank Group.

Operational risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, external events, fraud or inadequate internal control and procedures. The Group manages this risk through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review by internal audit. The Group also maintains contingency facilities to support operations in the event of disasters.

32. Financial instruments (continued)

Fair values

The following table shows the carrying values and where different the fair values of financial instruments on the Group's balance sheet

	2006		2005	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Treasury and other eligible bills				
Loans and receivables	**1**	**1**	1	1
Loans and advances to banks				
Designated as at fair value through profit or loss	**469**	**469**	282	282
Loans and receivables	**3,887**	**3,887**	4,472	4,472
Loans and advances to customers				
Loans and receivables	**36,587**	**36,587**	29,864	29,864
Debt Securities				
Designated as at fair value through profit or loss	**1,722**	**1,722**	2,532	2,532
Equity shares				
Available-for-sale	**18**	**18**	11	11
Derivatives at fair value	**907**	**907**	676	676
Financial liabilities				
Deposits by banks				
Held for trading	**1**	**1**	1	1
Amortised cost	**9,029**	**9,029**	11,365	11,365
Deposits by customers				
Held for trading	**13**	**13**	16	16
Designated as at fair value through profit or loss	**1,035**	**1,035**	871	871
Amortised cost	**17,853**	**17,853**	15,657	15,657
Debt Securities in issue				
Amortised cost	**12,004**	**12,004**	7,488	7,488
Subordinated debt				
Amortised cost	**489**	**530**	473	512
Derivatives at fair value	**871**	**871**	626	626

33. Commitments and contingents

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

	Group 2006 £m	Bank 2006 £m	Group 2005 £m	Bank 2005 £m
Contingent liabilities:				
Acceptances and endorsements	-	-	1	1
Guarantees and assets pledged as collateral security	220	4,065	267	4,499
Other contingent liabilities	320	92	312	61
	540	4,157	580	4,561
Commitments:				
Documentary credits and other short-term trade related transactions	34	11	27	5
- less than one year	5,506	2,228	4,917	1,342
- one year and over	1,051	-	608	-
Other commitments	9	4	4	4
	6,600	2,243	5,556	1,351

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

Acceptances – in accepting a bill of exchange drawn on it by a customer a bank undertakes to pay the holder of the bill at maturity. Most acceptances are presented for payment and reimbursement by the customer is usually immediate. In the UK, bills accepted by certain banks designated by the Bank of England are eligible for rediscount at the Bank of England.

Endorsements – in endorsing a bill of exchange a bank accepts liability for payment of any shortfall on the bill at maturity. Unlike acceptances, the endorsing bank receives value for the bill, which is then rediscounted.

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
Documentary credits and other short-term trade related transactions – documentary letters are commercial letters of credit providing for payment by the Group to a named beneficiary against presentation of specified documents.

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.

33. Commitments and contingents (continued)

Other commitments – these include forward asset purchases, forward deposits placed and undrawn note issuance and revolving underwriting facilities.

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 £641m (2005: £2,290m) for which there are corresponding obligations by counterparties.

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

Easycash (Ireland) Limited
First Active Holdings International Limited
First Active Holdings Limited
First Active Investments (No 3) Limited
Larroquette
UIF Finance Company
Ulster Bank Commercial Services Limited
Ulster Bank Dublin Trust Company
Ulster Bank Group Treasury Limited
Ulster Bank Holdings (ROI) Limited
Ulster Bank Investment Funds Limited
Ulster Bank Ireland Holdings
Ulster International Finance
Walter Property Limited

Litigation
The Bank and subsidiaries of the Group are involved in litigation in the United Kingdom and Republic of Ireland. The litigation involves claims by and against Group companies which arise in the ordinary course of business. No material adverse effect on the net assets of the Group is expected to arise from the ultimate resolution of these claims.

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

34. Net cash inflow from operating activities

	Group 2006 £m	Bank 2006 £m	Group 2005 £m	Bank 2005 £m
Operating profit	**363**	**260**	353	188
Decrease/(Increase) in prepayments and accrued income	**9**	**(5)**	121	25
Interest on subordinated liabilities	**20**	**4**	22	22
Decrease/(Increase) in accruals and deferred income	**75**	**49**	(124)	-
Loans and advances written off net of recoveries	**55**	**20**	41	16
Profit on sale of tangible fixed assets	**1**	**-**	1	-
Loss on sale of tangible assets	**-**	**(2)**	-	-
Cash Contribution to defined benefit schemes	**(45)**	**(19)**	(19)	(7)
Charge for pensions	**50**	**19**	37	14
Amortisation and provisions on debt and equity securities	**-**	**-**	-	-
Provisions for liabilities and charges	**(8)**	**-**	-	-
Provisions utilised	**(1)**	**-**	(1)	(1)
Depreciation and amortisation of tangible and intangible fixed assets	**31**	**11**	27	9
Other non-cash items	**31**	**449**	(207)	71
Net cash inflow from trading activities	**581**	**786**	251	337
(Increase)/decrease in items in the course of collection	**(36)**	**(5)**	(60)	29
(Increase)/decrease in treasury and other eligible bills	**-**	**-**	-	
(Increase)/decrease in loans and advances to banks and customers	**(6,097)**	**(2,122)**	(7,990)	(779)
(Increase)/decrease in securities	**(117)**	**(31)**	(360)	(112)
(Increase)/decrease in other assets	**249**	**(7)**	296	651
(Increase)/decrease in derivative assets	**(231)**	**(2)**	(676)	(676)
(Increase)/decrease in deferred tax assets	**(7)**	**(17)**	-	-
Changes in operating assets	**(6,239)**	**(2,184)**	(8,790)	(887)
Increase/(decrease) in deposits by banks and customers	**21**	**2,993**	3,484	693
Increase/(decrease) in derivative liabilities	**245**	**13**	626	626
Increase/(decrease) in debt securities in issue	**4,516**	**725**	6,032	1,127
Increase/(decrease) in other liabilities	**24**	**39**	(523)	(608)
Increase/(decrease) in deferred tax liabilities	**(16)**	**9**	-	-
Changes in operating liabilities	**4,790**	**3,779**	9,619	1,838
Total taxes paid	**(125)**	**(29)**	(82)	(29)
Income taxes in respect of non-operating activities	**-**	**-**	-	-
Income taxes paid in respect of operating activities	**-**	**-**	-	-
Net cash inflow from operating activities	**(993)**	**2,352**	998	1,259

35. Analysis of changes in financing during the year

Group	Share capital (including share premium)		Subordinated Liabilities	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
At 1 January	**1,144**	504	**473**	830
Currency translation	**(13)**	(6)	**-**	-
Net Cash inflow/ (outflow) from financing	**474**	646	**16**	(357)
At 31 December	**1,605**	1,144	**489**	473

Bank	Share capital (including share premium)		Subordinated Liabilities	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
At 1 January	**1,144**	504	**346**	679
Currency translation	**(13)**	(6)	**-**	-
Net Cash inflow/ (outflow) from financing	**474**	646	**(4)**	(333)
At 31 December	**1,605**	1,144	**342**	346

36. Analysis of cash and cash equivalents

Group	2006	2005
	£m	**£m**
At 1 January	**3,987**	3,295
Net cash inflow	**263**	749
Effect of exchange rate changes on cash and cash equivalents	**(55)**	(57)
At 31 December	**4,195**	3,987
Comprising:		
Cash and balances at Central Banks	**589**	533
Loans and advances to banks repayable on demand & debt securities	**3,606**	3,454

Bank	2006	2005
	£m	£m
At 1 January	**4,474**	3,264
Net cash inflow	**2,786**	1,297
Effect of exchange rate changes on cash and cash equivalents	**(417)**	(87)
At 31 December	**6,843**	4,474
Comprising:		
Cash and balances at Central Banks	**477**	389
Loans and advances to banks repayable on demand	**6,370**	4,085

37. Segmental Reporting

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

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

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

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

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

Geographical segments	United Kingdom £m	Republic of Ireland £m	Total £m
Total Income			
2006	**336**	**664**	**1,000**
2005	278	552	830
Group profit on ordinary activities before tax			
2006	**104**	**259**	**363**
2005	103	250	353
Net assets			
2006	**2,021**	**1,097**	**3,118**
2005	1,356	975	2,331
Total assets			
2006	**16,058**	**29,431**	**45,489**
2005	8,093	31,699	39,792
Average assets			
2006	**15,821**	**26,820**	**42,641**
2005	8,358	26,365	34,723

Class of business	Retail Markets £m	Corporate Markets £m	Support Units £m	Total £m
Total Income				
2006	**431**	**569**	**-**	**1,000**
2005	388	442	-	830
Group profit on ordinary activities before tax				
2006	**233**	**400**	**(270)**	**363**
2005	207	333	(187)	353
Net assets				
2006	**-**	**-**	**3,118**	**3,118**
2005	-	-	2,331	2,331
Total assets				
2006	**15,446**	**29,483**	**560**	**45,489**
2005	13,510	25,786	496	39,792
Average assets				
2006	**15,260**	**26,888**	**493**	**42,641**
2005	11,817	22,522	384	34,723

38. Transactions Involving Directors and Others

(a) The aggregate amounts outstanding at 31 December 2006 under transactions, arrangements and agreements made by authorised institutions within the Group for persons who are, or were, Directors of the Bank during the year or who are, or were, connected with a Director of the Bank during the year, relating to loans, quasi-loans and credit transactions were:

	Number of Directors	Number of Connected Persons	Amount £
Loans	4	6	22,410,247
Quasi-loans	7	0	46,950

(b) There were no amounts outstanding at 31 December 2006 (2005: £nil) in respect of loans made to Directors by subsidiary undertakings which were not authorised institutions.

(c) The aggregate amounts outstanding at 31 December 2006 under transactions, arrangements and agreements made by authorised institutions within the Group for persons who are, or were, officers during the year relating to loans, quasi-loans and credit transactions were:

	Number of Officers	Amount £
Loans	4	1,365,822
Quasi-loans	5	114,012

39. Directors' Interests in Shares

No Director had interests in the shares of the company.

Directors who had beneficial interests in the ordinary shares of The Royal Bank of Scotland Group plc are shown below:

The Royal Bank of Scotland Group plc
Ordinary Shares of Stg 25p each

	As at 1 January 2006 (or date of appointment if later)	As at 31 December 2006
M Bamber	1,793	3,615
T Bowen	2,968	2,968
R Gallagher	3,700	7,837
C M McCarthy	5,487	5,942
M R McLean	156,831	205,295
I Webb	2,618	4,170

39. Directors' Interests in Shares (continued)

The Royal Bank of Scotland Group plc
Ordinary Shares of Stg 25p each

	As at 1 January 2006 (or date of appointment if later)	Share Options (notes i and ii): Granted during the year (exercisable between 2008 and 2015)		Exercised during the year		As at 31 December 2006
		No of options	Weighted price Pence (p)	No of options	Weighted price Pence (p)	
M Bamber	58,664	22,666	1812	505	1090	80,825
R Gallagher	-	31,364	1842	-	-	31,364
C M McCarthy	53,371	30,597	1852	-	-	83,968
M R McLean	310,582	33,917	1850	48,068	503	296,431
M Torpey	36,783	28,739	1809	-	-	65,522

Sir Fred Goodwin is a Director of The Royal Bank of Scotland Group plc and his interests in the share and loan capital of The Royal Bank of Scotland Group plc are disclosed in the report of the Remuneration Committee of that company contained in its annual report and accounts for 2006.

Notes

i. Options outstanding are exercisable at prices between 496p and 1852p per share. Options granted under the Executive Share Option Scheme are exercisable subject to the achievement of performance objectives.

ii. Details of the Share Option Schemes are contained in the financial statements of The Royal Bank of Scotland Group plc. The middle market price of that Bank's Ordinary Shares of 25p each at 31 December 2006 was 1993p per share and, during the year, the price has ranged from a low of 1669p to a high of 1999p.

iii. No Directors held a beneficial interest in any shares of any other Group company.

40. Related party transactions

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	0	2	0	961,848
Balances outstanding at the end of the year				
Loans:				
- at a preferential rate	2	5	1	884,943
- at a commercial rate	7	4	6	23,054,258

40. Related party transactions (continued)

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

Assets	**2006**	2005
	£000	£000
Loans and advances to banks		
Parent	1,689,896	1,695,140
Other related parties, including fellow subsidiaries	30,822	64,626
	1,720,718	1,759,766
Loans and advances to customers		
Parent	-	66,193
Key Management	23,939	4,563
Other related parties, including fellow subsidiaries	102,940	1,776,110
	126,879	1,846,866
Debt Securities		
Other related parties, including fellow subsidiaries	-	32,418
	-	32,418
Derivatives		
Parent	278,423	190,903
	278,423	190,903
Total Assets	**2,126,020**	**3,829,953**

Liabilities	**2006**	2005
	£000	£000.
Deposits by banks		
Parent	6,310,113	6,500,510
Other related parties, including fellow subsidiaries	253,417	73,062
	6,563,530	6,573,572
Deposits by customers		
Parent	-	7,423
Other related parties, including fellow subsidiaries	802,266	536,640
	802,266	544,063
Derivatives		
Parent	341,405	321,079
	341,405	321,079
Total Liabilities	**7,707,201**	**7,438,714**

41. Ultimate Parent Company

The immediate parent company of the Group is National Westminster Bank Plc and the ultimate parent company is The Royal Bank of Scotland Group plc. The smallest and largest group in which the financial statements of the Group are consolidated are National Westminster Bank Plc and The Royal Bank of Scotland Group plc (both incorporated in Great Britain and registered in Scotland) respectively. The financial statements of The Royal Bank of Scotland Group plc, are available to the public and may be obtained from The Secretary at Gogarburn, Edinburgh, EH12 1HQ.

42. Post balance sheet note

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

DIRECTORS AND EXECUTIVES

Chairman

Dr Alan Raymond Gillespie CBE (56)

was appointed Chairman in July 2001. He is Chairman of the International Finance Facility for Immunisation (IFFIm) and a Non-Executive Director of Elan Corporation plc. He was formerly a partner of Goldman Sachs & Co and is a former Chairman of the Northern Ireland Industrial Development Board and a former Chief Executive of the Commonwealth Development Corporation, CDC Group plc.

EXECUTIVE DIRECTORS

Group Chief Executive

Cormac McCarthy (44)

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. He is President of the Institute of Bankers in Ireland.

Michael Torpey (47)

was appointed Group Finance Director in January 2004. He joined First Active plc in October 2000 and was appointed to the Board of First Active plc as an Executive Director in December 2000. He was formerly a member of the senior management team at Irish Life and Permanent plc and worked previously with Riada Stockbrokers, Allied Irish Investment Bank and the Irish Government Department of Finance.

Michael Bamber (45)

was appointed to his current position as Chief Executive Retail Banking 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 (45)

was appointed Chief Executive of Corporate Banking & Financial Markets 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

Sir Frederick Anderson Goodwin (48)

was appointed to Ulster Bank Board in 2000. He has been Group Chief Executive of the Royal Bank of Scotland Group plc since March 2000, previously he was Deputy Group Chief Executive. He was formerly Chief Executive and Director, Clydesdale Bank plc and Yorkshire Bank plc. He is Chairman of The Prince's Trust and a member of The Prince's Trust Council. He is a former President of the Chartered Institute of Bankers in Scotland.

Miller Roy McLean (57)

was appointed Group Secretary of the Royal Bank of Scotland Group plc in August 1994 and General Counsel in October 2003. He is a Trustee of the Industry and Parliament Trust, Non-Executive Chairman of The Whitehall and Industry Group and a Director of the Scottish Parliament and Business Exchange. He is a former Vice-Chairman of Banco Santander, Portugal S.A.

Trevor Bowen (57)

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

DIRECTORS AND EXECUTIVES (continued)

Professor Niamh Brennan (52)

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

Lucy Gaffney (47)

joined Ulster Bank Board in 2004. She joined First Active Board in October 2000. She was formerly a director and Chief Operating Officer of Esat Telecom Group plc and was a non-executive director of the Elsland Consortium. She is currently Chairman of 98FM and of Servecast Ltd and serves on the Tesco Strategic Advisory Board. She is a non-executive director of the Digicel group of companies in the Caribbean, Spin FM, Campus and Stadium Ireland Development Ltd, and 2003 Special Olympics World Summer Games Ltd.

Eileen Gleeson (46)

joined Ulster Bank Board in 2004. She joined First Active Board in 2003. She is Chair of Weber Shandwick FCC, a Dublin based communications consultancy. She is a non-Executive Director of the Institute of Directors in Ireland, Sustainable Energy Ireland and UNICEF Ireland. She is a former Special Adviser to the President of Ireland, Mary McAleese.

Lady Brenda McLaughlin CBE (59)

is Senior Pro-Chancellor of The Queens University of Belfast, Chair of Civil Service Commission for Northern Ireland, non-Executive Director of the Management Board of the Northern Ireland Office and a Member of the Public Service Commission. She is a former Chairman of the South and East Belfast Health and Social Services Trust and former Chairman of Opportunity Now Northern Ireland. She is a companion of the Institute of Management.

Christopher Mills (59)

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

Dr Philip Nolan (53)

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

Ian Webb (59)

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. A respected figure in the game of golf he has been Chairman of the Royal and Ancient Golf Club of St Andrews, the international governing body of the game and is a member of Augusta National where he serves on the rules committee for the Masters.

GROUP AUDIT COMMITTEE

Trevor Bowen, Chairman
Professor Niamh Brennan
Miller R McLean

DIRECTORS AND EXECUTIVES **(continued)**

DIVISIONAL HEADS

M J Bamber	Retail Banking
R K Bergin	Communications and Corporate Services
R M Gallagher	Corporate Banking
R Gammell	Group Human Resources
P Hayes	Change Management
J F McDonnell	Group Risk Management
M G Torpey	Group Finance
R Pike	Manufacturing

COMPANY SECRETARY

D J Peacock

HEAD OFFICE

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