Contents

Board of directors and secretary

Chairman

Ø# Sir George Mathewson, CBE, DUniv, LLD, FRSE, FCIBS

Vice-chairmen

Ø# Sir Iain Vallance

Ø# Sir Angus Grossart, CBE, LLD, FRSE, DL, FCIBS

Executive directors

Lawrence Fish

□# Fred Goodwin, DUniv, FCIBS, FCIB

□ Norman McLuskie, FCIBS

□ Gordon Pell, FCIB, FCIBS

□# Iain Robertson, CBE, FCIBS

\# Fred Watt, FCIBS

Non-executive directors

Emilio Botin

† Dr Jim Currie

Juan Inciarte

†◊□ Eileen Mackay, CB

Cameron McLatchie, CBE

◊ Sir Steve Robson

†Ø# Bob Scott, CBE

†◊□ Murray Stuart, CBE

Peter Sutherland

†◊Ø# Bill Wilson, FCIBS

Secretary

\# Miller McLean, FCIBS

† member of the Remuneration Committee
◊ member of the Audit Committee
□ member of the Personnel Committee
Ø member of the Nominations Committee
\# member of the Chairman's Advisory Group

Auditors

Deloitte & Touche
Chartered Accountants and Registered Auditors
39 George Street
Edinburgh EH2 2HZ

Registered office

135 Bishopsgate
London EC2M 3UR
Telephone: 020 7375 5000

National Westminster Bank Plc
is registered in England No. 929027

Report of the directors

The directors have pleasure in presenting their report together with the audited accounts for the year ended 31 December 2001.

National Westminster Bank Plc ("the Bank") is subject to the Listing Rules of the Financial Services Authority ("the Listing Rules") because it has preference shares listed on the London Stock Exchange. These preferences shares are defined as Specialist Debt Securities under the Listing Rules. Accordingly, the Bank is exempt from the requirement to make certain disclosures which are normally part of the continuing obligations of listed companies. This exemption applies to corporate governance, directors' remuneration and going concern disclosures. On the basis of this exemption the Report and Accounts do not include an Operating and Financial Review.

Corporate structure The Bank is a wholly-owned subsidiary of The Royal Bank of Scotland Group plc (the "holding company"), which is incorporated in Great Britain and has its registered office at 36 St Andrew Square, Edinburgh EH2 2YB. The 'NatWest Group' comprises the Bank and its subsidiary and associated undertakings. The principal subsidiary undertakings and their activities are detailed on page 26. "RSBG" comprises the holding company and its subsidiary and associated undertakings.

In January 2001, ownership of Royal Bank Leasing Limited and certain of its subsidiaries was transferred to Lombard North Central PLC from The Royal Bank of Scotland plc.

In September 2001, ownership of The Royal Bank of Scotland Commercial Services (Holdings) Limited was transferred to The Royal Bank of Scotland plc from the Bank and in October 2001, ownership of Lombard NatWest Commercial Services Limited and its subsidiaries was also transferred to The Royal Bank of Scotland plc from the Bank.

In November 2001, ownership of NatWest Offshore Limited was transferred to The Royal Bank of Scotland International (Holdings) Limited from National Westminster International Holdings B.V.

Profit and dividends The profit attributable to ordinary shareholders amounted to £1,788 million as set out in the consolidated profit and loss account on page 9.

Dividends of £399 million were paid to the holding company during the year. In addition, a final dividend of £400 million is proposed.

Activities and business review The Bank is regulated under the Financial Services and Markets Act 2000 and, with its subsidiaries, is engaged principally in providing a comprehensive range of banking, insurance and other financial services.

The Bank is regulated by the Financial Services Authority and is a member of the NatWest and Gartmore Marketing Group, advising on and selling the life assurance, stakeholder and other pensions and unit trust and other collective investment scheme products only of that marketing group.

Operating profit was up 39%, £728 million to £2,589 million. Profit before tax was £2,589 million, a decrease of 11%, £313 million compared with 2000 which included £967 million profit on disposal of businesses and the final consideration relating to the disposal of Bancorp, £74 million.

Total income was 2%, £131 million higher at £7,624 million.

Operating expenses at £4,519 million were down 14%, £740 million.

Provisions for bad and doubtful debts and amounts written off fixed asset investments at £516 million were 38%, £143 million higher.

Total assets at £172.6 billion were down 7%, £13.7 billion. Loans and advances to customers were up 2%, £1.8 billion at £100.6 billion. Loans and advances to banks decreased 11%, £3.7 billion to £31.3 billion.

Annual report on Form 20-F An annual report on Form 20-F is being filed with the Securities and Exchange Commission in the USA and copies will be available in June 2002 on request from the secretary. Much of the detailed financial information therein is shown in the accounts and subsequent financial analyses.

Ordinary share capital There were no changes in the ordinary share capital of the Bank during the year.

Preference share capital There were no changes in the preference share capital of the Bank during the year.

Subordinated liabilities In April 2001, Greenwich Capital Holdings Inc. redeemed US$100 million subordinated floating rate notes and issued US$105 million variable rate notes due to mature 2004. In May 2001, the Bank redeemed US$750 million, 9.45% subordinated notes and £100 million, 11.75% subordinated notes.

Directors The current members of the Board of directors are named on page 1. Following the annual general meeting on 25 April 2001, Sir George Mathewson succeeded Viscount Younger of Leckie as Chairman of the Board following his retirement. Mr Scott and Mr Sutherland were appointed as directors on 31 January 2001, Sir Steve Robson and Dr Currie were appointed as directors on 25 July 2001 and 28 November 2001 respectively. Sir Steve Robson and Dr Currie were appointed since the last annual general meeting and will seek re-election at the annual general meeting on 25 April 2002. The directors retiring by rotation are Mr Botin, Mr Fish, Mr McLatchie, Mr Robertson, Mr Stuart and Sir Iain Vallance, and all except Mr McLatchie and Mr Stuart will seek re-election.

Directors' interests The interests of the directors at 31 December 2001 in the shares of the holding company are disclosed in the report and accounts of that company. None of the directors held an interest in the loan capital of the holding company or in the share or loan capital of the Bank or any subsidiaries of the Bank during the period from 1 January 2001 to 27 February 2002.

Staff involvement The Bank encourages employee involvement through a process of communication and consultation. This involves internal communications activities, team meetings led by line managers and regular dialogue with our employees and employee representatives.

The annual employee opinion survey forms an integral part of the manner in which the Bank communicates and consults with employees. In 2001, 79% of employees completed and returned their survey either on paper or, for the first time, online. As well as representing an impressive 9% increase from the 2000 survey, the response rate is significantly higher than the average for large corporate organisations.

This survey and other employee communication procedures enable the Bank to identify and address key issues and to focus its efforts in line with the aspirations and expectations of its people.

It is RBSG's intention to launch a European Works Council in 2002 to facilitate discussion amongst representatives on matters of a transnational nature affecting more than one European member state.

Involvement in RBSG's performance is encouraged by providing employees with the opportunity to acquire shares in the holding company through profit sharing and sharesave schemes.

Equal opportunities The Bank continually strives for improvement of its equal opportunities and has strengthened its commitment in 2001. Our equal opportunities policy states:

The Bank is committed to valuing and promoting diversity and equal opportunity in all areas of recruitment, employment, training and promotion. The Bank will work towards an environment that is based on meritocracy and inclusiveness, where all employees can develop their full potential, irrespective of their race, gender, marital status, age, disability, religious belief, political opinion or sexual orientation.

The Bank also expresses its active support through membership of forums such as Opportunity Now, Race for Opportunity, the Employers' Forum on Disability and the Employers' Forum on Age.

Disability The Bank recognises its responsibility towards disabled employees and the wealth of talent and skills possessed by disabled people. The Bank will comply with the relevant legislation and wherever possible seek to exceed the minimum standards.

The views of our disabled employees are also sought through our annual employee opinion survey, allowing us to recognise and meet their requirements.

Health and safety The health, safety, welfare and security of staff is of paramount importance to the Bank. The health and safety policy has been revised to take account of changes in the corporate structure and the recently introduced guidance from the Health and Safety Commission on the responsibility of directors for health and safety.

Currently a systematic review of health and safety policies and procedures is being undertaken to ensure that a consistent approach is taken across RBSG. An important part of this process is RBSG's involvement in the UK Health and Safety Executive's Lead Authority Partnership Scheme. This scheme is recognised by all UK local authorities, who enforce health and safety standards. RBSG participates in a similar scheme with the local fire brigades, who enforce fire safety legislation.

Charitable contributions The total amount given for charitable purposes by the Bank and its subsidiaries during the year ended 31 December 2001 was £2 million.

Policy and practice on payment of creditors In the year ending 31 December 2002, the Bank will adhere to the following payment policy in respect of all suppliers.

The Bank is committed to maintaining a sound commercial relationship with its suppliers. Consequently, it is the Bank's policy to negotiate and agree terms and conditions with its suppliers, either directly or through its operating subsidiaries, 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 2001, the Bank's trade creditors represented 26 days of amounts invoiced by suppliers.

Auditors The auditors, Deloitte & Touche, have indicated their willingness to continue in office. Resolutions to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

By order of the Board

Miller McLean
Secretary

27 February 2002

Statement of directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Bank and the NatWest Group as at the end of the financial year and of the profit or loss of the NatWest Group for that year. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that 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 NatWest Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Bank and the NatWest Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

Miller McLean
Secretary

27 February 2002

Independent auditors' report to the members of National Westminster Bank Plc

We have audited the consolidated financial statements of National Westminster Bank Plc ("the Bank") and its subsidiaries (together "the NatWest Group") for the year ended 31 December 2001 which comprise the accounting policies, profit and loss account, the balance sheets, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the cash flow statement, and the related notes 1 to 49. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors As described in the 'Statement of directors' responsibilities', the Bank's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority ("the Listing Rules").

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company and other members of the NatWest Group is not disclosed.

We read the directors' report and the other information contained in the Report and Accounts for the year ended 31 December 2001 as listed in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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

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

Opinion In our opinion the financial statements give a true and fair view of the state of affairs of the Bank and the NatWest Group as at 31 December 2001 and of the profit of the NatWest Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
39 George Street
Edinburgh
EH2 2HZ

27 February 2002

Accounting policies

The accounts have been prepared in accordance with applicable Accounting Standards in the UK and the Statements of Recommended Accounting Practice issued jointly by the British Bankers' Association and the Irish Bankers' Federation. A summary of the more important accounting policies is set out below. The consolidated accounts and the accounts of the Bank are prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking groups. As provided by section 230(3) of the Companies Act 1985, no profit and loss account is presented for the Bank.

Disclosures required by Financial Reporting Standard ("FRS") 17 'Retirement Benefits' are included in Note 3. Further disclosures under the transitional requirements of this standard will be made in the NatWest Group's financial statements for 2002, and full implementation is required from 2003.

Implementation of FRS 18 'Accounting Policies' has not resulted in any changes to NatWest Group's principal accounting policies.

1 Accounting convention and bases of consolidation The accounts are prepared under the historical cost convention modified by the periodic valuation of premises and certain investments. To avoid undue delay in the presentation of the NatWest Group's accounts, the accounts of certain subsidiary undertakings have been made up to 30 November. There have been no changes in respect of these subsidiary undertakings, in the period from their balance sheet dates to 31 December, that materially affect the view given by the NatWest Group's accounts.

2 Goodwill Goodwill is the excess of the cost of acquisition of subsidiary and associated undertakings over the fair value of the NatWest Group's share of net tangible assets acquired. Goodwill is capitalised on the balance sheet and amortised on a straight-line basis over its useful life.

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

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

5 Leases Total gross earnings under finance leases are allocated to accounting periods using the actuarial after tax method to give a constant periodic rate of return on the net cash investment. Finance lease receivables are stated in the balance sheet at the amount of the net investment in the lease. Progress payments made prior to the commencement of the lease are included at cost. Rental income from operating leases is credited to the profit and loss account on a receivable basis over the term of the lease. Balance sheet carrying values of finance lease receivables and operating lease assets include amounts in respect of the residual values of the leased assets. Unguaranteed residual values are subject to regular review to identify potential impairment. Provisions are made for impairment arising on specific asset categories.

6 Loans and advances The NatWest Group makes provisions for bad and doubtful debts, through charges to the profit and loss account, so as to record loans and advances at their expected ultimate net realisable value.

Specific provisions are made against individual loans and advances that NatWest Group no longer expects to recover in full. For NatWest Group's portfolios of smaller balance homogeneous advances, such as credit card receivables, specific provisions are established on a portfolio basis taking into account the level of arrears, security and past loss experience. For loans and advances that are individually assessed, the specific provision is determined from a review of the financial condition of the counterparty and any guarantor and takes into account the nature and value of any security held.

The general provision is made to cover bad and doubtful debts that have not been separately identified at the balance sheet date but are known to be present in any portfolio of bank advances. The level of general provision is determined in light of past experience, current economic and other factors affecting the business environment and NatWest Group's monitoring and control procedures including the scope of specific provisioning procedures.

Specific and general provisions are deducted from loans and advances. When there is significant doubt that interest receivable can be collected, it is excluded from the profit and loss account and credited to an interest suspense account. Loans and advances and suspended interest are written off in part or in whole when there is no realistic prospect of recovery.

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

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

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

10 Shares in Group undertakings The Bank's shares in subsidiary undertakings are stated in the balance sheet of the Bank at directors' valuation that takes account of the subsidiary undertakings' net asset values.

11 Interests in associated undertakings Interests in associated undertakings are accounted for by the equity method and are stated in the consolidated balance sheet at the NatWest Group's share of their net tangible assets. The NatWest Group's share of the results of associated undertakings is included in the consolidated profit and loss account. For this purpose, the latest available audited accounts are used together with available unaudited interim accounts.

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

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

Land	not depreciated
Freehold and long leasehold buildings	50 years
Short leaseholds	unexpired period of the lease
Property adaptation costs	10 to 15 years
Computer equipment	up to 5 years
Other equipment	4 to 15 years

Assets on operating leases are depreciated over their estimated useful lives on a straight line or reverse annuity basis.

Investment properties are revalued annually to open market value. No depreciation is charged on freehold investment properties, in accordance with the requirements of Statement of Standard Accounting Practice 19 'Accounting for Investment Properties'. This is a departure from the requirements of the Companies Act 1985 which requires all fixed assets to be depreciated. Investment properties are held not for consumption but for investment and the directors consider that to depreciate them would not give a true and fair view. It is not practicable to assess estimated useful lives for investment properties, and accordingly the effect of not depreciating cannot be reasonably quantified.

13 Derivatives NatWest Group enters into derivative transactions including futures, forwards, swaps and options principally in the interest rate, foreign exchange and equity markets. The accounting treatment for these instruments is dependent upon whether they are entered into for trading or non-trading (hedging) purposes.

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

Non-trading Non-trading derivatives are entered into by the NatWest Group to hedge exposures arising from transactions entered into in the normal course of banking activities. They are recognised in the accounts (financial statements) in accordance with the accounting treatment of the underlying transaction or transactions being hedged. To be classified as non-trading, a derivative must match or eliminate the risk inherent in the hedged item from potential movements in interest rates, exchange rates and market values. In addition, there must be a demonstrable link to an underlying transaction, pool of transactions or specified future transaction or transactions. Specified future transactions must be reasonably certain to arise for the derivative to be accounted for as a hedge. In the event that a non-trading derivative transaction is terminated or ceases to be an effective hedge, the derivative is remeasured at fair value and any resulting profit or loss amortised over the remaining life of the underlying transaction or transactions being hedged. If a hedged item is derecognised, or a specified future transaction is no longer likely to occur, the related non-trading derivative is remeasured at fair value and the resulting profit or loss taken to the profit and loss account.

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

Consolidated profit and loss account

for the year ended 31 December 2001

	Note	2001 £m	2000 £m
Interest receivable			
– interest receivable and similar income arising from debt securities		340	836
– other interest receivable and similar income		7,514	7,679
Interest payable		(3,933)	(4,840)
Net interest income		3,921	3,675
Dividend income		17	14
Fees and commissions receivable		3,036	2,957
Fees and commissions payable		(711)	(637)
Dealing profits	1	719	684
Other operating income*		642	800
Non-interest income		3,703	3,818
Total income		7,624	7,493
Administrative expenses			
– staff costs*	2	2,097	2,572
– premises and equipment*		368	609
– other*		1,495	1,492
Depreciation and amortisation			
– tangible fixed assets*	21	541	559
– goodwill	20	18	27
Operating expenses		4,519	5,259
Profit before provisions for bad and doubtful debts		3,105	2,234
Provisions for bad and doubtful debts	14	510	359
Amounts written off fixed asset investments		6	14
Operating profit		2,589	1,861
Profit on disposal of businesses	4	—	967
Additional consideration on sale of Bancorp	5	—	74
Profit on ordinary activities before tax	6	2,589	2,902
Tax on profit on ordinary activities	7	753	694
Profit on ordinary activities after tax		1,836	2,208
Minority interests – equity		5	9
Profit after minority interests		1,831	2,199
Preference dividends – non-equity	8	43	41
Profit attributable to ordinary shareholders		1,788	2,158
Ordinary dividends	9	799	4,573
Retained profit/(loss) for the year	32	**989**	(2,415)

All items dealt with in arriving at operating profit relate to continuing operations.

Profit on ordinary activities before taxation and the retained profit for the year on a historical cost basis were not materially different from reported amounts.

*Includes restructuring costs (see Note 6).

Consolidated balance sheet

at 31 December 2001

	Note	2001 £m	[illegible] £m
Assets			
Cash and balances at central banks		1,162	1,195
Items in the course of collection from other banks		2,410	2,105
Treasury bills and other eligible bills	11	1,475	3,013
Loans and advances to banks	12	31,262	34,995
Loans and advances to customers	13	100,612	98,824
Debt securities	16	20,135	33,813
Equity shares	17	1,073	426
Interests in associated undertakings	18	47	55
Intangible fixed assets	20	168	186
Tangible fixed assets	21	3,368	3,303
Other assets	22	9,704	6,103
Prepayments and accrued income		1,149	2,215
Total assets		**172,578**	186,233

	Note	2001 £m	£m
Liabilities			
Deposits by banks	23	25,246	30,143
Items in the course of transmission to other banks		1,405	1,100
Customer accounts	24	99,951	109,722
Debt securities in issue	25	5,222	9,172
Other liabilities	26	22,906	18,402
Accruals and deferred income		2,096	2,979
Provisions for liabilities and charges			
– deferred taxation	27	950	469
– other provisions	28	217	199
Subordinated liabilities			
– dated loan capital	29	3,651	4,203
– undated loan capital including convertible debt	30	2,745	2,701
Minority interests			
– equity		106	99
– non-equity		4	4
Called up share capital	31	2,197	2,187
Share premium account	32	1,286	1,286
Other reserves	32	301	301
Revaluation reserve	32	119	46
Profit and loss account	32	4,173	3,220
Shareholders' funds			
– equity		7,557	6,531
– non-equity		519	509
Total liabilities		**172,578**	186,233

Memorandum items

Contingent liabilities	37	**7,204**	7,155
Commitments (standby facilities, credit lines and other)	37	**66,270**	62,419

The accounts were approved by the Board of directors on 27 February 2002 and signed on its behalf by:

Sir George Mathewson
Chairman

Fred Goodwin
Group Chief Executive

Fred Watt
Group Finance Director

Statement of consolidated total recognised gains and losses

for the year ended 31 December 2001

	2001 £m	2000 £m
Profit attributable to ordinary shareholders	1,788	2,158
Currency translation adjustments and other movements	(4)	5
Revaluation of premises	41	20
Total recognised gains and losses	**1,825**	2,183

Reconciliation of movements in consolidated shareholders' funds

for the year ended 31 December 2001

	2001 £m	[illegible] £m
Profit attributable to ordinary shareholders	1,788	2,158
Ordinary dividends	(799)	(4,573)
Retained profit/(loss) for the year	989	(2,415)
Other recognised gains and losses	37	25
Issue of ordinary shares in relation to share option schemes for staff	—	57
Currency translation adjustment on preference shares	10	29
Net increase/(decrease) in shareholders' funds	1,036	(2,304)
Opening shareholders' funds	7,040	9,344
Closing shareholders' funds	**8,076**	7,040

Consolidated cash flow statement

for the year ended 31 December 2001

	Note	2001 £m	2001 £m	[illegible] £m	[illegible] £m
Net cash outflow from operating activities	39		(2,534)		(5,001)
Dividends received from associated undertakings			4		3
Returns on investments and servicing of finance					
Preference dividends paid		(43)		(40)	
Dividends paid to minority shareholders in subsidiary undertakings		—		(3)	
Interest paid on subordinated liabilities		(423)		(470)	
Net cash outflow from returns on investments and servicing of finance			(466)		(513)
Taxation					
UK tax paid		(542)		(361)	
Overseas tax paid		(197)		(119)	
Net cash outflow from taxation			(739)		(480)
Capital expenditure and financial investment					
Purchase of investment securities		(1,772)		(7,792)	
Sale and maturity of investment securities		9,397		18,132	
Purchase of tangible fixed assets		(1,448)		(977)	
Sale of tangible fixed assets		1,088		737	
Net cash inflow from capital expenditure and financial investment			7,265		10,100
Acquisitions and disposals					
Purchase of subsidiary undertakings (net of cash acquired)	40	(220)		(86)	
Investments in associated undertakings	18	(5)		(5)	
Sale of subsidiary and associated undertakings (net of cash sold)	41	(20)		1,966	
Net cash (outflow)/inflow from acquisitions and disposals			(245)		1,875
Ordinary equity dividends paid			(999)		(3,973)
Net cash inflow before financing			2,283		2,011
Financing					
Proceeds from issue of ordinary share capital		—		57	
Issue of subordinated liabilities		73		—	
Repayment of subordinated liabilities		(690)		(959)	
Net cash outflow from financing			(617)		(902)
Increase in cash	43		**1,666**		1,109

Balance sheet – the Bank

at 31 December 2001

	Note	2001 £m	2000 £m
Assets			
Cash and balances at central banks		1,000	817
Items in the course of collection from other banks		2,236	1,961
Treasury bills and other eligible bills	11	11	2,888
Loans and advances to banks	12	20,544	34,774
Loans and advances to customers	13	72,035	71,134
Debt securities	16	3,789	18,570
Equity shares	17	349	349
Participating interests – associated undertakings	18	9	22
Shares in Group undertakings	19	9,082	8,389
Tangible fixed assets	21	1,208	1,645
Other assets	22	2,019	3,395
Prepayments and accrued income		767	1,742
Total assets		**113,057**	145,686
Liabilities			
Deposits by banks	23	**13,208**	36,225
Items in the course of transmission to other banks		**1,376**	1,062
Customer accounts	24	**74,567**	76,971
Debt securities in issue	25	**4,728**	8,180
Other liabilities	26	**3,620**	7,388
Accruals and deferred income		**1,167**	2,020
Provisions for liabilities and charges			
– other provisions	28	**159**	149
Subordinated liabilities			
– dated loan capital	29	**3,579**	4,136
– undated loan capital including convertible debt	30	**2,745**	2,701
Called up share capital	31	**2,197**	2,187
Share premium account	32	**1,286**	1,286
Other reserves	32	**298**	298
Revaluation reserve	32	**2,745**	2,012
Profit and loss account	32	**1,382**	1,071
Shareholders' funds			
– equity		**7,389**	6,345
– non-equity		**519**	509
Total liabilities		**113,057**	145,686
Memorandum items			
Contingent liabilities	37	**8,198**	9,485
Commitments (standby facilities, credit lines and other)	37	**64,189**	60,885

The accounts were approved by the Board of directors on 27 February 2002 and signed on its behalf by:

Sir George Mathewson
Chairman

Fred Goodwin
Group Chief Executive

Fred Watt
Group Finance Director

Notes on the accounts

1 Dealing profits

	2001 £m	2000 £m
Foreign exchange (1)	107	282
Securities		
– Equities (2)	(3)	8
– Debt (3)	636	355
Interest rate derivatives (4)	(21)	39
	719	684

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

Notes:

(1) Includes spot and forward foreign exchange contracts and currency swaps, futures and options and related hedges and funding.

(2) Includes equities and equity derivatives and related hedges and funding.

(3) Includes debt securities and related hedges and funding.

(4) Includes interest rate swaps, forward rate agreements, interest rate options, interest rate futures and credit derivatives and related hedges and funding.

2 Administrative expenses – staff costs

	2001 £m	2000 £m
Wages and salaries	1,462	2,018
Social security costs	91	148
Pension costs (see Note 3)	58	49
Other staff costs	486	357
	2,097	2,572

The average number of persons employed by the NatWest Group during the year, excluding temporary staff, was 48,300 (2000 – 62,000).

3 Pension costs

The NatWest Group operates a number of pension schemes throughout the world. The main schemes are defined-benefit schemes whose assets are independent of the NatWest Group's finances. The total pension cost for the NatWest Group was £58 million (2000 – £49 million). At 31 December 2001, there was a pension cost accrual of £33 million (2000 – prepayment of £19 million and accrual £14 million).

Scheme valuations of the main UK pension scheme, the National Westminster Bank Pension Fund, are carried out by independent professionally qualified actuaries to determine pension costs, using the projected unit method; any imbalance between assets and liabilities is adjusted over the average future service life of members of the scheme. The assumptions which have the most significant effect on the results of the valuations are those relating to the valuation rate of interest and the rates of increases in salaries and pensions.

The latest formal valuation of the National Westminster Bank Pension Fund took place on 31 March 2001. The result of this valuation, the principal actuarial assumptions and the pension costs relating to this scheme were:

Market value of scheme assets (£m)	11,053
Funding level	111%
Valuation rate of interest – past service liabilities (per annum)	5.5-6.0%
– future service liabilities (per annum)	6.75%
Salary growth (per annum)*	4.25%
Pension increases (per annum)	2.5%
Price inflation (per annum)	2.5%

*In addition, allowance is made for promotional salary increases.

Pension costs for the year	2001 £m	2000 £m
Regular cost	140	153
Variation	(108)	(126)
Prior year service costs	14	—
Net pension cost	**46**	27

The NatWest Group also provides other post-retirement benefits, principally through subscriptions to private health care schemes in the UK and the USA. Provision for the costs of these benefits is charged to the profit and loss account over the average remaining future service lives of the eligible employees.

In accordance with the transitional requirements of FRS 17 'Retirement Benefits' the full actuarial valuations of the NatWest Group's schemes were updated to 31 December 2001 by independent actuaries, using the following assumptions:

	Main UK scheme %	Other Group schemes (weighted average) %
Rate of increase in salaries (per annum)	4.25	3.0
Rate of increase in pensions in payment (per annum)	2.5	2.9
Discount rate (per annum)	6.0	5.7
Inflation assumption (per annum)	2.5	2.7

The values of the assets and liabilities of the schemes at 31 December 2001 were as follows:

	Main UK scheme £m	Other Group schemes £m
Equities	6,540	568
Bonds	3,610	116
Other	371	112
Total market value of assets	10,521	796
Present value of scheme liabilities	(9,953)	(741)
Net surplus in the schemes	568	55
Related notional deferred tax liability	(170)	(12)
Net unrecognised pension surplus	398	43
Pension liabilities currently recognised, net of deferred tax	13	10
Effect on NatWest Group profit and loss account reserves	**411**	**53**

The assumptions for long-term rates of return on the principal classes of assets at 31 December 2001 were equities 8.4%, gilts 5.0%, other bonds 6.0%, property 6.8% and cash 4.5%.

4 Profit on disposal of businesses

	2001 £m	2000 £m
Profit on disposals in the year	—	967

In 2000, gains of £967 million (tax charge £103 million) were made in respect of the disposals of Gartmore Investment Management plc, National Westminster Life Assurance Limited and the investment management and services businesses of Ulster Bank Group. These businesses contributed £105 million to NatWest Group profit before tax in 2000 up to the dates of their respective disposals.

5 Additional consideration on sale of Bancorp

	2001 £m	2000 £m
Additional consideration received relating to the disposal in 1996 of Bancorp, a subsidiary undertaking (tax charge £nil, 2000 – £8 million)	—	74

6 Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after taking account of the following:

		2001 £m	2000 £m
Income	Aggregate amounts receivable under finance leases, hire purchase and conditional sale contracts	1,474	1,027
	Aggregate amounts receivable under operating leases	398	355
	Profit on disposals of investment securities and associated undertakings	6	234
	Share of associated undertakings' losses	(3)	(3)
Expenses	Operating lease rentals of premises	97	143
	Operating lease rentals of computers and other equipment	2	7
	Finance charges on leased assets	33	24
	Interest on subordinated liabilities	398	502
	Restructuring costs*	638	527
	Goodwill amortisation	18	27

*Restructuring costs comprise:	2001 £m	2000 £m
Other operating income	—	3
Staff costs	413	297
Premises and equipment	57	158
Other administrative expenses	138	58
Depreciation	30	11
	638	527

Auditors' remuneration

The auditors' remuneration for statutory audit work was £0.5 million for the Bank (2000 – £1.2 million) and £2.0 million for the NatWest Group (2000 – £3.0 million). Fees paid to the auditors and their associates for non-audit work in the UK for the NatWest Group were £1.1 million (2000 – current auditors – £0.4 million; former auditors – £1.0 million).

7 Tax on profit on ordinary activities

	2001 £m	2000 £m
Based on the profit for the year:		
UK corporation tax at 30% (2000 – 30%)	451	631
Relief for overseas taxation	(31)	(18)
Deferred taxation	199	(15)
	619	598
Overseas taxation	182	122
	801	720
Share of associated undertakings	1	2
	802	722
Prior year items – UK	(47)	4
– Overseas	(2)	(32)
	753	694

The tax charge of £753 million, equivalent to 29.1% of profit before tax of £2,589 million, is below the standard UK tax rate of 30% primarily due to an over-provision for tax in the year ended 31 December 2000.

8 Preference dividends

	2001 £m	2000 £m
9% non-cumulative sterling preference shares, Series A	13	13
Non-cumulative dollar preference shares, Series B	14	13
Non-cumulative dollar preference shares, Series C	16	15
Total non-equity dividends	**43**	41

9 Ordinary dividends

	2001 £m	2000 £m
Paid	399	3,973
Proposed	400	600
Total dividends on equity shares	**799**	4,573

10 Profit dealt with in the accounts of the Bank

Of the profit attributable to shareholders, £1,186 million (2000 – £1,797 million) has been dealt with in the accounts of the Bank.

11 Treasury bills and other eligible bills

	The Group 2001 £m	2000 £m	The Bank 2001 £m	2000 £m
Treasury bills and similar securities	1,453	1,306	11	1,201
Other eligible bills	22	1,707	—	1,687
	1,475	3,013	**11**	2,888
Banking business	**122**	402	—	366
Trading business	1,353	2,611	11	2,522
Amounts above include:				
Subject to sale and repurchase agreement	1,353	101	11	11

Treasury bills and other eligible bills are principally of short term maturity and their market value is not materially different from carrying value.

12 Loans and advances to banks

	The Group 2001 £m	2000 £m	The Bank 2001 £m	2000 £m
Repayable on demand	6,395	4,696	5,857	6,013
Remaining maturity				
– three months or less	21,852	22,670	10,137	19,672
– one year or less but over three months	2,329	6,188	3,592	7,305
– five years or less but over one year	175	315	340	364
– over five years	526	1,140	623	1,434
	31,277	35,009	20,549	34,788
Specific bad and doubtful debt provisions	(8)	(14)	(5)	(14)
	31,269	34,995	**20,544**	34,774
Banking business	**18,213**	23,145	**17,515**	27,181
Trading business	13,056	11,850	3,029	7,593
Amounts above include:				
Due from fellow subsidiary undertakings – unsubordinated	15,909	11,699	8,856	10,912
– subordinated	500	500	500	500
Due from subsidiary undertakings – unsubordinated			8,335	9,720
– subordinated			284	299

13 Loans and advances to customers

	The Group 2001 £m	2000 £m	The Bank 2001 £m	2000 £m
On demand or short notice	12,233	12,650	20,902	20,101
Remaining maturity				
– three months or less	15,126	18,058	7,756	8,928
– one year or less but over three months	12,280	13,777	8,992	9,241
– five years or less but over one year	27,638	25,466	23,818	23,748
– over five years	35,464	30,957	12,356	10,861
	102,741	100,908	73,824	72,879
General and specific bad and doubtful debt provisions	(2,123)	(2,084)	(1,789)	(1,745)
	100,618	98,824	**72,035**	71,134
Banking business	**91,921**	86,089	**69,932**	66,315
Trading business	8,697	12,735	2,103	4,819
Amounts above include:				
Subordinated advances – third party	—	4	—	—
Due from holding company – unsubordinated	401	601	401	601
Due from fellow subsidiary undertakings – unsubordinated	84	—	15	—
Due from associated undertakings – unsubordinated	145	154	111	98
Due from subsidiary undertakings – unsubordinated			21,165	20,333
– subordinated			243	10
Amounts receivable under finance leases	6,622	4,087	—	—
Amounts receivable under hire purchase and conditional sale agreements	3,096	3,268	—	—

The cost of assets acquired during the year for the purpose of letting under finance leases and hire purchase agreements was £3,544 million (2000 – £2,512 million).

The NatWest Group's exposure to risk from its lending activities is widely diversified both geographically and industrially. With the exception of lending for home mortgages in the UK there were no loan concentrations in any individual sector or industry which exceeded 10% of total loans and advances to customers (before provisions).

Residual value exposures

The table below gives details of the unguaranteed residual values included in the carrying value of finance lease receivables and operating lease assets (see Note 21).

	[illegible] £m	[illegible] £m	[illegible] £m	[illegible] £m	[illegible] £m
Operating leases					
Transportation	—	2	130	402	534
Cars and light commercial vehicles	212	95	103	—	414
Other	20	21	70	61	172
Finance leases	30	15	60	92	197
At 31 December 2001	**262**	**137**	**363**	**555**	**1,317**
At 31 December 2000	296	121	212	246	875

14 Provisions for bad and doubtful debts

	2001 Specific £m	2001 General £m	2001 Total £m	[illegible] £m	[illegible] £m	[illegible] £m
The Group						
At 1 January	1,696	402	2,098	1,799	393	2,192
Currency translation and other adjustments	(3)	1	(2)	10	4	14
Amounts written off	(456)	—	(456)	(626)	—	(626)
Acquisition of subsidiaries	7	—	7	7	—	7
Disposals	(41)	(4)	(45)	—	—	—
Recoveries of amounts written off in previous years	19	—	19	152	—	152
Charge to profit and loss account	511	(1)	510	354	5	359
At 31 December	**1,733**	**398**	**2,131**	1,696	402	2,098
The Bank						
At 1 January	1,413	346	1,759	1,478	343	1,821
Currency translation and other adjustments	—	1	1	12	3	15
Amounts written off	(343)	—	(343)	(486)	—	(486)
Disposals	(9)	—	(9)	—	—	—
Recoveries of amounts written off in previous years	2	—	2	134	—	134
Charge to profit and loss account	383	1	384	275	—	275
At 31 December	**1,446**	**348**	**1,794**	1,413	346	1,759

15 Interest in suspense

In certain cases, interest may be charged to a customer's account but, because its recoverability is in doubt, it is not recognised in the NatWest Group's consolidated profit and loss account and is held in a suspense account and netted off against loans and advances in the consolidated balance sheet.

	[illegible] 2001 £m	[illegible] £m	[illegible] 2001 £m	[illegible] £m
Loans and advances on which interest is being placed in suspense:				
– before specific provisions	1,167	649	824	380
– after specific provisions	633	346	454	185
Loans and advances on which interest is not being applied:				
– before specific provisions	1,431	1,658	1,322	1,525
– after specific provisions	577	525	527	468

16 Debt securities

	2001 Book value £m	Valuation £m	[illegible] £m	[illegible] £m
The Group				
Investment securities:				
British government	204	206	743	746
Other government	401	401	2,755	2,808
Other public sector bodies	501	517	718	721
Bank and building society	210	210	1,339	1,340
Other issuers	1,645	1,636	5,033	5,045
	2,961	2,970	10,588	10,660
Other debt securities:				
British government	260	260	663	663
Other government	11,392	11,392	12,188	12,188
Other public sector bodies	—	—	88	88
Bank and building society	339	339	4,328	4,328
Other issuers	5,183	5,183	5,958	5,958
	20,135	**20,144**	33,813	33,885
Due within one year	**1,654**		11,562	
Due one year and over	18,481		22,251	
	20,135		33,813	
Investment securities:				
Listed	**1,050**	**1,077**	5,444	5,509
Unlisted	1,911	1,893	5,144	5,151
	2,961	2,970	10,588	10,660
Other debt securities:				
Listed	1,533	1,533	3,202	3,202
Unlisted	15,641	15,641	20,023	20,023
	20,135	**20,144**	33,813	33,885
Banking business	**3,295**		11,207	
Trading business	16,840		22,606	
Amounts above include:				
Subordinated debt securities	59		60	
Unamortised discounts less premiums on investment securities	(3)		(4)	
Debt securities subject to sale and repurchase agreements	16,944		17,229	

The cost of securities carried at market value is not disclosed because it cannot be determined without unreasonable expense.

Movements in debt securities which are held as investment securities were as follows:

	[illegible] £m	[illegible] £m	[illegible] £m	[illegible] £m
The Group				
At 1 January 2001	10,650	(61)	(1)	10,588
Currency translation and other adjustments	33	—	—	33
Additions	1,737	—	—	1,737
Maturities and disposals including transfers to fellow subsidiary	(9,437)	61	1	(9,375)
Disposal of subsidiary undertakings	(7)	—	—	(7)
Amounts written off	(2)	—	2	—
Provisions made, net of write backs	—	—	(2)	(2)
Amortisation of discounts and premiums	—	(13)	—	(13)
At 31 December 2001	**2,974**	**(13)**	—	**2,961**

	2001 **Book value** £m	**Valuation** £m	[illegible] £m	[illegible] £m
The Bank				
Investment securities:				
British government	—	—	562	562
Other government	8	8	2,372	2,427
Other public sector bodies	501	517	718	721
Bank and building society	210	210	1,339	1,340
Other issuers	1,118	1,107	4,265	4,273
	1,837	1,842	9,256	9,323
Other debt securities:				
British government	1	1	535	535
Other government	974	974	1,200	1,200
Bank and building society	—	—	3,961	3,961
Other issuers	977	977	3,618	3,618
	3,789	**3,794**	18,570	18,637
Due within one year	**402**		9,501	
Due one year and over	3,387		9,069	
	3,789		18,570	
Investment securities:				
Listed	**259**	**265**	4,636	4,697
Unlisted	1,578	1,577	4,620	4,626
	1,837	1,842	9,256	9,323
Other debt securities:				
Listed	1,180	1,180	2,721	2,721
Unlisted	772	772	6,593	6,593
	3,789	**3,794**	18,570	18,637

	2001 **Book value** £m	[illegible] £m
Banking business	1,840	9,270
Trading business	1,949	9,300
Amounts include:		
Subordinated securities	59	58
Unamortised discounts less premiums on investment securities	—	(1)
Debt securities subject to sale and repurchase agreements	1,948	3,937

The cost of securities carried at market value is not disclosed because it cannot be determined without unreasonable expense.

16 Debt securities *(continued)*

	Cost £m	Unamortised discounts and premiums £m	Provisions £m	Book value £m
The Bank				
At 1 January 2001	9,329	(72)	(1)	9,256
Currency translation and other adjustments	41	1	—	42
Additions	1,205	—	—	1,205
Maturities and disposals including transfers to fellow subsidiary	(8,721)	61	1	(8,659)
Amounts written off	(2)	—	2	—
Provisions made net of write backs	—	—	(2)	(2)
Amortisation of discounts and premiums	—	(5)	—	(5)
At 31 December 2001	**1,852**	**(15)**	—	**1,837**

17 Equity shares

	2001 Book value £m	2001 Valuation £m	2000 Book value £m	2000 Valuation £m
The Group				
Investment securities:				
Listed	376	331	378	380
Unlisted	693	700	45	45
	1,069	1,031	423	425
Other securities (all listed)	4	4	3	3
	1,073	**1,035**	426	428
Banking business	**1,065**		424	
Trading business	8		2	

The cost of securities carried at market value is not disclosed because it cannot be determined without unreasonable expense.

Movements in equity shares which are held as investment securities were as follows:

	Cost £m	Provisions £m	Book value £m
The Group			
At 1 January 2001	423	—	423
Currency translation and other adjustments	(4)	1	(3)
Additions	669	—	669
Disposals	(16)	—	(16)
Provisions made net of write backs	—	(4)	(4)
At 31 December 2001	**1,072**	**(3)**	**1,069**

	2001 Book value £m	2001 Valuation £m	2000 Book value £m	2000 Valuation £m
The Bank				
Investment securities:				
Listed	304	260	309	309
Unlisted	44	44	39	39
	348	304	348	348
Other securities (all listed)	1	1	1	1
	349	**305**	349	349
Banking business	**348**		348	
Trading business	1		1	

The cost of securities carried at market value is not disclosed because it cannot be determined without unreasonable expense.

Movements in equity shares which are held as investment securities were as follows:

	[illegible] £m	[illegible] £m	[illegible] £m
The Bank			
At 1 January 2001	348	—	348
Currency translation and other adjustments	(9)	4	(5)
Additions	10	—	10
Disposals	(1)	—	(1)
Provisions made net of write backs	—	(4)	(4)
At 31 December 2001	**348**	—	**348**

18 Interests in associated undertakings

Movements in interests in associated undertakings were as follows:

	[illegible] £m	[illegible] £m
At 1 January 2001	55	22
Additions	5	1
Disposals	(8)	—
Share of losses	(5)	—
Provisions made in year	—	(14)
At 31 December 2001 – Unlisted	**47**	**9**

On the historical cost basis, the Bank's interests in associated undertakings would have been included as follows:

	2001 £m	[illegible] £m
Cost	21	20
Provisions	(15)	(1)
At 31 December	**6**	19

None of the associated undertakings is a bank.

Dividends of £1 million (2000 – £3 million) were received from the NatWest Group's associated undertakings in 2001.

Associated undertakings are accounted for as such due to the NatWest Group's interest being held on a long-term basis for the purpose of securing a contribution to its activities by the exercise of influence.

19 Shares in Group undertakings

Movements in shares in Group undertakings during the year were as follows:

	[illegible] £m
At 1 January 2001	8,389
Additions	119
Disposals	(99)
Increase in net assets	683
At 31 December 2001	**9,092**

	[illegible] £m	[illegible] £m
Banks	2,326	2,311
Other	6,766	6,078
	9,092	8,389

On the historical cost basis, shares in subsidiary undertakings at 31 December 2001 would have been included at a cost of £6,384 million (31 December 2000 – £6,351 million).

The principal subsidiary undertakings (all unlisted) at 31 December 2001, the capital of which consists of ordinary and preference shares, are shown below. All of the subsidiary undertakings are owned directly or indirectly through intermediate holding companies and they are all wholly-owned. All of these subsidiary undertakings are included in the NatWest Group's consolidated financial statements and have an accounting reference date of 31 December.

	Nature of business	Country of incorporation and principal area of operations
Coutts & Co (1)	Private banking	Great Britain
Coutts Bank (Switzerland) Limited (2)	Private banking	Switzerland
Greenwich Capital Markets Inc (2)	Broker dealer	United States
Lombard North Central PLC	Banking, credit finance, leasing and hire purchase	Great Britain
National Westminster Home Loans Limited	Home mortgage finance	Great Britain
Ulster Bank Limited (3)	Banking	Northern Ireland

Notes:

(1) Coutts & Co is incorporated with unlimited liability.

(2) Shares are not directly held by the Bank.

(3) Ulster Bank Limited and its subsidiary undertakings also operate in the Republic of Ireland.

20 Intangible fixed assets

	2001 £m
Goodwill	
Cost:	
At 1 January and 31 December	**299**
Amortisation:	
At 1 January	113
Charge for the year	18
At 31 December	**131**
Net book value at 31 December 2001	**168**
Net book value at 31 December 2000	186

21 Tangible fixed assets

	[illegible] £m	[illegible] £m	[illegible] £m	[illegible] £m	[illegible] £m	[illegible] £m
The Group						
Cost or valuation:						
At 1 January 2001	1,532	254	302	1,680	1,562	5,330
Currency translation and other adjustments	(2)	(1)	1	—	2	—
Reclassifications	67	3	60	(130)	—	—
Additions	24	6	17	88	1,313	1,448
Acquisition of subsidiaries	36	—	1	5	154	196
Disposals and write-off of fully depreciated assets	(355)	(40)	(105)	(1,067)	(906)	(2,473)
Disposal of subsidiaries	(55)	—	(8)	(40)	(1)	(104)
Revaluation adjustments	4	37	—	—	—	41
At 31 December 2001	**1,251**	**259**	**268**	**536**	**2,124**	**4,438**
Consisting of:						
At valuation – 2001	240	113	—	—	—	353
– 2000	215	83	—	—	—	298
– 1999	625	—	—	—	—	625
At cost	171	63	268	536	2,124	3,162
	1,251	**259**	**268**	**536**	**2,124**	**4,438**
Accumulated depreciation and amortisation:						
At 1 January 2001	353	79	144	1,101	350	2,027
Currency translation and other adjustments	—	—	—	1	—	1
Reclassifications	25	(1)	28	(52)	—	—
Acquisition of subsidiaries	—	—	1	2	23	26
Disposals and write-off of fully depreciated assets	(265)	(39)	(94)	(851)	(235)	(1,484)
Disposal of subsidiaries	(5)	—	(4)	(32)	—	(41)
Charge for the year	46	23	26	168	278	541
At 31 December 2001	**154**	**62**	**101**	**337**	**416**	**1,070**
Net book value at 31 December 2001	**1,097**	**197**	**167**	**199**	**1,708**	**3,368**
Net book value at 31 December 2000	1,179	175	158	579	1,212	3,303

21 Tangible fixed assets *(continued)*

	Freehold premises £m	Long leasehold premises £m	Short leasehold premises £m	Computers and other equipment £m	Assets on operating leases £m	Total £m
The Bank						
Cost or valuation:						
At 1 January 2001	1,317	165	243	1,181	49	2,955
Reclassifications	71	(2)	56	(125)	—	—
Currency translation and other adjustments	(1)	1	—	(1)	—	(1)
Additions	23	4	14	20	14	75
Disposals and write-off of fully depreciated assets	(348)	(39)	(103)	(965)	(63)	(1,518)
Revaluation adjustments	—	15	—	—	—	15
At 31 December 2001	**1,062**	**144**	**210**	**110**	—	**1,526**
Consisting of:						
At valuation – 2001	240	41	—	—	—	281
– 2000	215	83	—	—	—	298
– 1999	442	—	—	—	—	442
At cost	165	20	210	110	—	505
	1,062	**144**	**210**	**110**	—	**1,526**
Accumulated depreciation and amortisation:						
At 1 January 2001	349	58	112	765	26	1,310
Currency translation and other adjustments	—	—	—	1	—	1
Reclassifications	25	(1)	26	(50)	—	—
Disposals and write-off of fully depreciated assets	(265)	(39)	(93)	(764)	(32)	(1,193)
Charge for year	42	19	20	115	6	202
At 31 December 2001	**151**	**37**	**65**	**67**	—	**320**
Net book value at 31 December 2001	**911**	**107**	**145**	**43**	—	**1,206**
Net book value at 31 December 2000	968	107	131	416	23	1,645

On the historical cost basis, the NatWest Group's freehold and long leasehold premises would have been included at £903 million (2000 – £959 million) and the Bank's freehold and long leasehold premises would have been included at £712 million (2000 – £755 million).

Freehold and long leasehold properties are revalued on a rolling basis, each property being valued at least every five years. Interim valuations outwith the 5 year cycle will be carried out on properties where there is an indication that their value has changed significantly, given market conditions. The directors are not aware of any material change in the valuation of the NatWest Group's properties and therefore no additional interim valuations were required.

Properties occupied by NatWest Group are valued on the basis of Existing Use Value, except for certain specialised properties which are valued on a Depreciated Replacement Cost Basis. Investment and development properties and properties to be disposed of are valued to reflect Open Market Value. Valuations are carried out by internal and external qualified surveyors who are members of the Royal Institution of Chartered Surveyors or, in the case of some overseas properties, locally qualified valuers.

	The Group 2001 £m	2000 £m	The Bank 2001 £m	2000 £m
Land and buildings occupied for own use	1,375	1,401	1,113	1,100
Investment properties	36	—	—	—
Properties under development	35	75	35	75
Properties to be disposed of	15	36	15	31
Net book value at 31 December	**1,461**	1,512	**1,163**	1,206
Net book value of assets held under finance leases	**25**	28	**23**	25
Depreciation for the year of assets held under finance leases	**2**	2	**1**	1
Contracts not provided for in the accounts at 31 December	**26**	48	**24**	45

22 Other assets

	The Group 2001 £m	2000 £m	The Bank 2001 £m	2000 £m
Trading derivatives (Note 35)	2,649	2,493	1,047	2,034
Settlement balances	4,661	1,847	78	82
Deferred taxation (Note 27)	—	—	43	51
Long-term assurance fund assets attributable to policyholders	87	111	—	—
Other	2,307	1,652	851	1,228
	9,704	6,103	**2,019**	3,395

23 Deposits by banks

	The Group 2001 £m	2000 £m	The Bank 2001 £m	2000 £m
Repayable on demand	2,533	9,765	2,516	11,051
With agreed maturity dates or periods of notice, by remaining maturity				
– three months or less	18,030	19,193	9,549	23,561
– one year or less but over three months	742	985	881	1,450
– five years or less but over one year	438	200	262	163
– over five years	3,503	—	—	—
	25,246	30,143	**13,208**	36,225
Banking business	**16,806**	21,997	**12,112**	31,943
Trading business	8,440	8,146	1,096	4,282
Amounts above include:				
Due to fellow subsidiary undertakings	13,030	7,575	7,107	5,158
Due to subsidiary undertakings			1,753	13,095

24 Customer accounts

	The Group 2001 £m	2000 £m	The Bank 2001 £m	2000 £m
Repayable on demand	57,189	53,648	49,767	46,934
With agreed maturity dates or periods of notice, by remaining maturity				
– three months or less	39,267	51,148	22,522	27,133
– one year or less but over three months	2,059	2,559	1,393	1,448
– five years or less but over one year	1,361	1,754	876	1,134
– over five years	75	613	9	322
	99,951	109,722	**74,567**	76,971
Banking business	**87,671**	93,057	**73,686**	72,668
Trading business	12,280	16,665	881	4,303
Amounts above include:				
Due to fellow subsidiary undertakings	76	2	70	2
Due to associated undertakings	3	5	3	5
Due to subsidiary undertakings			4,392	5,484

25 Debt securities in issue

	The Group 2001 £m	2000 £m	The Bank 2001 £m	2000 £m
Bonds and medium term notes, by remaining maturity				
– one year or less	49	100	32	96
– two years or less but over one year	3	60	3	41
– five years or less but over two years	554	820	538	793
– over five years	76	217	74	214
	682	1,197	647	1,144
Other debt securities in issue, by remaining maturity				
– three months or less	1,647	5,572	1,207	4,721
– one year or less but over three months	2,893	2,389	2,874	2,315
– two years or less but over one year	—	14	—	—
	4,540	7,975	4,081	7,036
	5,222	9,172	**4,728**	8,180
Banking business	5,222	9,172	4,728	8,180

26 Other liabilities

	The Group 2001 £m	2000 £m	The Bank 2001 £m	2000 £m
Notes in circulation	272	229	—	—
Trading derivatives (Note 35)	2,583	2,834	1,222	2,379
Settlement balances	6,259	2,439	128	495
Short positions				
Debt securities – Government	10,188	8,862	401	1,918
– Other issuers	1,247	955	22	201
Current taxation	537	733	479	453
Dividends	409	609	409	609
Obligations under finance leases (analysed below)	197	141	13	114
Long-term assurance fund liabilities to policyholders	87	111	—	—
Other liabilities	1,127	1,489	946	1,219
	22,906	18,402	**3,620**	7,388

Analysis of obligations under finance leases:

	The Group 2001 £m	2000 £m	The Bank 2001 £m	2000 £m
Amounts falling due within one year	40	108	4	84
Amounts falling due between one and five years	37	33	9	30
Amounts falling due after more than five years	120	—	—	—
	197	141	**13**	114

27 Deferred taxation

Provision for deferred taxation has been made at 30% (31 December 2000 – 30%) being the anticipated rate of UK corporation tax when the liability is expected to crystallise.

	[illegible]		[illegible]	
	2001	2000	**2001**	2000
	£m	£m	£m	£m
Short-term timing differences	(154)	(151)	(109)	(108)
Capital allowances	1,104	620	66	57
	950	469	**(43)**	(51)

Movements during the year:	£m	£m
At 1 January 2001	469	(51)
Currency translation and other adjustments	2	—
Acquisition of subsidiaries	278	—
Disposal of subsidiaries	(28)	—
Charge to profit and loss account		
– current year	199	16
– prior year	30	(8)
At 31 December 2001	**950**	**(43)**

The Bank's net deferred tax asset is included in 'Other assets'.

No provision has been made for the following potential amounts of deferred taxation:

	[illegible]		[illegible]	
	2001	2000	**2001**	2000
	£m	£m	£m	£m
Short-term timing differences	—	4	—	—
Capital allowances	202	98	—	43
	202	102	—	43

Provision is also not made for any liability which may arise in the event of:

(1) NatWest Group undertakings and properties being realised at balance sheet values. Most of these assets are expected to be retained for the long term. In view of the large number of properties involved and rules relating to roll-over relief, it is considered that no useful purpose would be served by quantifying the potential amounts involved.

(2) The reserves of overseas subsidiary and associated undertakings being remitted. A substantial proportion of such reserves are required to be retained by the overseas undertakings to meet local regulatory requirements.

28 Other provisions

	[illegible] £m	[illegible] £m	[illegible] £m	[illegible] £m
The Group				
At 1 January 2001	130	13	56	199
Provisions utilised	(6)	—	(4)	(10)
Charge to profit and loss account	18	—	10	28
At 31 December 2001	**142**	**13**	**62**	**217**
The Bank				
At 1 January 2001	122	7	20	149
Provisions utilised	(5)	—	(4)	(9)
Charge to profit and loss account	16	—	3	19
At 31 December 2001	**133**	**7**	**19**	**159**

Notes:

(1) NatWest Group has a number of leasehold properties where rents payable and other unavoidable costs exceed the value to NatWest Group. This provision has been discounted due to the long-term nature of certain of these obligations.

(2) NatWest Group operates various unfunded post-retirement benefit plans and provision is made for the expected costs.

(3) Other provisions arise in the normal course of business.

29 Dated loan capital

	2001 £m	2000 £m
The Bank		
£100 million 11.75% subordinated notes 2001 (1)	—	100
US$750 million 9.45% subordinated notes 2001 (1)	—	503
US$250 million floating rate subordinated notes 2002	172	167
US$500 million 9.375% guaranteed capital notes 2003 (2)	345	335
£100 million 12.5% subordinated unsecured loan stock 2004	100	100
US$400 million guaranteed floating rate capital notes 2005	276	268
US$1,000 million 7.375% fixed rate subordinated notes 2009	684	664
US$650 million floating rate subordinated step-up notes 2009 (callable October 2004)	448	434
€600 million 6.0% subordinated notes 2010	362	369
£300 million 8.125% step-up subordinated notes 2011 (callable December 2006)	298	298
€500 million 5.125% subordinated notes 2011	303	308
£300 million 7.875% subordinated notes 2015	296	296
£300 million 6.5% subordinated notes 2021	295	294
	3,579	4,136
Greenwich Capital Holdings Inc.		
US$100 million subordinated loan capital 2001 floating rate notes (3)	—	67
US$105 million subordinated loan capital 2004 floating rate notes (issued April 2001) (4)	72	—
	3,651	4,203
Dated loan capital in issue, by remaining term, repayable		
– in one year or less	**172**	670
– two years or less but over one year	**345**	167
– five years or less but over two years	**1,194**	1,137
– in more than five years	**1,940**	2,229
	3,651	4,203

Notes:

(1) Redeemed on maturity in May 2001.

(2) Loan due by a subsidiary undertaking and on-lent to National Westminster Bank Plc on a subordinated basis. It has been guaranteed as to the payment of principal and interest by National Westminster Bank Plc.

(3) Redeemed on maturity in April 2001.

(4) Net proceeds received US$105 million, £73 million.

(5) In the event of certain changes in the tax laws of the UK, all of the dated loan capital issues are redeemable in whole, but not in part, at the option of the issuer, at the principal amount thereof plus accrued interest, subject to prior approval of the UK Financial Services Authority.

(6) Except as stated above, claims in respect of the NatWest Group's dated loan capital are subordinated to the claims of other creditors. None of NatWest Group's dated loan capital is secured.

(7) Interest payable on NatWest Group floating rate issues is at a margin over London interbank rates. Interest on £900 million, US$1,500 million and €1,100 million of fixed rate issues is swapped into floating rates at a margin over London interbank rates.

30 Undated loan capital

	2001 £m	2000 £m
The Group and the Bank		
US$500 million primary capital floating rate notes, Series A (callable on any interest payment date)	345	335
US$500 million primary capital floating rate notes, Series B (callable on any interest payment date)	345	335
US$500 million primary capital floating rate notes, Series C (callable on any interest payment date)	345	335
US$500 million 7.875% exchangeable capital securities (callable November 2003) (1)	345	335
US$500 million 7.75% reset subordinated notes (callable October 2007)	342	333
€100 million floating rate undated subordinated step-up notes (callable October 2009)	61	62
€400 million 6.625% fixed / floating rate undated subordinated notes (callable October 2009)	242	247
£325 million 7.625% undated subordinated step-up notes (callable January 2010)	323	322
£200 million 7.125% undated subordinated step-up notes (callable October 2022)	197	197
£200 million 11.5% undated subordinated notes (callable December 2022) (2)	200	200
	2,745	2,701

Notes:

(1) Exchangeable at the option of the issuer into 20 million 8.75% (gross) non-cumulative dollar preference shares of US$25 each of National Westminster Bank Plc at any time.

(2) Exchangeable at the option of the issuer into 200 million 8.392% (gross) non-cumulative sterling preference shares of £1 each of National Westminster Bank Plc at any time.

(3) Except as stated above, claims in respect of the NatWest Group's undated loan capital are subordinated to the claims of other creditors. None of the NatWest Group's undated loan capital is secured.

(4) Interest payable on NatWest Group floating rate issues is at a margin over London interbank rates. Interest on £525 million, US$500 million and €400 million of fixed rate issues is swapped into floating rates at a margin over London interbank rates.

31 Called up share capital

	[illegible] £m	[illegible] £m	At 31 December 2001 £m	At 31 December 2001 £m	[illegible] £m
Equity shares					
Ordinary shares of £1 each	1,678	—	1,678	2,250	2,250
Total equity share capital	1,678	—	1,678	2,250	2,250
Non-equity shares					
Non-cumulative preference shares of US$25 each	369	10	379	1,379	1,340
Non-cumulative preference shares of £1 each	140	—	140	1,000	1,000
Total non-equity share capital	509	10	519	2,379	2,340
Total share capital	2,187	10	**2,197**	**4,629**	4,590
US$ exchange rate £1 =	$1.4925		**$1.4498**		

Number of shares – millions	31 December 2001	[illegible] 2000	31 December 2001	[illegible] 2000
Equity shares				
Ordinary shares of £1 each	1,678	1,678	2,250	2,250
Non-equity shares				
Non-cumulative preference shares of US$25 each	22	22	80	80
Non-cumulative preference shares of £1 each	140	140	1,000	1,000

The non-cumulative dollar preference shares, Series B, of US$25 each which carry a gross dividend of 8.75% inclusive of associated tax credit, are redeemable at the option of the Bank exercisable to 9 June 2003, at a premium per share of US$0.30. There is no redemption premium if the date of redemption falls after 9 June 2003.

The non-cumulative dollar preference shares, Series C, of US$25 each which carry a gross dividend of 8.625% inclusive of associated tax credit. They are redeemable at the option of the Bank from 9 April 2002 to 8 April 2008 inclusive, at a premium per share of US$1.50 in 2002 reducing by US$0.30 in each successive year. There is no redemption premium if the date of redemption falls after 8 April 2007.

The 9% non-cumulative sterling preference shares, Series A, of £1 each are non-redeemable.

The holders of sterling and dollar preference shares are entitled, on the winding-up of the Bank, to priority over the ordinary shareholders as regards payment of capital. Otherwise the holders of preference shares are not entitled to any further participation in the profits or assets of the Bank and accordingly these shares are classified as non-equity shares.

The holders of sterling and dollar preference shares are not entitled to receive notice of, attend, or vote at any general meeting unless the business of the meeting includes the consideration of a resolution for the winding-up of the Bank or the sale of the whole of the business of the Bank or any resolution directly affecting any of the special rights or privileges attached to any of the classes of preference shares.

32 Reserves

	[illegible] £m	[illegible] £m
Share premium account		
At 1 January and 31 December 2001	**1,286**	**1,286**
Other reserves		
At 1 January and 31 December 2001	**301**	**298**
Revaluation reserves		
At 1 January 2001	46	2,012
Revaluation of interests in subsidiary undertakings	—	683
Revaluation of premises	41	15
Transfer from profit and loss account	32	35
At 31 December 2001	**119**	**2,745**
Profit and loss account		
At 1 January 2001	3,220	1,071
Currency translation and other adjustments	(4)	2
Retention for the year	989	344
Transfer to revaluation reserve	(32)	(35)
At 31 December 2001	**4,173**	**1,382**

Exchange gains of £2 million (2000 – losses £52 million) arising on foreign currency borrowings have been offset in NatWest Group's profit and loss account reserves against differences on retranslating the net investment in overseas subsidiary and associated undertakings financed by these borrowings.

The tax effect of gains and losses taken directly to reserves was £nil (2000 – £nil).

33 Lease commitments

The annual rental commitments under non-cancellable operating leases were as follows:

	31 December 2001		[illegible]	
	Premises £m	Equipment £m	[illegible] £m	[illegible] £m
The Group				
Expiring within one year	3	—	8	—
Expiring between one and five years	27	—	24	1
Expiring after five years	97	—	98	—
	132	—	130	1
The Bank				
Expiring within one year	**2**	—	3	—
Expiring between one and five years	**6**	—	8	1
Expiring after five years	78	—	81	—
	86	—	92	1

34 Analysis of total assets and liabilities

		[illegible]		[illegible]	
		2001 £m	[illegible] £m	2001 £m	[illegible] £m
Assets:	denominated in sterling	102,033	101,715	90,278	96,490
	denominated in currencies other than sterling	70,545	84,518	22,779	49,196
		172,578	186,233	**113,057**	145,686
Liabilities:	denominated in sterling	**101,200**	99,611	**89,226**	95,901
	denominated in currencies other than sterling	71,378	86,622	23,831	49,785
		172,578	186,233	**113,057**	145,686

35 Derivatives

In the normal course of business, NatWest Group enters into a variety of derivative transactions principally in the foreign exchange and interest rate markets. These are used to provide financial services to customers and to take, hedge and modify positions as part of trading activities. Derivatives are also used to hedge or modify risk exposures arising on the balance sheet from a variety of activities including lending and securities investment.

The principal types of derivative contracts into which NatWest Group enters are described below.

Swaps These are over-the-counter ("OTC") agreements between two parties to exchange periodic payments of interest, or payments for the change in value of a commodity, or related index, over a set period based on notional principal amounts. NatWest Group enters into swap transactions in several markets. Interest rate swaps exchange fixed rates for floating rates of interest based on notional amounts. Basis swaps exchange floating or fixed interest calculated using different bases. Cross currency swaps are the exchange of interest based on notional values of different currencies. Equity and commodity swaps exchange interest for the return on an equity or commodity, or equity or commodity index.

Options Currency and interest rate options confer the right, but not the obligation, on the buyer to receive or pay a specific quantity of an asset or financial instrument for a specified price at or before a specified date. Options may be exchange-traded or OTC agreements. NatWest Group principally buys and sells currency and interest rate options.

Futures and forwards Short term interest rate futures, bond futures and forward foreign exchange contracts are all agreements to deliver, or take delivery of, a specified amount of an asset or financial instrument based on the specified rate, price or index applied against the underlying asset or financial instruments, at a specified date. Futures are exchange-traded at standardised amounts of the underlying asset or financial instruments. Forward contracts are OTC agreements and are principally dealt in by NatWest Group in interest rates as forward rate agreements and in currency as forward foreign exchange contracts.

Collateral NatWest Group may require collateral in respect of the credit risk in derivative transactions. The amount of credit risk is principally the positive fair value of contracts. Collateral may be in the form of cash or, in the form of a lien over a customer's assets entitling NatWest Group to make a claim for current and future liabilities.

Maturity of replacement cost of over-the-counter contracts (trading and non-trading) Replacement cost indicates NatWest Group's derivatives credit exposure. The following table sets forth the gross positive fair values by maturity. It includes the replacement cost of contracts entered into with fellow subsidiary undertakings and the NatWest Group's parent undertaking.

	31 December 2001 Within one year £m	One to five years £m	Over five years £m	Total £m
Before netting:				
Exchange rate contracts	972	252	42	1,266
Interest rate contracts	3,406	1,697	575	5,678
Equity and commodity contracts	10	3	—	13
	4,388	**1,952**	**617**	**6,957**
Banks and investment firms				**5,927**
Others				1,030
				6,957

	[illegible] £m	[illegible] £m	[illegible] £m	[illegible] £m
Before netting:				
Exchange rate contracts	3,029	600	220	3,849
Interest rate contracts	415	1,597	562	2,574
Equity and commodity contracts	37	35	2	74
	3,481	2,232	784	6,497
Banks and investment firms				4,173
Others				2,324
				6,497

35 Derivatives *(continued)*

At 31 December 2001, the potential credit risk exposure, which is after netting and allowing for collateral received, of the NatWest Group's trading and non-trading derivatives, was £1,393 million to banks and investment firms and £957 million to other counterparties.

Exchange-traded contracts are excluded from the above tables. Such contracts generally involve lower credit risk than OTC contracts as they are cleared through exchanges that require margin from participants and the daily settlement of gains and losses.

Trading derivatives The following table shows the fair values of instruments in the derivatives trading portfolio.

	31 December 2001 End of period fair value		[illegible]	
	Assets £m	Liabilities £m	[illegible] £m	[illegible] £m
Exchange rate contracts:				
Spot, forwards and futures	664	568	3,139	3,053
Currency swaps	133	255	536	588
Options purchased	458	—	152	—
Options written	—	458	—	166
	1,255	1,281	3,827	3,807
Interest rate contracts:				
Interest rate swaps	4,650	4,474	2,060	2,460
Options purchased	609	—	245	—
Options written	—	530	—	196
Futures and forwards	43	106	38	59
	5,302	5,210	2,343	2,715
Equity and commodity contracts	13	13	74	63
	6,570	6,504	6,244	6,585
Netting	(3,921)	(3,921)	(3,751)	(3,751)
	2,649	**2,583**	2,493	2,834
Average fair values (before netting):				
Exchange rate contracts	**1,569**	**1,663**	8,921	9,099
Interest rate contracts	**4,166**	**4,653**	15,149	16,077
Equity and commodity contracts	5	5	136	122
	5,740	**6,321**	24,206	25,298

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

The following table analyses, by maturity and contract type, the notional principal amounts of NatWest Group's trading derivatives:

At 31 December 2001	Within one year	One to five years	Over five years	Total
	£bn	£bn	£bn	£bn
Exchange rate contracts:				
Spot, forwards and futures	32.1	4.0	0.1	36.2
Currency swaps	0.3	2.1	1.5	3.9
Options purchased	2.8	0.6	—	3.4
Options written	2.8	0.5	—	3.3
	38.0	**7.2**	**1.6**	**46.8**
Interest rate contracts:				
Interest rate swaps	**61.5**	**114.3**	**83.5**	**259.3**
Options purchased	**51.6**	**24.1**	**2.4**	**78.1**
Options written	**36.8**	**31.8**	**1.8**	**70.4**
Futures and forwards	155.1	19.7	0.2	175.0
	305.0	**189.9**	**87.9**	**582.8**
Equity and commodity contracts	**0.2**	—	—	**0.2**

At 31 December 2000	Within one year	One to five years	Over five years	Total
	£bn	£bn	£bn	£bn
Exchange rate contracts:				
Spot, forwards and futures	157.2	7.8	—	165.0
Currency swaps	1.8	5.0	3.5	10.3
Options purchased	1.3	0.3	0.1	1.7
Options written	2.1	0.2	0.1	2.4
	162.4	13.3	3.7	179.4
Interest rate contracts:				
Interest rate swaps	31.2	61.6	68.5	161.3
Options purchased	30.7	12.9	2.3	45.9
Options written	11.0	9.0	3.8	23.8
Futures and forwards	74.9	38.3	1.2	114.4
	147.8	121.8	75.8	345.4
Equity and commodity contracts	0.3	0.3	—	0.6

35 Derivatives *(continued)*

Non-trading derivatives NatWest Group establishes non-trading derivatives positions externally with third parties and also internally. It should be noted that the following tables include the components of the internal hedging programme that transfers risks to the trading portfolios in NatWest Group or to external third party participants in the derivatives markets.

The following table summarises the fair values and book values of derivatives held for non-trading activities and includes internal trades:

	31 December 2001				[illegible]			
	Fair value		Book value		[illegible]		[illegible]	
	Positive £m	Negative £m	Positive £m	Negative £m	[illegible] £m	[illegible] £m	[illegible] £m	[illegible] £m
Exchange rate contracts:								
Spot, forwards and futures	10	5	2	—	37	32	16	4
Currency swaps and options	11	14	2	—	13	58	9	1
	21	19	4	—	50	90	25	5
Interest rate contracts:								
Interest rate swaps	982	1,068	331	232	931	1,082	627	529
Futures, forwards and options	4	4	—	—	2	2	—	—
	986	1,072	331	232	933	1,084	627	529
Total	**1,007**	**1,091**	**335**	**232**	983	1,174	652	534

The following table analyses, by maturity and contract type, the notional principal amounts of NatWest Group's non-trading derivatives (third party and internal):

At 31 December 2001	Within one year £bn	One to five years £bn	Over five years £bn	Total £bn
Exchange rate contracts:				
Spot, forwards and futures	0.5	—	—	0.5
Currency swaps and options	0.1	0.2	0.4	0.7
	0.6	**0.2**	**0.4**	**1.2**
Interest rate contracts:				
Interest rate swaps	**17.4**	**26.0**	**13.4**	**56.8**
Futures, forwards and options	—	0.4	—	0.4
	17.4	**26.4**	**13.4**	**57.2**

At 31 December 2000	[illegible] £bn	[illegible] £bn	[illegible] £bn	[illegible] £bn
Exchange rate contracts:				
Spot, forwards and futures	2.8	—	—	2.8
Currency swaps and options	0.1	0.7	0.2	1.0
	2.9	0.7	0.2	3.8
Interest rate contracts:				
Interest rate swaps	26.9	31.0	13.9	71.8
Futures, forwards and options	2.6	0.5	—	3.1
	29.5	31.5	13.9	74.9

36 Financial instruments

Risk management is conducted on an overall basis within The Royal Bank of Scotland Group. Therefore in the following discussion on risk management all references to "the Group" or "Group" boards and committees are to The Royal Bank of Scotland Group.

(a) Risk management

The management of risk is fundamental to the Group's operations. It has in place a comprehensive risk management framework comprising:

- The Board providing leadership, setting strategy and monitoring progress.
- Group-wide policies, procedures, processes and systems.
- A comprehensive executive committee structure focusing on risk management at Group level. Where appropriate this is replicated at divisional level.
- Risk management functions that are independent of business management.

The principal risk management executive committees are:

- Group Executive Management Committee ("GEMC"), a sub-committee of the Board.
- Group Risk Management Committee ("GRMC"), a sub-committee of the GEMC.
- Group Credit Committee ("GCC"), a sub-committee of the Board.
- Group Asset and Liability Management Committee ("GALCO"), a sub-committee of GEMC.

The independent Group Risk function is responsible for advising the Board on the operation and effectiveness of the Group's risk management framework. Within each Division independent risk management units operate, reporting to both divisional executive management and the Head of Group Risk. Supporting GALCO and Balance Sheet Management Committee, Group Treasury is responsible for capital raising, liquidity and structural hedging policies and the management of the Group's balance sheet.

The most significant risks managed by the Group are:

- **Enterprise risk:** the risk of loss from inadequate or failed internal processes, people and systems or from external events.
- **Credit risk:** the possibility that the Group will incur losses from the failure of a counterparty to meet its obligations or from changes in the credit quality of a counterparty.
- **Market risk:** the possibility that the Group will incur losses from changes in interest rates, foreign exchange rates or the prices of equity shares and indices, commodities, debt securities and other financial contracts, including derivatives.
- **Liquidity risk:** the risk that the Group will be unable to meet its funding requirements at acceptable rates and appropriate maturities.

Enterprise risk Enterprise risk management is the term used by the Group to describe those risks faced by the Group that are not managed by credit, liquidity, or market risk processes. These risks, which include operational risks, can arise from inadequate or failed internal processes and systems, staff error and management failure and from changes to the legal, regulatory, political or operating environment of any of the territories where the Group operates.

Primary responsibility for the day-to-day management of enterprise risk lies with business unit executive management. They are responsible for establishing and maintaining appropriate policies, procedures, internal controls and business continuity arrangements. Internal controls include physical controls; segregation of duties; appropriate authorisation limits; and procedures to ensure compliance with laws and regulations. Group Risk is responsible for providing assurance to GEMC on the level of risk within the Group and the effectiveness of the Group's enterprise risk management processes. Within each division, there are independent risk management units. Group Audit advises business unit management and the Audit Committee on the quality and effectiveness of the system of internal controls and identifies any significant control deficiencies in the Group.

36 Financial instruments *(continued)*

Credit risk Credit risk is the risk that customers and professional counterparties will not meet their repayment obligations. This risk is managed within the Group's Credit Risk Management Framework comprising:

Executive involvement is through the GRMC. This sub-committee of the GEMC is chaired by the Group Finance Director and includes other Executive Directors. It defines the credit risk strategy of the Group and approves both policy changes and other enhancements to the Credit Risk Management Framework.

The Group's Credit Risk Management Principles set out the minimum standards. These include:

- All credit risk exposures require approval before assumption by the Group. Existing credit risk exposures are monitored and reviewed periodically (usually annually with the lower quality exposures being subject to greater frequency of analysis). These approvals can only be given by duly authorised individuals or bodies (credit committees) or (in the case of retail businesses) through authorised automated processes.

- Credit authority is delegated only to competent individuals who are either independent of business revenue generation or to credit committees. Credit authority is not extended to branch or account relationship managers.

- Credit risk exposures originated anywhere in the Group that create obligations from the same counterparty group are aggregated (subject to de minimis thresholds) in determining the appropriate level of credit approval required and managed together.

- Customers/counterparties are assigned a credit rating, which is mapped to a Group scale that reflects the probability of default.

Approval process Distinct approval processes exist for each of the significant counterparty types to ensure appropriate skills and resources are employed:

- Retail and personal businesses combine industry standard credit scoring techniques, adapted for the Group, that process small scale, large volume credit decisions, with traditional analysis and judgement applying to more significant credit risks.

- Credit approvals for the professional counterparties of Financial Markets are supported by a dedicated Credit function providing expertise in traded markets product risk and specialisation in financial institutions analysis.

- For the Group's Corporate business, the judgement exercised over the credit approvals is supported by the relationship management team; the Analysis Rating and Research unit; and the Credit Risk Department.

The balance between risk and reward is managed by the credit approval process and appropriate risk adjusted return measurement tools.

Portfolio management The business units and GEMC review monthly reports on the Group's portfolios of credit risks. Portfolio information is examined principally by quality ratings but further sub-divided by: major division/subsidiary; by geography; and by industrial sector. Expected loss and other statistical tools are used in trend analysis.

Oversight of delegated authority Group Risk and divisional credit risk functions undertake reviews to provide independent oversight of delegated authority and compliance with Group practice.

Problem exposure management Credit management within each business unit is the responsibility of business unit credit committees. Specialist units within the Group provide intensive management and control over the Group's impaired loans to minimise the incidence of credit losses. In the Group's corporate businesses, problem loans are managed by Specialised Lending Services which provides dedicated resource experienced in corporate restructuring. The Problem Exposure Review Forum reviews all such significant cases annually. This group is chaired by the Group Chief Executive and includes the appropriate Divisional Executive, account managers and credit managers. The Group's Retail businesses operate automated triggers and filters as part of the monthly monitoring of all accounts. Identified problems are then managed through prescribed processes by centralised credit management units.

Market risk The Group is exposed to market risk because of positions held in its treasury and trading portfolios, as well as due to its non-trading activity.

Market risk in the treasury portfolios arises as a consequence of the management of the Group's liquidity requirements. The instruments that give rise to this type of risk are mainly money-market instruments and interest rate derivatives, and the main risk factor is therefore predominantly interest rates.

Market risk in the trading portfolios is mainly associated with the customer-facing trading business, with the market-making operations and with taking positions in tradable securities. The associated instruments are held on the trading (mark-to-market) books, and the main risk factors are interest rates, credit spreads, and foreign exchange.

Non-trading market risk is associated with the mismatches between the re-pricing of the Group's non-trading financial assets and liabilities and with the Group's investment in overseas subsidiaries, associates and branches. Mismatch risk mainly gives rise to interest-rate exposure which is then transferred to the Group's trading or treasury units for management within their approved limits. Overseas investments mainly give rise to structural foreign exchange exposure.

The Group manages the market risk in its trading and treasury portfolios through its Market Risk Management Framework which is based on Value-at-risk ("VaR") limits, together with stress testing, scenario analysis, and position and sensitivity limits. Stress testing measures the impact of abnormal changes in market rates and prices on the fair value of the Group's trading portfolios. GEMC approves the high-level VaR and stress limits for the Group. The Group Risk function, independent from the Group's trading businesses, is responsible for setting and monitoring the adequacy and effectiveness of the Group's market risk management processes.

Value-at-risk – VaR is a technique that produces estimates of the potential negative change in the market value of a portfolio over a specified time horizon at given confidence levels. For internal risk management purposes, the Group's VaR assumes a time horizon of one day and a confidence level of 95%. In other words, a one-day loss greater than VaR is likely to occur on average on only one in every 20 business days. In addition, the Group's VaR is also estimated assuming a 10-day holding period.

The Group uses historical simulation models in computing VaR. This approach, in common with many other VaR models, assumes that risk factor changes observed in the past are a good estimate of those likely to occur in the future and is, therefore, limited by the relevance of the historical data used. The Group's method, however, does not make any assumption about the nature or type of the underlying loss distribution. The Group typically uses the previous two years of market data.

NatWest Group's VaR should be interpreted in light of the limitations of the methodologies used. These limitations include:

- Historical data may not provide the best estimate of the joint distribution of risk factor changes in the future and may fail to capture the risk of possible extreme adverse market movements which have not occurred in the historical window used in the calculations.

- VaR using a one-day time 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.

- NatWest Group largely 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 NatWest Group's intra-day exposure and the VaR for selected portfolios is computed intra-day.

These limitations and the nature of the VaR measure mean that it should not be viewed as a guarantee of NatWest Group's ability to limit its market risk. NatWest 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 twenty business days.

Trading NatWest Group's trading activities comprise: market making – quoting firm bid (buy) and offer (sell) prices with the intention of profiting from the spread between the quotes; customer facilitation – providing products to NatWest Group's client base at competitive prices; arbitrage – entering into offsetting positions in different but closely related markets to profit from market imperfections; and proprietary activity – taking positions in financial instruments as principal to take advantage of anticipated market conditions. Financial instruments held in the NatWest Group's trading portfolios include, but are not limited to, debt securities, loans, deposits, securities sale and repurchase agreements and derivative financial instruments (futures, forwards, swaps and options).

The VaR for NatWest Group's trading portfolios, segregated by type of market risk exposure, is presented in the tables below.

	At 31 December 2001 £m	Year ended 31 December 2001 Maximum £m	Minimum £m	Average £m	[illegible] £m	[illegible] £m	[illegible] £m	[illegible] £m
Interest rate	6.4	12.2	5.0	8.2	6.0	11.3	5.2	9.0
Currency	0.2	2.4	0.1	0.6	1.2	3.1	0.8	1.6
Equity	0.3	1.8	0.2	0.5	1.0	1.0	—	0.2
Diversification effects	(0.8)				(1.6)			
Total	**6.1**	**12.3**	**5.3**	**8.4**	6.6	11.5	6.2	9.3

36 Financial instruments *(continued)*

Non-trading NatWest Group's portfolios of non-trading financial instruments, arising from its treasury activities and its retail and corporate banking operations, mainly comprise loans (including finance leases), debt securities, equity shares, deposits, certificates of deposit and other debt securities issued, loan capital and derivatives (mainly interest rate swaps).

Treasury NatWest Group's treasury activities include its money-market business and the management of internal funds flows with NatWest Group's businesses. Money-market portfolios include cash instruments (principally debt securities, loans and deposits) and related hedging derivatives.

Retail and corporate banking Structural interest rate risk arises in NatWest Group's commercial banking activities where assets and liabilities have different repricing dates. Group 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.

Structural interest rate risk is calculated in each business unit on the basis of establishing the repricing behaviour of each asset and liability product. For many products, the actual interest rate repricing characteristics differ from the contractual repricing.

In most cases, the repricing maturity is then determined by the market interest rate that most closely fits the historical behaviour of the product interest rate. For non-interest bearing current accounts, the repricing maturity is determined by the stability of the portfolio. The repricing maturities used are reviewed by both the Balance Sheet Management Committee and business unit asset and liability committees annually, or more often if appropriate.

A static maturity gap report is produced as at the month-end for each material business unit, in each functional currency based on the behaviouralised repricing for each product. It is Group policy to include non-financial assets and liabilities, mainly tangible fixed assets and NatWest Group's capital and reserves, spread over medium and longer term maturities, in the gap report. This report also includes hedge transactions, principally derivatives. Any residual non-trading interest rate exposures are measured and monitored against limits using a version of the same VaR methodology, but without discount factors, that is used for the NatWest Group's trading portfolios. Limits are also set on the net interest income exposure over 12 months to a 1% parallel movement in interest rates.

Option risk in the non-trading businesses principally occurs in certain fixed rate assets and liabilities. An example is 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 before their maturity. In managing this risk, modelling of how the level of early repayment varies with interest rate movements is undertaken for the major fixed rate books. NatWest Group also seeks to protect itself from early repayment risk through the imposition of early repayment interest charges, where applicable.

Currency risk NatWest 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 and associated undertakings and their related currency funding. The Group's policy in relation to structural positions is to match fund the structural foreign currency exposure arising from net asset value, including goodwill, in overseas subsidiaries, equity accounted investments and branches, except where doing so would materially increase the sensitivity of either NatWest Group's or subsidiary's regulatory capital ratios to currency movements. The policy requires structural foreign exchange positions to be reviewed regularly by GALCO. Gains or losses on foreign currency investments net of any gains or losses on related foreign currency funding or hedges are recognised in the statement of total recognised gains and losses.

The tables below set out NatWest Group's structural foreign currency exposures.

	31 December 2001			31 December 2000		
Functional currency of net investment	Net investments in overseas operations £m	Foreign currency borrowings hedging net investments £m	Structural foreign currency exposures £m	Net investments in overseas operations £m	Foreign currency borrowings hedging net investments £m	Structural foreign currency exposures £m
US dollar	**1,523**	**1,508**	**15**	717	670	47
Euro	**731**	**202**	**529**	750	204	546
Swiss franc	**250**	**243**	**7**	201	193	8
Other non-sterling	**12**	**10**	**2**	82	79	3
Total	**2,516**	**1,963**	**553**	1,750	1,146	604

Equity risk Non-trading equity risk arises principally from NatWest holding of strategic investments. At 31 December 2001, equity shares held as investment securities had a book value of £1,069 million (31 December 2000 – £423 million) and a valuation of £1,031 million (31 December 2000 – £425 million).

Liquidity risk Liquidity management within the Group focuses on the management of both overall balance sheet structure and the control within prudent limits of risk arising from the mismatch of maturities across the balance sheet and from contingent obligations.

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

The short-term maturity structure of NatWest Group's liabilities and assets is also managed on a daily basis to ensure that contractual cashflow obligations, and potential cashflows arising from undrawn commitments and other contingent obligations, may be met as they arise from day to day, either from cash inflows from maturing assets, new borrowing or from the sale or repo of various debt securities held.

That short-term liquidity risk is managed on a consolidated basis for the whole Group excluding the insurance businesses in the UK which are subject to regulatory regimes which necessitate the separate management of liquidity. Internal liquidity mismatch limits are set for all other subsidiaries and non-UK branches which have material local treasury activities in external markets, to ensure those activities do not compromise daily maintenance of the Group's overall liquidity risk position within the Group's policy parameters.

The level of large deposits taken from banks, corporate customers, non-bank financial institutions and other customers, and significant cash outflows therefrom, are also reviewed to monitor concentration and identify any adverse trends. The degree of maturity mismatch within the overall long-term structure of the Group's assets and liabilities is also managed within internal policy limits, to ensure that term asset commitments may be funded on an economic basis over their life. In managing its overall term structure, the Group analyses and takes into account the effect of retail and corporate customer behaviour on actual asset and liability maturities where that differs materially from the underlying contractual maturities.

Policy parameters for the control of overall balance sheet structure and liquidity risk are set by GALCO. Compliance is monitored and co-ordinated by the Group Treasury function both in respect of internal policy and the regulatory requirements of the UK Financial Services Authority.

In addition to their consolidation within the Group's daily liquidity management processes, it is also the responsibility of all Group subsidiaries and branches outside of the UK to ensure compliance with all separate local regulatory liquidity requirements applicable.

The Group also periodically evaluates various scenarios to analyse the potential impact on its liquidity risk. Contingency plans are maintained to anticipate and respond to any approaching or actual material deterioration in market conditions.

Residual value risk NatWest Group's asset finance activities expose it to risk of loss if the value of the physical asset at the end of the financing term is less than that required to achieve the planned return. NatWest Group mitigates this risk through portfolio diversification and active management of asset exposures throughout their life, from pricing through to re-marketing at the end of the transaction term.

(b) Financial instruments Financial instruments are fundamental to NatWest Group's business and constitute the core element of its operations. The risks associated with financial instruments are a significant component of the risks faced by NatWest Group. Financial instruments create, modify or reduce the liquidity, credit and market risks of NatWest Group's balance sheet. Each of these risks and the Group's policies and objectives for managing such risks are discussed above.

The purpose for which NatWest Group holds or issues financial instruments can be classified into five main categories.

- **Customer loans and deposits** Customer loans and deposits (both retail and institutional) form a substantial part of NatWest Group's business. The customer loan portfolio is NatWest Group's largest asset and the interest received from such loans is NatWest Group's core source of income.

  NatWest Group has detailed policies and strategies in respect of its customer loans and deposits which seek to minimise the risks associated with these financial instruments.

36 Financial instruments *(continued)*

- **Investments (equity shares and debt securities)** NatWest Group holds shares and other securities, excluding strategic investments, for use on a continuing basis in NatWest Group's activities. The objective of holding such financial instruments is to generate funds over the term of the investment, in the form of distributions and/or appreciation in value. Funds generated are used in NatWest Group's operations.

- **Finance (money market loans and deposits, loan capital, debt securities in issue, preference shares)** NatWest Group issues financial instruments to fund that portion of NatWest Group's assets not funded by customer deposits. The objective of using financial instruments for financing purposes is to manage NatWest Group's balance sheet in terms of minimising market risk. Responsibility for overseeing and implementing balance sheet management lies with Group Treasury.

- **Trading (foreign exchange, derivatives, debt securities, loans and deposits)** NatWest Group trades in financial instruments for customer facilitation and as principal. The objective of trading in financial instruments is to maximise short term gains for both the customer and/or NatWest Group. Trading activity is restricted to certain areas in NatWest Group and is subject to strict policies and limits. Responsibility for setting trading policies and monitoring adherence thereto lies with Group Risk.

- **Hedging (derivatives, loans and deposits, debt securities)** Where financial instruments form part of NatWest Group's risk management strategy they are classified as hedges. The objective for holding financial instruments as hedges is to match or eliminate the risk arising because of adverse movements in interest rates, exchange rates, credit ratings, equity prices or commodity prices. Derivatives are the main instruments used for hedging.

Funding in the form of loans and deposits and preference shares is used to hedge certain of NatWest Group's equity investments.

Interest rate sensitivity gap The tables below summarise NatWest Group's interest rate sensitivity gap for its non-trading book at 31 December 2001 and 31 December 2000. The tables show the contractual re-pricing for each category of asset, liability and for off-balance sheet items. 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. Contractual repricing terms do not reflect the potential impact of early repayment or withdrawal. Positions may not be reflective of those in subsequent periods. Major changes in positions can be made promptly as market outlooks change. In addition, significant variations in interest rate sensitivity may exist within the re-pricing periods presented and among the currencies in which NatWest Group has interest rate positions.

At 31 December 2001	Within 3 months £m	After 3 months but within 6 months £m	After 6 months but within 1 year £m	After 1 year but within 5 years £m	After 5 years £m	Non-interest bearing funds £m	Banking book total £m	Trading book total £m	Total £m
Assets									
Loans and advances to banks	13,535	4,235	207	30	42	164	18,213	13,056	31,269
Loans and advances to customers	60,745	4,366	3,887	15,631	5,630	1,662	91,921	8,697	100,618
Treasury bills and debt securities	963	303	441	1,255	455	—	3,417	18,193	21,610
Other assets	13	—	—	—	—	10,364	10,377	8,704	19,081
Total assets	75,256	8,904	4,535	16,916	6,127	12,190	123,928	48,650	172,578
Liabilities									
Deposits by banks	14,932	528	323	185	148	687	16,806	8,440	25,246
Customer accounts	66,749	772	345	607	74	19,124	87,671	12,280	99,951
Debt securities in issue	2,298	2,566	144	138	76	—	5,222	—	5,222
Subordinated liabilities	1,715	276	—	1,088	3,245	—	6,324	72	6,396
Other liabilities	10	10	20	37	120	5,847	6,044	21,643	27,687
Shareholders' funds	—	—	—	—	—	7,320	7,320	756	8,076
Internal funding of trading business	(4,448)	(903)	(95)	—	—	(13)	(5,459)	5,459	—
Total liabilities	81,256	3,249	737	2,058	3,663	32,965	123,928	48,650	172,578
Off balance sheet items	(1,618)	(2,221)	(1,327)	401	4,765	—			
Interest rate sensitivity gap	(7,618)	3,434	2,471	15,259	7,229	(20,775)			
Cumulative interest rate sensitivity gap	(7,618)	(4,184)	(1,713)	13,546	20,775				

At 31 December 2000	[illegible] £m	[illegible] £m	[illegible] £m	[illegible] £m	[illegible] £m	[illegible] £m	[illegible] £m	[illegible] £m	[illegible] £m
Assets									
Loans and advances to banks	18,617	2,041	1,652	67	45	723	23,145	11,850	34,995
Loans and advances to customers	56,124	4,349	2,373	16,877	5,184	1,182	86,089	12,735	98,824
Treasury bills and debt securities	6,723	1,720	1,534	1,319	313	—	11,609	25,217	36,826
Other assets	17	—	—	—	—	10,260	10,277	5,311	15,588
Total assets	81,481	8,110	5,559	18,263	5,542	12,165	131,120	55,113	186,233
Liabilities									
Deposits by banks	20,909	388	114	68	—	518	21,997	8,146	30,143
Customer accounts	72,005	1,181	932	1,701	145	17,093	93,057	16,665	109,722
Debt securities in issue	6,736	991	1,017	211	217	—	9,172	—	9,172
Subordinated liabilities	1,668	368	503	770	3,528	—	6,837	67	6,904
Other liabilities	8	7	93	32	—	7,586	7,726	15,526	23,252
Shareholders' funds	—	—	—	—	—	6,289	6,289	751	7,040
Internal funding of trading business	(12,956)	(941)	—	—	—	(61)	(13,958)	13,958	—
Total liabilities	88,370	1,994	2,659	2,782	3,890	31,425	131,120	55,113	186,233
Off balance sheet items	(992)	1,332	1,420	(5,516)	3,756	—			
Interest rate sensitivity gap	(7,881)	7,448	4,320	9,965	5,408	(19,260)			
Cumulative interest rate sensitivity gap	(7,881)	(433)	3,887	13,852	19,260				

The tables do not indicate the effect of interest rate options used by the NatWest Group to hedge its own positions. At 31 December 2001, the NatWest Group had non-trading interest rate options purchased outstanding with a principal amount of £475 million (31 December 2000 – £390 million).

36 Financial instruments *(continued)*

Fair values of financial instruments The following tables set out the fair values of NatWest Group's financial instruments. Fair value is the amount at which an instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market values are used where available; otherwise, fair values have been estimated based on discounted expected future cash flows and other valuation techniques. These techniques involve uncertainties and require assumptions and judgments covering prepayments, credit risk and discount rates. Changes in these assumptions would significantly affect estimated fair values. The fair values reported would not necessarily be realised in an immediate sale; nor are there plans to settle liabilities prior to contractual maturity. As there is a wide range of valuation techniques, it may be inappropriate to compare the NatWest Group's fair value information to independent markets or other financial institutions' fair value.

Trading business		31 December 2001 Carrying amount £m	31 December 2001 Fair value £m	31 December 2000 Carrying amount £m	31 December 2000 Fair value £m
Assets					
Treasury bills and other eligible bills	(a)	1,353	1,353	2,611	2,611
Loans and advances to banks and customers	(a)	21,753	21,753	24,585	24,585
Debt securities	(a)	16,840	16,840	22,606	22,606
Equity shares	(a)	8	8	2	2
Derivatives	(b)	2,649	2,649	2,493	2,493
Liabilities					
Deposits by banks and customer accounts	(c)	20,720	20,720	24,811	24,811
Short positions in securities	(a)	11,435	11,435	9,817	9,817
Subordinated loan capital	(d)	72	72	67	67
Derivatives	(b)	2,583	2,583	2,834	2,834

Banking business		31 December 2001 Carrying amount £m	31 December 2001 Fair value £m	31 December 2000 Carrying amount £m	31 December 2000 Fair value £m
Assets					
Cash and balances at central banks	(a)	1,162	1,162	1,195	1,195
Items in the course of collection from other banks	(a)	2,410	2,410	2,105	2,105
Treasury and other eligible bills	(a)	122	122	402	402
Loans and advances to banks and customers	(e)	110,134	110,633	109,234	109,394
Debt securities	(f)	3,295	3,304	11,207	11,279
Equity shares	(f)	1,065	1,027	424	426
Derivatives – net	(b)	103	(84)	118	(191)
Liabilities					
Items in the course of transmission to other banks	(a)	1,408	1,408	1,100	1,100
Deposits by banks and customer accounts	(c)	104,477	104,480	115,054	115,020
Debt securities in issue	(g)	5,222	5,219	9,172	9,174
Subordinated loan capital	(d)	6,324	6,656	6,837	6,861
Non-equity shareholders' funds	(h)	519	573	509	550

Notes:

(a) Financial assets and financial liabilities carried at fair value or where carrying value approximates to fair value because they are of short maturity or repricing date.

(b) Fair values of derivatives are determined by market prices where available. Otherwise fair value is based on current market information using appropriate valuation models.

(c) The fair value of deposits repayable on demand is equal to their carrying value. The fair values of term deposits and time certificates of deposit are estimated by discounting expected future cash flows using rates currently offered for deposits of similar remaining maturities.

(d) The fair value of loan capital is based on quoted market prices where available. For unquoted loan capital, fair value has been estimated using other valuation techniques.

(e) For loans which reprice frequently or are linked to the NatWest Group's base rate, and for which there has been no significant change in credit risk since inception, carrying value represents a reasonable estimate of fair value. For other loans, fair values are estimated by discounting expected future cash flows, using current interest rates appropriate to the type of loan, and making adjustments for credit risk.

(f) Fair values of marketable securities are based on quoted market prices. Where these are unavailable, fair value is estimated using other valuation techniques.

(g) The fair value of short-term debt securities in issue is approximately equal to their carrying value. The fair value of other debt securities in issue is based on quoted market prices where available or, where these are unavailable, is estimated using other valuation techniques.

(h) The fair value of non-equity shareholders' funds is based on quoted market prices.

(i) Fair values are not given for financial commitments and contingent liabilities. The diversity of the fee structures, the lack of established markets and the difficulty of separating the value of the instruments from the value of the overall relationship involve such uncertainty that it is not meaningful to provide an estimate of their fair value. (The principal amounts of these instruments are given in Note 37).

Hedges As described in the accounting policies on page 8, derivatives and debt securities held for hedging purposes are accounted for in accordance with the treatment of the hedged transaction. As a result any gains or losses on the hedging instrument arising from changes in fair values are not recognised in the profit and loss account immediately but are accounted for in the same manner as the hedged item.

	Year ended 31 December 2001		[illegible]	
	Unrecognised gains and losses	**Deferred gains and losses**	[illegible]	[illegible]
	£m	£m	£m	£m
At 1 January – gains	609	4	549	25
– losses	(918)	(5)	(987)	(22)
	(309)	(1)	(438)	3
Recognised gains that arose in previous years	(171)	(4)	(214)	(24)
Recognised losses that arose in previous years	262	5	252	22
Unrecognised gains and losses arising in the year	37	—	90	—
Unrecognised gains and losses deferred in the year	(6)	6	1	(1)
Exchange and other movements	—	—	—	(1)
At 31 December	**(187)**	**6**	(309)	(1)
Of which – gains	**726**	**42**	609	4
– losses	(913)	(36)	(918)	(5)
	(187)	**6**	(309)	(1)
Gains expected to be recognised in the year to 31 December 2002 (year to 31 December 2001)	**150**	**22**	169	4
Gains expected to be recognised in the year to 31 December 2003 or later (year to 31 December 2002 or later)	576	20	440	—
	726	**42**	609	4
Losses expected to be recognised in the year to 31 December 2002 (year to 31 December 2001)	**(237)**	**(20)**	(256)	(5)
Losses expected to be recognised in the year to 31 December 2003 or later (year to 31 December 2002 or later)	(676)	(16)	(662)	—
	(913)	**(36)**	(918)	(5)

37 Memorandum items

Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2001. Although NatWest 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 NatWest Group's expectation of future losses.

The Group	2001 £m	2000 £m
Contingent liabilities:		
Acceptances and endorsements	380	415
Guarantees and assets pledged as collateral security	1,920	1,786
Other contingent liabilities	4,904	4,954
	7,204	7,155
Commitments:		
Documentary credits and other short-term trade related transactions	**169**	193
Undrawn formal standby facilities, credit lines and other commitments to lend		
– less than one year	**51,075**	46,504
– one year and over	**14,759**	15,360
Other commitments	267	362
	66,270	62,419

The Bank	2001 £m	2000 £m
Contingent liabilities:		
Acceptances and endorsements	365	403
Guarantees and assets pledged as collateral security	3,014	4,085
Other contingent liabilities	4,819	4,997
	8,198	9,485
Commitments:		
Documentary credits and other short-term trade related transactions	**132**	130
Undrawn formal standby facilities, credit lines and other commitments to lend		
– less than one year	**43,937**	40,707
– one year and over	**20,120**	19,768
Other commitments	—	280
	64,189	60,885

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

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

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

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

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

Litigation Members of the NatWest Group are engaged in litigation in the United Kingdom and a number of overseas jurisdictions, including the United States, involving claims by and against them which arise in the ordinary course of business. The directors of the Bank, after reviewing the claims pending and threatened against NatWest Group undertakings and taking into account the advice of the relevant legal advisers, are satisfied that the outcome of these claims will not have a material adverse effect on the net assets of the NatWest Group.

38 Acquisitions

The NatWest Group acquired 100% of the issued share capital of Royal Bank Leasing Limited and its subsidiaries on 2 January 2001 and 100% of the issued share capital of Royal Bank Invoice Finance Limited on 1 January 2001 from The Royal Bank of Scotland plc.

These have been accounted for using acquisition accounting principles. The assets and liabilities at the dates of acquisition and the total consideration paid is set out in the following table.

	Fair value to the NatWest Group £m
Loans and advances to customers	2,526
Other assets, prepayments and accrued income	198
Deposits by banks	(2,028)
Other liabilities, accruals, deferred income and provisions	(476)
Net assets acquired	**220**
Consideration:	
Cash	**220**

The contribution of these acquisitions to the NatWest Group's results for 2001 is shown below:

	£m
Net interest income	37
Non-interest income	19
Total income	56
Operating expenses	(28)
Operating profit	**28**

The post-tax profit for the year to 31 December 2000 was £36 million.

39 Reconciliation of operating profit to net cash outflow from operating activities

	2001 £m	£m
Operating profit	2,549	1,861
Decrease/(increase) in prepayments and accrued income	1,072	(420)
Interest on subordinated liabilities	398	502
(Decrease)/increase in accruals and deferred income	(782)	501
Amortisation of and provisions against investment securities	19	50
Provisions for bad and doubtful debts	510	359
Loans and advances written off net of recoveries	(437)	(474)
Profit on sales of investment securities	(6)	(235)
Profit on sale of tangible fixed assets	(99)	(16)
Share of losses from associated undertakings	3	3
Depreciation and amortisation of tangible and intangible fixed assets	559	586
Provisions for liabilities and charges	28	99
Provisions utilised	(15)	(27)
Increase in value of long-term assurance business	—	(66)
Net cash inflow from trading activities	3,845	2,723
(Increase)/decrease in items in the course of collection	(324)	138
Decrease/(increase) in treasury and other eligible bills	1,538	(433)
Decrease/(increase) in loans and advances to banks	4,453	(4,783)
Increase in loans and advances to customers	(4,074)	(8,654)
Decrease/(increase) in securities	5,050	(4,173)
(Increase)/decrease in other assets	(3,778)	941
Increase/(decrease) in items in the course of transmission	310	(101)
(Decrease)/increase in deposits by banks	(10,027)	2,037
(Decrease)/increase in customer accounts	(2,491)	11,271
Decrease in debt securities in issue	(3,950)	(2,384)
Increase/(decrease) in other liabilities	5,828	(1,556)
Effect of other accruals/deferrals and other non-cash movements	86	(27)
Net cash outflow from operating activities	**(2,534)**	(5,001)

40 Analysis of the net outflow of cash in respect of the purchase of interests in subsidiary undertakings

	2001 £m	[illegible] £m
Cash consideration paid	220	86
Net outflow of cash	**220**	86

41 Sale of subsidiary and associated undertakings

	2001 £m	[illegible] £m
Net assets disposed of	694	946
Profit on disposal	—	1,041
Non-cash consideration	(634)	—
Cash consideration	60	1,987
Cash disposed of	(80)	(21)
Net (outflow)/inflow of cash in respect of disposals (net of expenses)	**(20)**	1,966

42 Analysis of changes in financing during the year

	[illegible]		[illegible]	
	2001 £m	[illegible] £m	2001 £m	[illegible] £m
At 1 January	3,473	3,387	6,904	7,541
Currency translation adjustments	10	29	109	322
Net cash inflow/(outflow) from financing	—	57	(617)	(959)
At 31 December	**3,483**	3,473	**6,396**	6,904

43 Analysis of cash

	2001 £m	[illegible] £m	[illegible] £m
Cash and balances at central banks	1,162	1,195	(33)
Loans and advances to banks repayable on demand	6,395	4,696	1,699
Cash	**7,557**	5,891	1,666

The NatWest Group is required to maintain interest-free deposits with the Bank of England which, at 31 December 2001, amounted to £107 million (31 December 2000 £133 million).

44 Analysis of changes in cash during the year

	2001 £m	[illegible] £m
At 1 January	5,891	4,782
Net cash inflow	1,666	1,109
At 31 December	**7,557**	5,891

45 Segmental analysis

In the tables below, the analyses of net assets are included in compliance with Statement of Standard Accounting Practice 25 'Segmental Reporting'. The fungible nature of liabilities within the banking industry results in allocations of liabilities which, in some cases, are necessarily subjective. The directors believe that it is more meaningful to analyse total assets and the result of this analysis is therefore also included in the tables.

(a) Classes of business

2001	Net interest income £m	Non-interest income £m	Total income £m	Operating expenses £m	Provisions for bad and doubtful debts £m	Amounts written off investments £m	Profit/(loss) on ordinary activities before tax £m
Corporate Banking and Financial Markets	1,213	1,638	2,851	(1,084)	(331)	(6)	1,430
Retail Banking	1,941	875	2,816	(672)	(71)	—	2,073
Retail Direct	288	455	743	(244)	(96)	—	403
Manufacturing	—	—	—	(1,128)	—	—	(1,128)
Wealth Management	308	376	684	(376)	5	—	313
Ulster Bank	351	185	536	(271)	(23)	—	242
Central Items	(180)	174	(6)	(88)	6	—	(88)
Operating profit before goodwill amortisation and restructuring costs	3,921	3,703	7,624	(3,863)	(510)	(6)	3,245
Goodwill amortisation	—	—	—	(18)	—	—	(18)
Restructuring costs	—	—	—	(638)	—	—	(638)
Profit on ordinary activities before tax	**3,921**	**3,703**	**7,624**	**(4,519)**	**(510)**	**(6)**	**2,589**

2000	Net interest income £m	Non-interest income £m	Total income £m	Operating expenses £m	Provisions for bad and doubtful debts £m	Amounts written off investments £m	Profit/(loss) on ordinary activities before tax £m
Corporate Banking and Financial Markets	1,165	1,681	2,846	(1,228)	(129)	(2)	1,487
Retail Banking	1,793	752	2,545	(629)	(42)	—	1,874
Retail Direct	230	401	631	(270)	(118)	—	243
Manufacturing	—	—	—	(1,185)	—	—	(1,185)
Wealth Management	303	392	695	(420)	5	—	280
Ulster Bank	294	172	466	(248)	(19)	—	199
Central Items	(103)	57	(46)	(647)	(56)	—	(749)
Operating profit before goodwill amortisation and restructuring costs	3,682	3,455	7,137	(4,627)	(359)	(2)	2,149
Goodwill amortisation	—	—	—	(27)	—	—	(27)
Restructuring costs	—	(3)	(3)	(524)	—	—	(527)
Exited businesses	(7)	366	359	(81)	—	(12)	266
Operating profit	3,675	3,818	7,493	(5,259)	(359)	(14)	1,861
Profit on disposal of businesses							1,041
Profit on ordinary activities before tax							2,902

	Total assets 2001 £m	Total assets 2000 £m	Net assets 2001 £m	Net assets 2000 £m
Corporate Banking and Financial Markets	108,596	131,289	4,624	4,118
Retail Banking	33,125	30,067	1,844	1,482
Retail Direct	5,733	4,973	432	361
Manufacturing	1,301	1,669	101	120
Wealth Management	10,795	7,138	261	302
Ulster Bank	11,953	11,075	925	809
Central Items	1,076	22	(111)	(152)
	172,578	186,233	**8,076**	7,040

(b) Geographical segments

The geographical analyses in the tables below have been compiled on the basis of location of office where the transactions are recorded.

2001	UK £m	USA £m	Rest of the World £m	Total £m
Interest receivable	6,529	410	915	7,854
Dividend income	13	3	1	17
Fees and commissions receivable	2,748	74	216	3,038
Dealing profits	141	518	60	719
Other operating income	630	—	12	642
Gross income	**10,059**	**1,005**	**1,204**	**12,268**
Profit on ordinary activities before tax	**2,059**	**215**	**315**	**2,589**
Total assets	**112,031**	**45,087**	**15,460**	**172,578**
Net assets	**6,664**	**552**	**860**	**8,076**

2000				
Interest receivable	6,964	546	1,005	8,515
Dividend income	7	7	—	14
Fees and commissions receivable	2,684	64	209	2,957
Dealing profits	271	358	55	684
Other operating income	769	35	(4)	800
Gross income	10,695	1,010	1,265	12,970
Profit on ordinary activities before tax	2,421	227	254	2,902
Total assets	128,868	38,120	19,245	186,233
Net assets	5,799	399	842	7,040

46 Directors' emoluments

The current directors of the Bank are also directors of the parent company and are remunerated for their services to The Royal Bank of Scotland Group plc as a whole. Their emoluments are disclosed in the Report and Accounts of RBSG.

	2001 £000	[illegible] £000
Non-executive directors – emoluments	—	213
Executive directors – emoluments	—	4,157
– received by directors under long-term incentive schemes	—	2,017
	—	6,387
– gains on exercise of share options	—	17
Pensions paid to former directors and their dependents	280	274
	280	6,678

No director (2000 – one) is accruing retirement benefits under defined benefit schemes.

Mr R Delbridge was the highest paid director in the UK in 2000 with emoluments of £1,709,000. That amount included gains on exercise of share options of £1,000.

47 Transactions with directors, officers and others

(a) At 31 December 2001, the amounts outstanding in relation to transactions, arrangements and agreements entered into by authorised institutions in NatWest Group were £37,064,987 in respect of loans to 7 persons who were directors of the Bank (or persons connected with them) at any time during the financial year and £2,969,046 to 32 people who were officers of the Bank at any time during the financial year.

(b) There were no contracts of significance to the business of the Bank and its subsidiaries which subsisted at 31 December, or during the year then ended, in which any director of the Bank had a material interest.

48 Related party transactions

Subsidiary undertakings Details of the principal subsidiary undertakings are shown in Note 19. In accordance with Financial Reporting Standard ("FRS") 8 "Related Party Disclosures", transactions or balances between NatWest Group entities that have been eliminated on consolidation and transactions with RBSG and fellow subsidiaries are not reported.

Associated undertakings The amounts of loans and advances due from associated undertakings at 31 December 2001 are shown in Note 13 and the amounts of deposits received from associated undertakings as at 31 December 2001 are shown in Note 24. These transactions are conducted on similar terms to third party transactions and are not material to the NatWest Group's results or financial condition. Certain subsidiary undertakings in the NatWest Group provide development and other types of capital support to businesses in their roles as providers of finance. These investments are made in the normal course of business and on arms-length terms depending on their nature. In some instances, the investment may extend to ownership or control over 20% or more of the voting rights of the investee company. However, these investments are not considered to give rise to transactions of a materiality requiring disclosure under FRS 8.

Directors, officers and others Details of directors' emoluments are set out in Note 46. Details of transactions with directors, officers and others connected to them are shown in Note 47.

Santander Central Hispano, S.A. ("SCH") Under the terms of an alliance agreement, RBSG and SCH co-operate in certain banking and financial activities in Europe. RBSG holds 2.90% of SCH's capital stock and 10.3 million preference shares of US$25 and SCH holds 8.03% of the RBSG's ordinary shares and in addition has a 50% minority shareholding in The Royal Bank of Scotland (Gibraltar) Limited.

49 Ultimate holding company

The NatWest Group's ultimate holding company and controlling party is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland. This company heads the only group in which the NatWest Group is consolidated. Copies of the consolidated accounts may be obtained from The Secretary, The Royal Bank of Scotland Group plc, 42 St Andrew Square, Edinburgh EH2 2YE.

Five-year financial summary

	2001	[illegible]	[illegible]	[illegible]	[illegible]
	£m	£m	£m	£m	£m
Profit before provisions and exceptional items	3,105	2,234	2,441	2,375	1,844
Provisions for bad and doubtful debts	(510)	(359)	(237)	(499)	(562)
Provisions for contingencies and commitments	—	—	—	—	(5)
Amounts written off fixed asset investments	(6)	(14)	(23)	(28)	(31)
Write-down of finance leases	—	—	—	(55)	(106)
Group operating profit	2,589	1,861	2,181	1,793	1,140
Losses on termination of Equities operations	—	—	(14)	—	(287)
Profit/(loss) on disposal of businesses	—	967	(14)	265	43
Additional consideration on sale of Bancorp	—	74	110	84	79
Profit on ordinary activities before taxation	2,589	2,902	2,263	2,142	975
Tax on profit on ordinary activities	(753)	(694)	(584)	(501)	(309)
Profit on ordinary activities after taxation	**1,836**	2,208	1,679	1,641	666

	£m	£m	£m	£m	£m
Shareholders' funds	8,076	7,040	9,344	8,501	7,987
Minority interests	110	103	96	147	175
Dated loan capital	3,651	4,203	4,311	2,806	2,785
Undated loan capital including convertible debt	2,745	2,701	3,230	2,356	2,360
Capital resources	**14,582**	14,047	16,981	13,810	13,307

	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers	100.6	98.8	89.0	79.0	84.5
Customer accounts – deposits	100.0	109.7	98.1	96.3	89.9
Total assets	172.6	186.2	185.7	186.0	185.5

Number of:					
Bank branches	1,854	1,875	1,957	2,015	2,048
Employees at 31 December	33,000	55,800	67,200	71,700	78,700

Principal offices

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