Pillar 3 Disclosure 2012

Ulster Bank Ireland Limited

www.ulsterbank.com

This Pillar 3 Disclosure for 2012 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 UBIL ICAAP, including the Pillar 2 add-on, is informed by the output of the Material Integrated Risk Assessment (MIRA) process. The ICAAP is followed by discussions between UBIL and the Central Bank of Ireland on the appropriate levels of capital to be maintained for these risks. UBIL ICAAP requirements are managed under the governance of the UBG Capital Management Committee and the UBG Executive Risk Committee. The risks currently considered to require Pillar 2 capital 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). Reduced disclosure requirements apply to significant subsidiaries of EU banking parents in accordance with Article 72 (1) of Directive 2006/48/EC. UBIL is required by the Central Bank of Ireland to publish an annual disclosure in accordance with the requirements for significant subsidiaries. A comparative against the UBIL 2011 disclosures has been shown in the tables below.

This disclosure should be read in conjunction with the UBIL 2012 Financial Statements. The management of market risk, interest rate risk, currency rate and liquidity risk is discussed in Note 23 of UBIL’s Financial Statements. Additional information on credit risk management is also discussed in the UBIL 2012 Financial Statements.

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 (e.g. 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 2012. 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 the RBS Group policy framework, which is localised for UBG (including UBIL). The localised Group Policy Framework complies with UBG requirements and is set by the UBIL Board of Directors for UBIL and is implemented by executive management within UBIL. UBIL 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.

UBIL plans and manages capital resources as per the UBG Capital policy. UBIL capital planning is a key 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. The UBG Capital Management Unit (CMU) and the UBG Capital Management Committee (CMC) monitor the utilisation of UBIL capital by tracking the actual capital available on an ongoing basis.

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

Table 1: Composition of regulatory capital

	2011 €m	2012 €m
Tier 1 capital		
Ordinary shareholders' equity	7,222	8,223
Non-controlling interests	23	24
Other adjustments to non-controlling interests for regulatory purposes	(23)	(24)
Regulatory adjustments and deductions	(2,667)	(3,051)
Defined benefit pension adjustment	(53)	(92)
Unrealised losses on AFS debt securities	(1)	0
Other adjustments for regulatory purposes	(113)	(64)
50% excess of expected losses over impairment	(1,691)	(1,873)
Excess on Tier 2 deduction taken to Tier 1	(809)	(1,022)
Core Tier 1 capital	4,555	5,172
Total Tier 1 capital	4,555	5,172
Qualifying tier 2 capital	882	851
Undated subordinated debt	114	115
Dated subordinated debt – net of amortisation	761	736
Collectively assessed impairment allowances	7	0
Tier 2 deductions	(882)	(851)
50% of excess of expected loss over impairment	(1,691)	(1,873)
Other adjustments for regulatory purposes	809	1,022
Total Tier 2 capital	0	0
Total regulatory capital	4,555	5,172
Total Risk Weighted Assets	44,391	45,290
Total Ratio	10.26%	11.42%

Table 1 Notes:

(1) 2012 total expected loss was €14.395bn and total provisions was €10.649bn. 2011 total expected loss was €11,941bn and total provisions was €8.558bn

Table 2: Minimum capital requirements

Risk type	2011 €m	2012 €m
Credit risk	3,397	3,470
Market risk	25	15
Operational risk	129	139
	3,551	3,623

Table 2 Notes:

(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	2011 €m	2012 €m
Credit risk	42,466	43,374
Market Risk	309	181
Operational Risk	1,616	1,735
	44,391	45,290

Table 4: Credit risk minimum capital requirements summary

Credit risk approach	2011 €m	2012 €m
Advanced IRB	3,197	3,183
Standardised	67	118
Counterparty credit risk	133	170
	3,397	3,470

Table 4 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	2011 €m	2012 €m
Central governments and Central Banks	9	9
Institutions	2	5
Corporates	1,415	1,265
Retail	1,723	1,879
Retail SME	143	143
Retail secured by real estate collateral	1,505	1,659
Qualifying revolving retail exposures	51	55
Other retail exposures	25	22
Equities	2	2
Private equity exposures	2	2
Non-credit obligation assets	47	23
	3,197	3,182

Table 5 Note:

(1) Excludes counterparty credit risk assets.

Table 6: Credit risk standardised minimum capital requirement

Standardised exposure class	2011 €m	2012 €m
Institutions	25	61
Corporates	30	44
Retail	2	1
Past due	11	11
	67	118

Table 7: Counterparty credit risk and concentration requirement

	2011 €m	2012 €m
Counterparty credit risk	133	170

Table 8: Market risk trading book and other business

	2011 €m	2012 €m
Trading book business		
Interest rate position risk requirement	17	10
Foreign exchange position risk management	8	5
Total (standard method)	25	15