

Pillar 3 Disclosure 2010



Pillar 3 Disclosures 31 December 2010

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This Pillar 3 Disclosure for 2010 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 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. A comparative against the UBIL and First Active Plc. ("FA") 2009 disclosures has been shown in the tables below. UBIL and First Active Plc. ("FA") were reported separately in the 2009 disclosures. The banking business of FA was transferred to UBIL on the 15th of

February 2010 via a statutory scheme under Part III of the Central Bank Act, 1971 and as such it is incorporated in the UBIL 2010 disclosures. In order to provide a more meaningful basis of comparison the UBIL and FA 2009 disclosure amounts have been aggregated.

This disclosure should be read in conjunction with the UBIL 2010 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 2010. 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. Capital is allocated from the RBS Group based on risk weighted assets ("RWAs") and their associated regulatory deductions. The RWAs by risk type for capital allocation are contained in Table 3 below. 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 under Pillar 3.

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Table 1: Composition of regulatory capital

	2009 €m	2010 €m
Tier 1 capital		
Ordinary shareholders' equity	4,752	5,309
Non-controlling interests	-	59
Adjustment for:		
goodwill and other intangible assets - continuing businesses	-	-
goodwill and other intangible assets - discontinued businesses	-	-
unrealised (gains)/losses on available-for-sale (AFS) debt securities	(4)	(4)
reserves : revaluation of property and unrealised gains on AFS equities	(28)	-
reallocation of preference shares & innovative securities	-	-
other regulatory adjustments	37	(96)
Tier 1 deductions	(1,626)	(1,205)
Core Tier 1 capital	3,131	4,063
Preference Shares	-	-
Total Tier 1 capital	3,131	4,063
Tier 2 capital		
Innovative tier 1 securities	-	-
Reserves : revaluation of property and unrealised gains on AFS equities	29	-
Collective impairment allowances	-	6
Perpetual subordinated debt	56	113
Term subordinated debt	672	787
Non-controlling and other interests in Tier 2 capital	-	-
Tier 2 deductions	(673)	(906)
Total qualifying Tier 2 capital	-	-
Total regulatory capital	3,215	4,063
Total Risk Weighted Assets	35,226	40,903
Total Ratio	9.1%	9.9%

Note:

(1) Tier 1 and Tier 2 deductions include: IRB provision shortfall of €2,083 million and securitisation exposures not included in risk-weighted assets of €28 million.

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Table 2: Minimum capital requirements

Risk type	2009 €m	2010 €m
Credit risk	2,669	3,128
Market risk	9	19
Operational risk	141	125
	2,819	3,272

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	2009 €m	2010 €m
Credit risk	33,370	39,101
Market Risk	107	235
Operational Risk	1,749	1,567
	35,226	40,903

Table 4: Credit risk minimum capital requirements summary

Credit risk approach	2009 €m	2010 €m
Advanced IRB	2,495	2,948
Standardised	105	62
Counterparty credit risk	69	118
	2,669	3,128

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	2009 €m	2010 €m
Central governments and Central Banks	2	5
Institutions	2	1
Corporates	1,608	1,674
Retail	854	1,228
Retail SME	173	157
Retail secured by real estate collateral	580	988
Qualifying revolving retail exposures	58	53
Other retail exposures	43	31
Equities	1	1
Private equity exposures	1	1
Non-credit obligation assets	28	39
	2,495	2,948

Note:

- (1) Excludes counterparty credit risk assets.

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Table 6: Credit risk standardised minimum capital requirement

Standardised exposure class	2009 €m	2010 €m
Institutions	88	12
Corporates	14	30
Retail	3	2
Past due	-	18
	105	62

Table 7: Counterparty credit risk and concentration requirement

	2009 €m	2010 €m
Counterparty credit risk	69	118

Table 8: Market risk trading book and other business

	2009 €m	2010 €m
Trading book business		
Interest rate position risk requirement	8	12
Foreign exchange position risk management	1	7
Total (standard method)	9	19