Pillar 3 Disclosure 2011

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This Pillar 3 Disclosure for 2011 is applicable to Ulster Bank Ireland Ltd ('UBIL'). UBIL is a company incorporated in the Republic of Ireland which forms part of the Ulster Bank Group ('UBG') whose ultimate parent is The Royal Bank of Scotland Group plc ('RBS Group').

Background

The Basel II framework was implemented in the European Union through the Capital Requirements Directive. The framework is based around the following three Pillars:

- *Pillar 1 – Minimum capital requirements:* defines rules for the calculation of credit, market and operational risk. Risk-weighted assets (RWAs) are required to be calculated for each of these three risks. For credit risk the majority of the RBS Group (inclusive of UBIL) uses the advanced internal ratings based approach (IRB) for calculating RWAs.

- *Pillar 2 – Supervisory review process:* requires banks to undertake an Internal Capital Adequacy Assessment Process (ICAAP) for risks either not adequately covered in, or excluded from, Pillar 1. The ICAAP is followed by discussions between UBIL and regulators on the appropriate levels of capital to be maintained for these risks.

  UBIL ICAAP requirements are managed under the governance of the UBG Executive Risk Committee. The key material risks considered under the UBIL ICAAP approach include Concentration Risk, Interest Rate Risk, Operational Risk and Pension Risk. The Pillar 2 capital requirement is approved annually by the UBIL Board of Directors.

- *Pillar 3 – Market discipline:* requires expanded disclosures to allow investors and other market participants to understand the risk profiles of individual banks. The level of risk disclosure reporting has increased within UBIL, as well as the RBS Group, and continues to expand to encourage market transparency and stability.

Basis of disclosure

The Pillar 3 Disclosures being made by UBIL complies with the European Banking Authority (formerly Committee of European Banking Supervisors (CEBS)) requirements for member state disclosures on capital and risk-weighted asset data and Section 6 of the Central Bank of Ireland's (formerly Financial Regulator's) Notice of 28 December 2006 (amended January 2011). A comparative against the UBIL 2010 disclosures has been shown in the tables below.

This disclosure should be read in conjunction with the UBIL 2011 Financial Statements. The management of market risk, interest rate risk, currency rate and liquidity risk is discussed in Note 24 of UBIL's Financial Statements. Additional information on credit risk management is also discussed in these Notes.

In reading this disclosure, the following points must be noted:

- The Basel II disclosures represent a regulatory, rather than an accounting consolidation. Certain aspects of the business (i.e. special purpose vehicles) are included in financial but not regulatory reporting; therefore these disclosures may not be comparable to other external disclosures by UBIL.

- The disclosures relate to the position at 31 December 2011. The comments relate to the business structure, governance and risk management approach at that date.

- The information has not been subject to external audit.

Capital and risk management

The capital and risk management strategy of UBIL is governed by RBS Group's policy. This is set by the RBS Group Board of Directors and implemented by executive management within the RBS Group and UBG. RBS Group aims to maintain appropriate levels of capital, in excess of regulatory requirements, that ensure the capital position remains appropriate given the economic and competitive environment.

UBG plans and manages capital resources as part of the budgeting and planning process. The RWAs by risk type for capital allocation are contained in Table 3 below. The capital plan covers at least a five year period and is regularly reviewed and updated. RBS Group Treasury and the RBS Group Asset and Liability Committee monitor the utilisation of capital by tracking actual capital available and utilisation by legal entity.

The following tables show the capital resources and capital requirements of UBIL under Pillar 3.

Table 1: Composition of regulatory capital

	2010 €m	2011 €m
Tier 1 capital		
Ordinary shareholders' equity	5,309	7,222
Non-controlling interests	59	23
Other adjustments to non-controlling interests for regulatory purposes	(59)	(23)
Regulatory adjustments and deductions	(1,246)	(2,667)
Defined benefit pension adjustment	(37)	(53)
Unrealised losses on AFS debt securities	(4)	(1)
Other adjustments for regulatory purposes	(150)	(922)
50% excess of expected losses over impairment (net of tax)	(1,041)	(1,691)
50% of securitisation positions *(note 1)*	(14)	-
Core Tier 1 capital	4,063	4,555
Total Tier 1 capital	4,063	4,555
Qualifying tier 2 capital	906	882
Undated subordinated debt	113	114
Dated subordinated debt – net of amortisation	787	761
Collectively assessed impairment allowances	6	7
Tier 2 deductions	(906)	(882)
50% of securitisation positions	(14)	-
50% of excess of expected loss over impairment	(1,041)	(1,691)
Other adjustments for regulatory purposes	149	809
Total Tier 2 capital	-	-
Total regulatory capital	4,063	4,555
Total Risk Weighted Assets	40,903	44,391
Total Ratio	9.9%	10.26%

Note:
(1) During the year UBIL bought back certain externally issued mortgage securitisation bonds at a discount to par. The first loss position in the originated securitisation deducted from own funds in 2010, is no longer deducted as significant risk transfer has not been achieved post the buy back. UBIL calculates capital requirements based on the underlying loans.

Table 2: Minimum capital requirements

Risk type	2010 €m	2011 €m
Credit risk	3,128	3,397
Market risk	19	25
Operational risk	125	129
	3,272	3,551

Note:

(1) The standardised approach is used to calculate market risk capital requirements

(2) The Standardised (STA) approach is used to calculate the operational risk capital requirement

Table 3: Risk-weighted assets

Risk type	2010 €m	2011 €m
Credit risk	39,101	42,466
Market Risk	235	309
Operational Risk	1,567	1,616
	40,903	44,391

Table 4: Credit risk minimum capital requirements summary

Credit risk approach	2010 €m	2011 €m
Advanced IRB	2,948	3,197
Standardised	62	67
Counterparty credit risk	118	133
	3,128	3,397

Note:

(1) Credit risk capital requirements include both intra-group and non-customer assets.

Table 5: Credit risk advanced IRB minimum capital requirement

IRB exposure class and sub-class	2010 €m	2011 €m
Central governments and Central Banks	5	9
Institutions	1	2
Corporates	1,674	1,415
Retail	1,228	1,723
Retail SME	157	143
Retail secured by real estate collateral	988	1,505
Qualifying revolving retail exposures	53	51
Other retail exposures	31	25
Equities	1	2
Private equity exposures	1	-
Non-credit obligation assets	39	47
	2,948	3,197

Note:

(1) Excludes counterparty credit risk assets.

Table 6: Credit risk standardised minimum capital requirement

Standardised exposure class	2010 €m	2011 €m
Institutions	12	25
Corporates	30	30
Retail	2	2
Past due	18	11
	62	67

Table 7: Counterparty credit risk and concentration requirement

	2010 €m	2011 €m
Counterparty credit risk	118	133

Table 8: Market risk trading book and other business

	2010 €m	2011 €m
Trading book business		
Interest rate position risk requirement	12	17
Foreign exchange position risk management	7	8
Total (standard method)	19	25