

**Pillar 3 Disclosure 2009**



Pillar 3 Disclosures 31 December 2009

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2	Background	
2	Basis of disclosure	
2	Capital and risk management	
3	Tables	
	Table 1: Composition of regulatory capital	3
	Table 2: Minimum capital requirements	4
	Table 3: Risk-weighted assets	4
	Table 4: Credit risk minimum capital requirements summary	4
	Table 5: Credit risk advanced IRB minimum capital requirement	4
	Table 6: Credit risk standardised minimum capital requirement	5
	Table 7: Counterparty credit risk and concentration requirement	5
	Table 8: Market risk trading book and other business	5

## Pillar 3 Disclosures 31 December 2009

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This Pillar 3 Disclosure for 2009 is applicable to Ulster Bank Ireland Ltd ('UBIL') and First Active Plc ('FA'). UBIL and FA are companies incorporated in the Republic of Ireland which form 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 and FA) uses the advanced internal ratings based approach (IRB) for calculating RWAs.
- *Pillar 2 – Supervisory review process:* requires banks to undertake an Individual Capital Adequacy Assessment Process (ICAAP) for other risks not covered in Pillar 1. The ICAAP is followed by discussions between UBIL and FA and regulators on the appropriate levels of capital to be maintained for these risks.
- *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 and FA, 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 and FA comply with the Committee of European Banking Supervisors (CEBS) requirements for member state disclosures on capital and risk-weighted asset data and Section 6 of the Financial Regulators Notice of 28 December 2006. Comparatives have not been shown for previous financial years as this is the first year of separate member state disclosure for UBIL and FA.

This disclosure should be read in conjunction with the UBIL and FA 2009 Financial Statements. The management of market risk, interest rate risk, currency rate and liquidity risk is discussed in Note 24 and Note 23 of UBIL's and FA's Financial Statements, respectively. 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 and FA.
- The disclosures relate to the position at 31 December 2009. 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 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 capital plan covers at least a two 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 and FA respectively under Pillar 3.

## Pillar 3 Disclosures 31 December 2009

Table 1: Composition of regulatory capital

	Ulster Bank	
	Ireland Ltd €m	First Active Plc €m
<b>Tier 1</b>		
Ordinary shareholders' equity	4,186	566
Minority interests	-	-
Adjustment for:		
Unrealised gains on available-for-sale debt securities	(4)	-
Reserves arising from revaluation of property and unrealised gains on available-for-sale equities	(19)	(9)
Other regulatory adjustments	12	25
Tier 1 deductions		
Expected loss 50:50	(1,510)	(106)
Securitisation position 50:50	-	(10)
<b>Core Tier 1 capital</b>	<b>2,665</b>	<b>466</b>
<b>Total Tier 1 capital</b>	<b>2,665</b>	<b>466</b>
<b>Tier 2</b>		
Reserves arising from revaluation of property and unrealised gains on available-for-sale equities	19	10
Perpetual subordinated debt	9	47
Term subordinated debt	530	142
Less deductions from Tier 2 capital	(558)	(115)
<b>Total Tier 2 capital</b>	<b>-</b>	<b>84</b>
<b>Total regulatory capital</b>	<b>2,665</b>	<b>550</b>
<b>Risk-weighted assets</b>	<b>29,139</b>	<b>6,087</b>
<b>Total Ratio</b>	<b>9.1%</b>	<b>9.0%</b>

## Pillar 3 Disclosures 31 December 2009

Table 2: Minimum capital requirements

Risk type	Ulster Bank	
	Ireland Ltd €m	First Active Plc €m
Credit risk	2,207	462
Market risk	9	-
Operational risk	116	25
	2,332	487

Table 3: Risk-weighted assets

Risk type	Ulster Bank	
	Ireland Ltd €m	First Active Plc €m
Credit risk	27,589	5,781
Market risk	106	1
Operational risk	1,444	305
	29,139	6,087

Table 4: Credit risk minimum capital requirements summary

Credit risk approach	Ulster Bank	
	Ireland Ltd €m	First Active Plc €m
Advanced IRB	2,043	452
Standardised	95	10
Counterparty credit risk	69	-
	2,207	462

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	Ulster Bank	
	Ireland Ltd €m	First Active Plc €m
Central governments and central banks	2	-
Institutions	2	-
Corporates	1,570	38
Retail	445	409
Retail SME	173	-
Retail secured by real estate collateral	173	407
Qualifying revolving retail exposures	56	2
Other retail exposures	43	-
Equities	1	-
Private equity exposures	1	-
Non-credit obligation assets	23	5
	2,043	452

Note:

- (1) Excludes counterparty credit risk assets.

## Pillar 3 Disclosures 31 December 2009

Table 6: Credit risk standardised minimum capital requirement

Standardised exposure class	Ulster Bank Ireland Ltd	First Active Plc
	€m	€m
Institutions	80	8
Corporates	14	-
Retail	1	2
	95	10

Table 7: Counterparty credit risk and concentration requirement

	Ulster Bank Ireland Ltd	First Active Plc
	€m	€m
Counterparty credit risk	69	-

Table 8: Market risk trading book and other business

	Ulster Bank Ireland Ltd	First Active Plc
	€m	€m
Trading book business		
Interest rate position risk requirement	8	-
Foreign exchange position risk management	1	-
Total (standard method)	9	-