

Registered Number: 25766

ULSTER BANK IRELAND LIMITED

REPORT OF DIRECTORS AND FINANCIAL STATEMENTS

31 December 2011

ULSTER BANK IRELAND LIMITED

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ULSTER BANK IRELAND LIMITED

BOARD OF DIRECTORS AND SECRETARIES

Directors

J Brown (Executive Director)
S Dorgan (Chairman)
E Gleeson (Independent Non-Executive Director)
C McManus (Executive Director)
P Nolan (Independent Non-Executive Director)
B Rosewell (Independent Non-Executive Director)

Registered Office

Ulster Bank Group Centre
George's Quay
Dublin 2

Secretaries

R Curran
E Dignam (Deputy Secretary)

Auditors

Deloitte & Touche
Chartered Accountants & Registered Auditors
Deloitte and Touche House
Earlsfort Terrace
Dublin 2

ULSTER BANK IRELAND LIMITED

REPORT OF THE DIRECTORS

The directors of Ulster Bank Ireland Limited ("the Bank") present their report, together with audited financial statements of the Bank and its subsidiaries (together "the Group") for the year ended 31 December 2011. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

ACTIVITIES AND BUSINESS REVIEW

Principal activities

The Bank is a leading retail and commercial bank in the Republic of Ireland. It provides a comprehensive range of financial services through both its Retail Markets division, which has a network of branches and operates in the personal and bancassurance sectors, and its Corporate Markets division, which provides services to business customers, corporate customers and institutional markets.

Business review

The Group's performance continues to be affected by economic conditions across the Republic of Ireland and intense competition within the banking market, particularly for deposits. The economic environment remains challenging with heightened uncertainty arising from concerns regarding the future economic outlook in the Eurozone. The Group's financial performance reflects this with charges for bad and non performing loans continuing to have a negative impact.

In response, the Group has developed a new strategy to strengthen its underlying business, support its customers and return the Group to sustainable profitability. In its ambition to become the compelling choice for banking on the island of Ireland, the Group has initiated a number of actions to simplify its operating model, to better serve its customers, reduce operating costs across the Group and continue to build on commitments made to its customers through its 'Helpful Banking' campaign.

Financial performance

The Group's financial performance is presented in the Consolidated Income Statement on page 9.

Net interest income decreased to €713m (2010: €862m) in the year as a result of higher funding costs coupled with a reduction in the loan book.

Non interest income increased from €127m in 2010 to €422m, primarily attributable to the buy-back of certain externally issued mortgage securitisation bonds at discount to par.

Operating expenses decreased by 5% on prior year, reflecting the benefit of the Group's cost initiatives.

Impairment losses have decreased from €3,752m to €3,413m but remain at a heightened level due to ongoing challenging economic conditions.

At the end of the year the total assets of the Group were €44,636m (2010: €50,067m).

Risk management

The Group's future performance and results could be materially different from expected results depending on the outcome of certain potential risks and uncertainties.

The major risks associated with the Group's businesses are market, liquidity, credit, regulatory, reputational, operational and sovereign risk. The Group has established a comprehensive framework for managing these risks, which is continually evolving as the Group's business activities change in response to market, credit, product and other developments. The Group is also exposed to risks from its defined benefit pension scheme. The Group's policies for managing each of these risks and its exposure thereto are detailed in Note 24 to the financial statements.

Accounting policies

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Details of the Group's critical accounting policies and key sources of accounting judgements are included in the Accounting Policies on pages 22 to 25.

Outlook

The directors remain confident that the Bank is well positioned to meet the challenges of the external market and customer environment. They consider the Group and Bank to be in a stable financial position and confirm that it has adequate resources to continue in business for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

ULSTER BANK IRELAND LIMITED

REPORT OF THE DIRECTORS (continued)

Share capital

Details of the share capital can be found in Note 21 to the financial statements.

Directors and secretaries

The names of the current members of the Board of Directors are shown on page 1. From 1 January 2011 to date the following changes have taken place:

<u>Directors</u>	<u>Appointed</u>	<u>Resigned</u>
B Rosewell	11 January 2012	
C McManus	28 March 2011	
J Brown	11 April 2011	
M Bamber		28 February 2011
S Murphy		28 February 2011
C McCarthy		8 April 2011
R Gallagher		30 September 2011
T Bowen		31 December 2011
 <u>Deputy Secretary</u>		
E Dignam	1 January 2012	
 <u>Assistant Secretary</u>		
J Gribbon		30 June 2011

In accordance with the Articles of Association, the directors are not required to retire by rotation.

Interests of directors and secretaries

At 31 December 2011 the directors and secretaries of the Bank had no beneficial interests in the shares or debentures of The Royal Bank of Scotland Group ("RBS Group") companies other than that disclosed in Note 33 to the financial statements.

Books of account

The measures taken by the directors to ensure compliance with the Bank's obligation to keep proper books of account, under Section 202 of the Companies Act 1990, are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at the offices of the Bank at Ulster Bank Group Centre, George's Quay, Dublin 2 and Ulster Bank Group Head Office, Donegall Square East, Belfast, BT1 5UB.

Staff involvement

The Group values the input of its employees and actively seeks opportunities to engage with staff at all levels. The annual survey of employee opinions known as Yourfeedback provides valuable data to decision makers across the Group in support of improving employee engagement and satisfaction.

Employees across the Group continued to give generously, both financially and through volunteering, to many community and other worthy causes. Such giving is encouraged by the Group through its use of matched funding and staff charity funds which support worthy causes at local, national and international level.

The Group is represented on the European Employee Communication Council which facilitates dialogue amongst employee representatives in the European Economic Area.

Employment of disabled persons

The Group's policy is that disabled persons are considered for employment and subsequent training, career development and promotion based on merit. If members of staff become disabled, it is the Group's policy, wherever possible, to retain them in their existing jobs or to re-deploy them in other suitable alternative duties.

ULSTER BANK IRELAND LIMITED

REPORT OF THE DIRECTORS (continued)

Diversity

The delivery of an effective equal opportunities policy is a natural and integral part of good management practice. A key element of the Group's policy is to ensure staff know about development opportunities and are encouraged to develop to their full potential. It is the Group's policy to comply with the relevant provisions of legislation and have regard to Codes of Practice affecting employment practices.

The Group's commitment to diversity underpins its desire to be the financial services provider of choice for its customers and to be the employer of choice for its people. The Group will recruit, retain, develop and promote people based solely on merit regardless of their disability, gender, political opinion, race, religious belief or any other characteristics.

Safety, health and wellbeing

The Group recognises that people are key to the success of its business. The vision for its employees, peers and communities to recognise that the Group's pride and performance in safety, health and wellbeing adds value to them and to the Group's business globally. Industry leading expertise, innovative tools, products and services and a practical approach to implementation are combined to ensure improved performance continues to be delivered.

During 2011, the Group continued to focus on compliance, governance and managing risks across the Group. Opportunities to improve the efficiency and effectiveness of safety, health and wellbeing management policies and services were sought and maximised.

Policy and practice on payment of creditors

The Group is committed to maintaining a normal commercial relationship with its suppliers. Consequently, it is the Group's policy to negotiate and agree terms and conditions with its suppliers, 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 2011, the amount owed to trade creditors by the RBS Group, expressed as a proportion of the amounts invoiced by suppliers during the year then ended, was 27 days (2010: 29 days).

Charitable contributions

During the year the Group made charitable and community investment donations in the Republic of Ireland totalling €594,985 (2010: €429,968).

Political donations

During the year the Group did not make any political donations (2010: €nil).

Branches outside the Republic of Ireland

The Bank has a branch, within the meaning of European Communities (Credit Institutions: Accounts) Regulations, 1992, in Northern Ireland.

Compliance with the Corporate Governance Code for Credit Institutions and Insurance Undertakings

In November 2010 the Central Bank of Ireland issued a Corporate Governance Code for Credit Institutions and Insurance Undertakings ("the Code"), effective from 1 January 2011. This imposes minimum core standards upon all credit institutions and insurance undertakings with additional requirements upon entities which are designated as major institutions. The Bank has been designated as a major institution and is therefore subject to the requirements for major institutions included within Appendix 1 of the Code.

ULSTER BANK IRELAND LIMITED

REPORT OF THE DIRECTORS (continued)

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, including potential risks and uncertainties, are set out in the Business review on page 2.

The financial position of the Group, its cash flows, liquidity position, capital and funding sources are set out in the financial statements. In addition, Notes 24 and 25 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to market, credit and liquidity risk.

The Group is part of The Royal Bank of Scotland Group plc ("RBS Group") and receives ongoing capital, funding and liquidity resources which, coupled with other sources of funding and liquidity, enable the Group to meet its obligations as they fall due. Other sources of funding and liquidity include retail, wholesale and central bank liquidity facilities.

The directors are satisfied that the Group will continue to receive support from the RBS Group by way of capital, funding and liquidity facilities. After considering the Group's financial outlook and related funding and capital needs, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Investments in Group undertakings

The investments in Group undertakings are shown in Note 12. All of these companies are included in the Group's consolidated financial statements and all have an accounting reference date of 31 December.

Dividends

The directors do not recommend the payment of a dividend (2010: €nil).

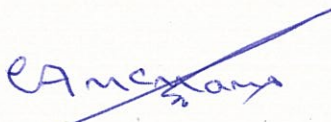
Post balance sheet events

On 12 January 2012, Ulster Bank Group announced up to 950 proposed job losses resulting from a strategic review of its future operating model, up to 600 of which are expected to impact Ulster Bank Ireland Limited. Whilst the transition is likely to take up to two years, the majority of proposed job losses are expected to take effect during 2012. Further details are contained in Note 36 to the financial statements.

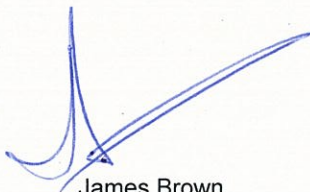
Auditors

The auditors, Deloitte & Touche, Chartered Accountants, will continue in office in accordance with Section 160(2) of the Companies Act 1963.

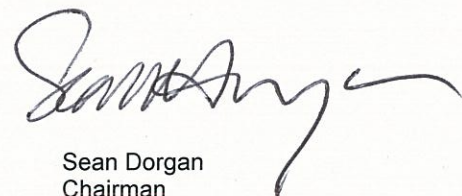
Signed on behalf of the Board:



Charles McManus
Chief Financial Officer



James Brown
Group Chief Executive



Sean Dorgan
Chairman

22 March 2012

ULSTER BANK IRELAND LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Irish company law requires the directors to prepare the Group and Bank's financial statements for each financial year which give a true and fair view of the state of affairs of the Group and Bank and of the profit or loss of the Group and Bank for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Group and Bank's financial statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Bank will continue in business.

The directors are responsible for keeping adequate books of account which disclose with reasonable accuracy at any time the financial position of the Group and Bank and to enable them to ensure that the financial statements are prepared in accordance with IFRS as adopted by the EU and comply with Irish statute comprising the Companies Acts, 1963 to 2009 and European Communities (Credit Institutions: Accounts) Regulations, 1992. They are also responsible for safeguarding the assets of the Group and Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

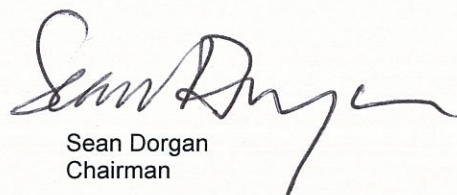
Signed on behalf of the Board:



Charles McManus
Chief Financial Officer



James Brown
Group Chief Executive



Sean Dorgan
Chairman

22 March 2012

ULSTER BANK IRELAND LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ULSTER BANK IRELAND LIMITED

We have audited the financial statements of Ulster Bank Ireland Limited ("the Bank") and its subsidiaries (together "the Group") for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Balance Sheets, the Statement of Changes in Equity, the Cash Flow Statement, the Accounting Policies and the related Notes 1 to 37. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Bank's members, as a body, in accordance with Section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the financial statements, including the preparation of the Group Financial Statements and the Bank Financial Statements, as set out in the Statement of Directors' Responsibilities, in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

Our responsibility, as independent auditor, is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group Financial Statements and the Bank Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2009 and the European Communities (Credit Institutions: Accounts) Regulations, 1992. We also report to you whether in our opinion: proper books of account have been kept by the Bank; proper returns adequate for our audit have been received from branches of the Bank not visited by us; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Bank; and whether the information given in the Report of the Directors is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purpose of our audit and whether the Bank's balance sheet and income statement are in agreement with the books of account and returns.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatement within it. Our responsibilities do not extend to other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 Bank's and the Group's circumstances, 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 evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the affairs of the Group as at 31 December 2011 and of its loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009 and the European Communities (Credit Institutions: Accounts) Regulations, 1992;
- the Bank Financial Statements give a true and fair view, in accordance with IFRS, as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2009, of the state of the Bank affairs as at 31 December 2011 and of its loss for the year then ended; and
- the Bank financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009 and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

ULSTER BANK IRELAND LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ULSTER BANK IRELAND LIMITED (continued)

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper books of account have been kept by the Bank and proper returns adequate for our audit have been received from branches of the Bank not visited by us. The Bank's balance sheet and its income statement is in agreement with the books of account.

In our opinion the information given in the Report of the Directors is consistent with the financial statements.

The net assets of the Bank, as stated in the Bank balance sheet are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2011 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Bank.



Martin Reilly (Senior Statutory Auditor)
For and on behalf of Deloitte & Touche
Chartered Accountants and Statutory Auditors
Dublin, Ireland

22 March 2012


ULSTER BANK IRELAND LIMITED

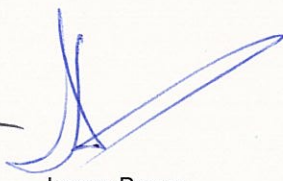
CONSOLIDATED INCOME STATEMENT for the year ended 31 December 2011

	Note	2011 €m	2010 €m
Interest receivable		1,458	1,581
Interest payable		(745)	(719)
Net interest income	1	713	862
Fees and commission receivable		92	113
Fees and commission payable		(4)	(11)
Income/(expense) from trading activities		39	(2)
Other operating income		295	27
Non-interest income	2	422	127
Total income		1,135	989
Operating expenses	3	(533)	(559)
Operating profit before impairment losses		602	430
Impairment losses on loans and advances	9	(3,413)	(3,752)
Operating loss before tax		(2,811)	(3,322)
Tax credit	6	114	83
Loss for the year		(2,697)	(3,239)
Profit/(loss) attributable to:			
Non-controlling interests		9	(9)
Ordinary shareholders		(2,706)	(3,230)
		(2,697)	(3,239)

The accompanying accounting policies on pages 14 to 25 and the notes on pages 26 to 82 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 22 March 2012 and signed on its behalf by:


Sean Dorgan
Chairman


James Brown
Group Chief Executive


Charles McManus
Chief Financial Officer


Rachel Curran
Company Secretary

ULSTER BANK IRELAND LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2011

	2011 €m	2010 €m
Loss for the year	(2,697)	(3,239)
Other comprehensive income:		
Fair value losses on available-for-sale financial assets	(3)	-
Cash flow hedges	-	(2)
Exchange differences on translation of foreign operations	(1)	(8)
Actuarial gains on defined benefit plans and other movements	8	9
Other comprehensive loss	4	(1)
Total comprehensive loss for the year	(2,693)	(3,240)
Attributable to:		
Non-controlling interests	9	(9)
Ordinary shareholders	(2,702)	(3,231)
	(2,693)	(3,240)

The accompanying accounting policies on pages 14 to 25 and the notes on pages 26 to 82 form an integral part of these financial statements.

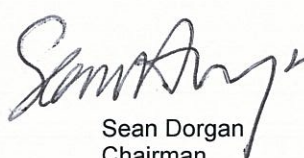
ULSTER BANK IRELAND LIMITED

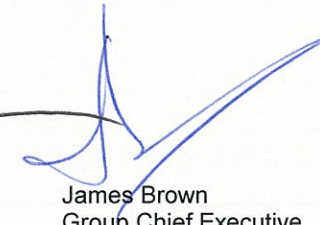
BALANCE SHEETS as at 31 December 2011

		Group		Bank	
	Note	2011 €m	2010 €m	2011 €m	Restated 2010 €m
Assets					
Cash and balances at central banks	8	272	279	272	279
Loans and advances to banks	8	3,404	3,651	2,274	3,578
Loans and advances to customers	8	39,013	44,105	41,277	45,219
Debt securities	8,10	32	213	12,580	15,455
Equity shares	8,11	6	4	6	4
Investments in Group undertakings	8,12	-	-	191	191
Derivatives	8,15	1,245	1,157	1,125	1,044
Property, plant and equipment	8,14	265	359	184	201
Prepayments, accrued income and other assets	8,16	47	35	30	23
Retirement benefit assets	4,8	11	-	11	-
Deferred taxation	8,19	341	263	341	263
Assets held for sale	8,17	-	1	-	1
Total assets		44,636	50,067	58,291	66,258
Liabilities					
Deposits by banks	8	12,306	14,439	12,319	14,584
Customer accounts	8	17,966	21,172	36,390	43,678
Debt securities in issue	8	4,175	6,114	23	198
Derivatives	8,15	1,673	1,644	1,325	1,261
Accruals, deferred income and other liabilities	8,18	324	383	310	395
Retirement benefit liabilities	4,8	-	8	-	8
Deferred taxation	8,19	1	5	1	5
Subordinated liabilities	8,20	946	934	946	934
Total liabilities		37,391	44,699	51,314	61,063
Equity					
Non-controlling interests		23	59	-	-
Shareholders' equity:					
Called up share capital	21	3,592	3,592	3,592	3,592
Reserves		3,630	1,717	3,385	1,603
Total equity		7,245	5,368	6,977	5,195
Total liabilities and equity		44,636	50,067	58,291	66,258

The accompanying accounting policies on pages 14 to 25 and the notes on pages 26 to 82 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 22 March 2012 and signed on its behalf by:


Sean Dorgan
Chairman


James Brown
Group Chief Executive


Charles McManus
Chief Financial Officer


Rachel Curran
Company Secretary

ULSTER BANK IRELAND LIMITED

STATEMENTS OF CHANGES IN EQUITY for the year ended 31 December 2011

	Group		Bank	
	2011 €m	2010 €m	2011 €m	2010 €m
Called up share capital				
At 1 January	3,592	3,582	3,592	3,582
Shares issued during the year	-	10	-	10
At 31 December	3,592	3,592	3,592	3,592
Share premium account				
At 1 January	1,142	811	1,142	811
On shares issued during the year	-	331	-	331
At 31 December	1,142	1,142	1,142	1,142
Available-for-sale reserve				
At 1 January	4	4	4	4
Unrealised losses in the year	(3)	-	(3)	-
At 31 December	1	4	1	4
Cash flow hedging reserve				
At 1 January	-	2	-	2
Amount recognised in equity during the year	-	(8)	-	(8)
Amount transferred from equity to earnings in the year	-	6	-	6
At 31 December	-	-	-	-
Foreign exchange reserve				
At 1 January	14	22	1	1
Retranslation of net assets	(1)	(8)	-	-
At 31 December	13	14	1	1
Retained earnings				
At 1 January	(3,955)	(734)	(4,056)	(810)
Actuarial gains/(losses) on defined benefit plans and other movements	8	9	(1)	(1)
Loss attributable to ordinary shareholders	(2,706)	(3,230)	(2,829)	(3,245)
At 31 December	(6,653)	(3,955)	(6,886)	(4,056)
Capital contribution				
At 1 January	4,512	500	4,512	500
Capital contribution received in the year	4,615	4,012	4,615	4,012
At 31 December	9,127	4,512	9,127	4,512
Shareholders' equity at 31 December	7,222	5,309	6,977	5,195
Non-controlling interests				
At 1 January	59	-	-	-
(Decrease)/increase in loans classed as equity	(45)	68	-	-
Profit/(loss) attributable to non-controlling interests	9	(9)	-	-
At 31 December	23	59	-	-
Total equity at 31 December	7,245	5,368	6,977	5,195
Total comprehensive loss recognised in the Statement of Changes in Equity is attributable as follows:				
Non-controlling interests	9	(9)	-	-
Ordinary shareholders	(2,702)	(3,231)	(2,833)	(3,248)
	(2,693)	(3,240)	(2,833)	(3,248)

The accompanying accounting policies on pages 14 to 25 and the notes on pages 26 to 82 form an integral part of these financial statements.

ULSTER BANK IRELAND LIMITED

CASH FLOW STATEMENTS for the year ended 31 December 2011

	Note	Group		Bank	
		2011 €m	2010 €m	2011 €m	2010 €m
Operating activities					
Operating loss before tax		(2,811)	(3,322)	(2,945)	(3,324)
Adjustments for:					
Depreciation and amortisation		23	23	20	22
Interest on subordinated liabilities		35	16	19	16
Charge for defined benefit pension schemes		23	28	23	28
Loans and advances written off net of recoveries		3,235	3,714	3,235	3,714
Elimination of foreign exchange differences		32	-	34	-
Other non-cash items		(267)	162	(292)	82
Net cash flows from trading activities	27	270	621	94	538
Cash contribution to defined benefit pension schemes		(42)	(53)	(42)	(53)
Changes in operating assets and liabilities		(5,664)	(11,989)	(6,554)	(8,387)
Net cash flows from operating activities before tax		(5,436)	(11,421)	(6,502)	(7,902)
Income taxes received		40	34	15	34
Net cash flows from operating activities	27	(5,396)	(11,387)	(6,487)	(7,868)
Investing activities					
Sale and maturity of securities		176	453	176	453
Investments in Group undertakings		-	-	-	(4)
Investments in equity shares		(4)	(1)	(4)	(1)
Sale of property, plant and equipment		(9)	11	(5)	10
Purchase of property, plant and equipment		9	(49)	1	(49)
Net cash flows from investing activities		172	414	168	409
Financing activities					
Issue of ordinary shares		-	341	-	341
Capital contribution		4,615	4,012	4,615	4,012
Issue of subordinated liabilities		-	131	-	131
Subordinated liabilities acquired from fellow subsidiary		-	257	-	257
Interest on subordinated liabilities		(35)	(9)	(19)	(9)
Net cash flows from financing activities		4,580	4,732	4,596	4,732
Effect of exchange rate changes on cash and cash equivalents		2	35	2	31
Net decrease in cash and cash equivalents		(642)	(6,206)	(1,721)	(2,696)
Cash and cash equivalents 1 January	30	3,912	10,118	3,838	6,534
Cash and cash equivalents 31 December	30	<u>3,270</u>	<u>3,912</u>	<u>2,117</u>	<u>3,838</u>

The accompanying accounting policies on pages 14 to 25 and the notes on pages 26 to 82 form an integral part of these financial statements.

ULSTER BANK IRELAND LIMITED

ACCOUNTING POLICIES

1. Presentation of financial statements

The consolidated financial statements are prepared on a going concern basis and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together IFRS) as adopted by the EU. The Group and Bank's financial statements are presented in accordance with the Companies Acts 1963 to 2009 and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

The Bank is incorporated and registered in the Republic of Ireland. The Group and Bank's financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, held-for-trading financial assets and financial liabilities, financial assets and financial liabilities that are designated at fair value through profit or loss, available-for-sale financial assets and investment property. Recognised financial assets and financial liabilities in fair value hedges are adjusted for changes in fair value in respect of the risk that is hedged.

2. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank (Ulster Bank Ireland Limited) and entities (including certain special purpose entities) that are controlled by the Bank (its subsidiaries). Control exists where the Group has the power to govern the financial and operating policies of the entity so as to obtain benefit from its activities; generally conferred by holding a majority of voting rights.

On acquisition of a subsidiary, its identifiable assets, liabilities and contingent liabilities are included in the consolidated financial statements at their fair value. Any excess of the cost (the fair value of assets given, liabilities incurred or assumed and equity instruments issued by the Group plus any directly attributable costs) of an acquisition over the fair value of the net assets acquired is recognised as goodwill. The interest of non-controlling shareholders is stated at their share of the fair value of the subsidiary's net assets.

The results of subsidiaries acquired are included in the consolidated income statement from the date control passes until the Group ceases to control them through a sale or a significant change in circumstances. Changes in interest that do not result in a loss of control are recognised in equity. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interest having a deficit balance.

All intra-group balances, transactions, income and expenses are eliminated on consolidation. The consolidated financial statements are prepared using uniform accounting policies.

3. Revenue recognition

Interest income on financial assets that are classified as loans and receivables, available-for-sale or held-to-maturity and interest expense on financial liabilities other than those at fair value through profit or loss is determined using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable, that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

Financial assets and financial liabilities held-for-trading or designated as at fair value through profit or loss are recorded at fair value. Changes in fair value are recognised through profit or loss together with dividends and interest receivable and payable.

Commitment and utilisation fees are determined as a percentage of the outstanding facility. If it is unlikely that a specific lending arrangement will be entered into, such fees are taken through profit or loss over the life of the facility otherwise they are deferred and included in the effective interest rate on the advance.

ULSTER BANK IRELAND LIMITED

ACCOUNTING POLICIES (continued)

3. Revenue recognition (continued)

Fees in respect of services are recognised as the right to consideration accrues through the provision of the service to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable. The application of this policy to significant fee types is outlined below.

Payment services: this income comprises income received for payment services including cheques cashed and direct debits. These are generally charged on a per transaction basis. The income is earned when the payment or transaction occurs. Charges for payment services are usually debited to the customer's account, monthly or quarterly in arrears. Income is accrued at period end for services provided but not charged.

Card related services: fees from credit card business include:

- Commission received from retailers for processing credit and debit card transactions: income is accrued to the income statement as the service is performed;
- Interchange received: as issuer, the Group receives a fee (interchange) each time a cardholder purchases goods and services. The Group also receives interchange fees from other card issuers for providing cash advances through its branch and automated teller machine networks. These fees are accrued once the transaction has taken place; and
- Annual fees payable by credit card holders: these are deferred and taken to profit or loss over the period of the service i.e. 12 months.

Insurance brokerage: this is made up of fees and commissions received from the agency sale of insurance. Commission on the sale of an insurance contract is earned at the inception of the policy as the insurance has been arranged and placed. However, provision is made where commission is refundable in the event of policy cancellation in line with estimated cancellations.

Investment management fees: fees charged for managing investments are recognised as revenue as the services are provided. Incremental costs that are directly attributable to securing an investment management contract are deferred and charged as an expense as the related revenue is recognised.

Fees and commissions payable: Fees and commissions are payable in respect of services provided by third party intermediaries. These are charged through profit or loss over the life of the underlying product.

4. Assets held for sale

A non-current asset (or disposal group) is classified as held for sale if the Group will recover the carrying amount principally through a sale transaction rather than through continuing use. A non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. If the asset (or disposal group) is acquired as part of a business combination it is initially measured at fair value less costs to sell. Assets and liabilities of disposal groups classified as held for sale and non-current assets classified as held for sale are shown separately on the face of the balance sheet.

5. Pensions and other post-retirement benefits

The Group provides post-retirement benefits in the form of pensions to eligible employees.

For defined benefit schemes, scheme liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate that reflects the current rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities. Scheme assets are measured at their fair value. Cumulative actuarial gains or losses that exceed 10 percent of the greater of the assets or the obligations of the scheme are amortised to the statement of comprehensive income over the expected average remaining lives of participating employees. Past service costs are recognised immediately to the extent that benefits have vested; otherwise they are amortised over the period until the benefits become vested.

Any surplus or deficit of scheme assets over liabilities adjusted for unrecognised actuarial gains and losses and past service costs is recognised in the balance sheet as an asset (surplus) or liability (deficit).

Contributions to defined contribution pension schemes are recognised in the income statement when payable.

ULSTER BANK IRELAND LIMITED

ACCOUNTING POLICIES (continued)

6. Intangible assets and goodwill

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. The intangible assets of the Group and Bank were fully impaired during 2008 and 2009.

7. Property, plant and equipment

Items of property, plant and equipment (except investment properties – see accounting policy 9) are stated at cost less accumulated depreciation (see below) and accumulated impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for separately.

Depreciation is charged to profit or loss on a straight-line basis so as to write off the depreciable amount of property, plant and equipment (including assets owned and let on operating leases) over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value. Land is not depreciated. Estimated useful lives are as follows:

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

The residual value and useful life of property, plant and equipment are reviewed at each balance sheet date and updated for any changes.

8. Impairment of intangible assets and property, plant and equipment

At each reporting date, the Group assesses whether there is any indication that its property, plant and equipment are impaired. If any such indication exists, the Group estimates the recoverable amount of the asset and the impairment loss, if any. If an asset does not generate cash flows that are independent from those of other assets or groups of assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. Value in use is the present value of future cash flows from the asset or cash-generating unit discounted at a rate that reflects market interest rates adjusted for risks specific to the asset or cash-generating unit that have not been reflected in the estimation of future cash flows. If the recoverable amount of a tangible asset is less than its carrying value, an impairment loss is recognised immediately in profit or loss and the carrying value of the asset reduced by the amount of the loss. A reversal of an impairment loss on property, plant and equipment is recognised as it arises provided the increased carrying value does not exceed that which it would have been had no impairment loss been recognised.

9. Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Fair value is based on current prices for similar properties in the same location and condition using internal valuation models based on yield comparables and any available recent market transactions taking cognisance of the principles of Royal Institute of Chartered Surveyors (RICS) valuation methodology.

Fair value of the investment properties is determined on at least an annual basis by officers of the Group. A selection of properties may be valued by external appointed surveyors from time to time as the commercial need arises. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Rental income from investment property is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

ULSTER BANK IRELAND LIMITED

ACCOUNTING POLICIES (continued)

10. Foreign currencies

The Group's consolidated financial statements are presented in Euro, which is the functional currency of the Bank.

Transactions in foreign currencies are translated into Euro at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Euro at the rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are reported in income from trading activities except for differences arising on cash flow hedges and hedges of net investments in foreign operations. Non-monetary items denominated in foreign currencies that are stated at fair value are translated into Euro at foreign exchange rates ruling at the dates the values were determined.

Translation differences arising on non-monetary items measured at fair value are recognised in profit or loss except for differences arising on available-for-sale non-monetary financial assets, for example equity shares, which are included in the available-for-sale reserve in equity unless the asset is the hedged item in a fair value hedge.

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Euro at foreign exchange rates ruling at the balance sheet date. Income and expenses of foreign operations are translated into Euro at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation of foreign operations are recognised directly in equity and included in profit or loss on its disposal.

11. Leases

Contracts to lease assets are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer. Other contracts to lease assets are classified as operating leases.

Finance lease receivables are stated in the balance sheet at the amount of the net investment in the lease being the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease. Finance lease income is allocated to accounting periods so as to give a constant periodic rate of return before tax on the net investment. Unguaranteed residual values are subject to regular review to identify potential impairment. If there has been a reduction in the estimated unguaranteed residual value, the income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

Rental income from operating leases is credited to the income statement on a receivable basis over the term of the lease. Operating lease assets are included within property, plant and equipment and depreciated over their useful lives (see accounting policy 7). Operating lease rentals receivable are included in other operating income.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

12. Provisions and contingent liabilities

The Group recognises a provision for a present obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably.

Provision is made for restructuring costs, including the costs of redundancy, when the Group has a constructive obligation to restructure. An obligation exists when the Group has a detailed formal plan for the restructuring and has raised a valid expectation in those affected by starting to implement the plan or announcing its main features.

If the Group has a contract that is onerous, it recognises the present obligation under the contract as a provision. An onerous contract is one where the unavoidable costs of meeting the obligations under it exceed the expected economic benefits. When the Group vacates a leasehold property, a provision is recognised for the costs under the lease less any expected economic benefits (such as rental income).

Contingent liabilities are possible obligations arising from past events whose existence will be confirmed only by uncertain future events or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

13. Taxation

Income tax expense or income, comprising current tax and deferred tax, is recorded in the income statement except income tax on items recognised outside profit or loss which is credited or charged to other comprehensive income or to equity as appropriate.

Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the year arising in income or in equity. Provision is made for current tax at rates enacted or substantively enacted at the balance sheet date.

ULSTER BANK IRELAND LIMITED

ACCOUNTING POLICIES (continued)

13. Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered. Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

14. Financial assets

On initial recognition financial assets are classified into held-to-maturity investments; available-for-sale financial assets; held-for-trading; designated as at fair value through profit or loss; or loans and receivables.

Held-to-maturity investments - a financial asset may be classified as a held-to-maturity investment only if it has fixed or determinable payments, a fixed maturity and the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method (see accounting policy 3) less any impairment losses.

Held-for-trading - a financial asset is classified as held-for-trading if it is acquired principally for sale in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative (not in a qualifying hedge relationship). Held-for-trading financial assets are recognised at fair value with transaction costs being recognised in profit or loss. Subsequently they are measured at fair value. Gains and losses on held-for-trading financial assets are recognised in profit or loss as they arise.

Designated at fair value through profit or loss - financial assets may be designated as at fair value through profit or loss only if such designation: (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial assets, financial liabilities or both, that the Group manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract.

Financial assets that the Group designates on initial recognition as being at fair value through profit or loss are recognised at fair value, with transaction costs being recognised in profit or loss and are subsequently measured at fair value. Gains and losses on financial assets that are designated as at fair value through profit or loss are recognised in profit or loss as they arise.

The Group has designated financial assets as at fair value through profit or loss principally where the assets are economically hedged by derivatives and fair value designation eliminates the measurement inconsistency that would arise if the assets were carried at amortised cost or classified as available-for-sale.

Loans and receivables - non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except those that are classified as available-for-sale or as held-for-trading, or designated as at fair value through profit or loss. Loans and receivables are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method (see accounting policy 3) less any impairment losses.

Available-for-sale - financial assets that are not classified as held-to-maturity; held-for-trading; designated as at fair value through profit or loss; or loans and receivables are classified as available-for-sale. Financial assets can be designated as available-for-sale on initial recognition. Available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost and classified as available-for-sale financial assets. Impairment losses and exchange differences resulting from retranslating the amortised cost of monetary available-for-sale financial assets denominated in a foreign currency are recognised in profit or loss together with interest calculated using the effective interest method (see accounting policy 3). Other changes in the fair value of available-for-sale financial assets and any related tax are reported in a separate component of shareholders' equity until disposal, when the cumulative gain or loss is recognised in profit or loss.

Regular way purchases of financial assets classified as loans and receivables are recognised on settlement date; all other regular way purchases are recognised on trade date.

Fair value for a net open position in a financial asset that is quoted in an active market is the current bid price times the number of units of the instrument held. Fair values for financial assets not quoted in an active market are determined using appropriate valuation techniques including discounting future cash flows, option pricing models and other methods that are consistent with accepted economic methodologies for pricing financial assets.

ULSTER BANK IRELAND LIMITED

ACCOUNTING POLICIES (continued)

15. Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as held-to-maturity, available-for-sale or loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

Financial assets carried at amortised cost - if there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables or as held-to-maturity investments has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition. For collateralised loans and receivables, estimated future cash flows include cash flows that may result from foreclosure less the costs of obtaining and selling the collateral, whether or not foreclosure is probable.

Where, in the course of the orderly realisation of a loan it is exchanged for equity shares or properties, the exchange is accounted for as the sale of the loan and the acquisition of equity securities or investment properties. Where the Group's interest in equity shares following the exchange is such that the Group controls the entity, that entity is consolidated.

Impairment losses are assessed individually for financial assets that are individually significant and individually or collectively for assets that are not individually significant. In making a collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted, on the basis of current observable data, to reflect current conditions not affecting the period of historical experience.

Impairment losses are recognised in profit or loss and the carrying amount of the financial asset or group of financial assets reduced by establishing an allowance for impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. Once an impairment loss has been recognised on a financial asset or group of financial assets, interest income is recognised on the carrying amount using the original rate of interest at which estimated future cash flows were discounted in measuring impairment.

Impaired loans and receivables are written off, i.e. the impairment provision is applied in writing down the loan's carrying value partially or in full, when the Group concludes that there is no longer any realistic prospect of recovery of part or all of the loan. For portfolios that are collectively assessed for impairment, the timing of write off principally reflects historic recovery experience for each portfolio. For loans that are individually assessed for impairment, the timing of write off is determined on a case-by-case basis. Such loans are reviewed regularly and write offs will be prompted by bankruptcy, insolvency, restructuring and similar events. Amounts recovered after a loan has been written off are credited to the loan impairment charge for the period in which they are received.

Financial assets carried at fair value - when a decline in the fair value of a financial asset classified as available-for-sale has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in profit or loss. The loss is measured as the difference between the acquisition cost of the financial asset and its current fair value. Impairment losses on available-for-sale equity instruments are not reversed through profit or loss, but those on available-for-sale debt instruments are reversed, if there is an increase in fair value that is objectively related to a subsequent event.

ULSTER BANK IRELAND LIMITED

ACCOUNTING POLICIES (continued)

16. Financial liabilities

On initial recognition financial liabilities are classified into held-for-trading; designated as at fair value through profit or loss; or amortised cost.

Held-for-trading - a financial liability is classified as held-for-trading if it is incurred principally for the repurchase in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative (not in a qualifying hedge relationship). Held-for-trading financial liabilities are recognised at fair value with transaction costs being recognised in profit or loss. Subsequently they are measured at fair value. Gains and losses are recognised in profit or loss as they arise.

Designated as at fair value through profit or loss - financial liabilities may be designated as at fair value through profit or loss only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial assets, financial liabilities or both that the Group manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract.

Financial liabilities that the Group designates on initial recognition as being at fair value through profit or loss are recognised at fair value, with transaction costs being recognised in profit or loss and are subsequently measured at fair value. Gains and losses on financial liabilities that are designated as at fair value through profit or loss are recognised in profit or loss as they arise.

The principal category of financial liabilities designated as at fair value through profit or loss is structured liabilities issued by the Group: designation significantly reduces the measurement inconsistency between these liabilities and the related derivatives carried at fair value.

Amortised cost - all other financial liabilities are measured at amortised cost using the effective interest method (see accounting policy 3).

Fair value for a net open position in a financial liability that is quoted in an active market is the current offer price times the number of units of the instrument held or issued. Fair values for financial liabilities not quoted in an active market are determined using appropriate valuation techniques including discounting future cash flows, option pricing models and other methods that are consistent with accepted economic methodologies for pricing financial liabilities. Credit valuation adjustments are made when valuing financial liabilities to reflect the Group's own credit rating.

17. Derecognition

A financial asset is derecognised when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the rights to asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been neither retained nor transferred, the Group assess whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Group has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

A financial liability is removed from the balance sheet when the obligation is discharged, or cancelled, or expires. On the redemption or settlement of debt securities (including subordinated liabilities) issued by the Group, the Group derecognises the debt instrument and records a gain or loss being the difference between the debt's carrying amount and the cost of redemption or settlement. The same treatment applies where the debt is exchanged for a new debt issue that has terms substantially different from those of the existing debt. The assessment of whether the terms of the new debt instrument are substantially different takes into account qualitative and quantitative characteristics including a comparison of the discounted present value of the cash flows under the new terms with the discounted present value of the remaining cash flows of the original debt issue.

ULSTER BANK IRELAND LIMITED

ACCOUNTING POLICIES (continued)

18. Sale and repurchase transactions

Securities subject to a sale and repurchase agreement under which substantially all the risks and rewards of ownership are retained by the Group continue to be shown on the balance sheet and the sale proceeds recorded as a deposit. Securities acquired in reverse sale and repurchase transactions under which the Group is not exposed to substantially all the risks and rewards of ownership are not recognised on the balance sheet and the consideration is recorded in Loans and advances to banks or Loans and advances to customers as appropriate.

Securities borrowing and lending transactions are usually secured by cash or securities advanced by the borrower. Borrowed securities are not recognised on the balance sheet or lent securities derecognised. Cash collateral received or given is treated as a loan or deposit; collateral in the form of securities is not recognised. However, where securities borrowed are transferred to third parties, a liability for the obligation to return the securities to the stock lending counterparty is recorded.

19. Netting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group has a legally enforceable right to set off the recognised amounts; and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Group is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities. Where it does not intend to settle the amounts net or simultaneously the assets and liabilities concerned are presented gross.

20. Capital instruments

The Group classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities. The components of a compound financial instrument issued by the Group are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate.

21. Derivatives and hedging

Derivative financial instruments are initially recognised, and subsequently measured, at fair value. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models. Credit valuation adjustments are made when valuing derivative financial assets to incorporate counterparty credit risk.

A derivative embedded in a contract is accounted for as a stand-alone derivative if its economic characteristics are not closely related to the economic characteristics of the host contract; unless the entire contract is carried at fair value through profit or loss.

Gains and losses arising from changes in fair value of a derivative are recognised as they arise in net interest income within profit or loss.

22. Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprises cash and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

23. Shares in Group entities

The Bank's investments in its subsidiaries are stated at cost less any accumulated impairment losses.

ULSTER BANK IRELAND LIMITED

ACCOUNTING POLICIES (continued)

Critical accounting policies and key sources of accounting judgements

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Republic of Ireland company law and IFRS require the directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant and reliable information in light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of financial statements.

The judgements and assumptions involved in the Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

Loan impairment provisions

The Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost. A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

At 31 December 2011, gross loans and advances to customers totalled €47,647m (2010: €49,714m) and customer loan impairment provisions amounted to €8,634m (2010: €5,609m).

There are three components to the Group's loan impairment provisions: individual, collective and latent.

Individual component - all impaired loans that exceed specific thresholds are individually assessed for impairment. Individually assessed loans principally comprise the Group's portfolio of commercial loans to medium and large businesses. Impairment losses are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held. These estimates take into account the customer's debt capacity and financial flexibility; the level and quality of its earnings; the amount and sources of cash flows; the industry in which the counterparty operates; and the realisable value of any security held. Estimating the quantum and timing of future recoveries involves significant judgement. The size of receipts will depend on the future performance of the borrower and the value of security, both of which will be affected by future economic conditions; additionally, collateral may not be readily marketable. The actual amount of future cash flows and the date they are received may differ from these estimates and consequently actual losses incurred may differ from those recognised in these financial statements.

Collective component - impaired loans that are below individual assessment thresholds are collectively assessed. Collectively assessed provisions are established on a portfolio basis using a present value methodology taking into account the level of arrears, security, past loss experience, credit scores and defaults based on portfolio trends. The most significant factors in establishing these provisions are the expected loss rates and the related average life. These portfolios include credit card receivables and other personal advances including mortgages. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, the unemployment level, payment behaviour and bankruptcy trends.

Latent component - this consists of loan losses that have been incurred but have not been separately identified at the balance sheet date. Latent loss provisions are held against estimated impairment losses in the performing portfolio that have yet to be identified as at the balance sheet date. To assess that latent loss within its portfolios, the Group has developed methodologies to estimate the time that an asset can remain impaired within a performing portfolio before it is identified and reported as such.

Forbearance

The forbearance policies are the main response to managing mortgage customers in financial difficulty which is deployed through the Group's forbearance initiative. Forbearance is applied to secured retail products where temporary relief is offered through the renegotiation of the original contract, although on terms not generally available on a commercial basis. This may include offering contract revision by various means including reduced repayment, interest only arrangements, negative amortisation and/ or payment moratorium; these forbearance arrangements offer no economic concession over the contract life and are subject to heightened monitoring.

Forbearance offered by the Group to customers where an impairment loss provision has previously been recognised remains classified as non-performing. Where the customer met the loan terms prior to modification and there is a realistic expectation that the customer will adhere to forbearance terms, these loans are classified as performing loans. In recognising their credit risk profile, they carry a provision incorporating an expectation that some customers will fail to comply with the terms of the forbearance together with the associated loss rate.

ULSTER BANK IRELAND LIMITED

ACCOUNTING POLICIES (continued)

Deferred tax

The Group makes provision for deferred tax on short-term and other temporary differences where tax recognition occurs at a different time from accounting recognition. Deferred tax assets of €341m were recognised as at 31 December 2011 (2010: €263m).

The Group has recognised deferred tax assets in respect of losses and short-term timing differences. Deferred tax assets are recognised in respect of unused tax losses to the extent that it is probable that there will be future taxable profits against which the losses can be utilised. Business projections prepared for impairment reviews indicate that sufficient future taxable income will be available against which to offset these recognised deferred tax assets within 7 years (2010: 7 years). The Group's cumulative losses are principally attributable to the recent unparalleled market conditions.

Deferred tax assets of €591m (2010: €321m) have not been recognised in respect of tax losses carried forward where doubt exists over the availability of future taxable profits.

Pensions

There are two defined benefit pension schemes in operation within the Group: Ulster Bank Pension Scheme (Republic of Ireland) and First Active Pension Scheme. The assets of the defined benefit schemes are measured at their fair value at the balance sheet date. Scheme liabilities are measured using the projected unit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the scheme liabilities. These cash flows are discounted at the interest rate applicable to high-quality corporate bonds of the same currency and term as the liabilities.

Any recognisable surplus or deficit in excess of 10% of the greater of scheme assets and scheme liabilities is recognised in the balance sheet as an asset (surplus) or liability (deficit).

In determining the value of scheme liabilities, financial and demographic assumptions are made as to price inflation, pension increases, earnings growth and employee life expectancy. A range of assumptions could be adopted in valuing the schemes' liabilities. Different assumptions could significantly alter the amount of the surplus or deficit recognised in the balance sheet and the pension cost charged to the income statement. The assumptions adopted for the Group's pension schemes are set out in Note 4 to the financial statements together with sensitivities of the balance sheet and income statement to changes in those assumptions. The Group pension gain recognised on the balance sheet at 31 December 2011 was €11m (2010: deficit €8m).

The Group has reduced the allowance made for future discretionary increases to pensions in payment, in light of recent experience.

Fair value - financial instruments

Financial instruments classified as held-for-trading or designated as at fair value through profit or loss and financial assets classified as available-for-sale are recognised in the financial statements at fair value. All derivatives are measured at fair value. On the balance sheet, financial assets carried at fair value are included within Debt securities, Equity shares, Derivatives and Assets held for sale as appropriate. Financial liabilities carried at fair value are included within Deposits by banks, Customer accounts and Derivatives. Derivative assets and Derivative liabilities are shown separately on the face of the balance sheets. Gains or losses arising from changes in fair value of financial instruments classified as held-for-trading or designated as at fair value through profit or loss are included in the income statement. Unrealised gains and losses on available-for-sale financial assets are recognised directly in equity unless an impairment loss is recognised. The carrying value of a financial asset or a financial liability carried at cost or amortised cost that is the hedged item in a qualifying hedge relationship is adjusted by the gain or loss attributable to the hedged risk.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values are determined by reference to observable market prices where available and reliable. Where representative market prices for an instrument are not available or are unreliable because of poor liquidity, the fair value is derived from prices for its components using appropriate pricing or valuation models that are based on independently sourced market parameters, including interest rate yield curves, option volatilities and currency rates. Financial assets carried at fair value include government and corporate debt securities, reverse repos, loans, corporate equity shares and derivatives. Financial liabilities carried at fair value include deposits, repos, debt securities issued and derivatives. Fair value for a substantial proportion of these instruments is based on observable market prices or derived from observable market parameters. Where observable prices are not available, fair value is based on appropriate valuation techniques or management estimates.

ULSTER BANK IRELAND LIMITED

ACCOUNTING POLICIES (continued)

Fair value - financial instruments (continued)

The Group's derivative products include swaps, forwards, futures and options. Exchange traded instruments are valued using quoted prices. The fair value of over-the-counter instruments is derived from pricing models which take account of contract terms, including maturity, as well as quoted market parameters such as interest rates and volatilities. Most of the Group's pricing models do not entail material subjectivity because the methodologies utilised do not incorporate significant judgement and the parameters included in the models can be calibrated to actively quoted market prices. Values established from pricing models are adjusted for credit risk, liquidity risk and future operational costs.

A negligible proportion of the Group's trading derivatives are valued directly from quoted prices, the remaining majority being valued using appropriate valuation techniques. The fair value of substantially all securities positions carried at fair value is determined directly from quoted prices. Fair value for a net open position in a financial instrument in an active market is the number of units of the instrument held times the current bid price (for financial assets) or offer price (for financial liabilities). In determining the fair value of derivative financial instruments gross long and short positions measured at current mid market prices are adjusted by bid-offer reserves calculated on a portfolio basis. Credit valuation adjustments are made when valuing derivative financial assets to incorporate counterparty credit risk. Adjustments are also made when valuing financial liabilities to reflect the Group's own credit standing. Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data.

More details about the Group's valuation methodologies of the fair value of financial instruments valued using techniques where at least one significant input is unobservable are given in Note 8.

Impairment of investment in Group undertakings

The fair value of investments in Group undertakings is calculated using a model based on expected future profits plus future equity requirements. The net equity flows are discounted relative to the number of years from the current year. A terminal value is added to the discounted expected future profits to provide the fair value of the subsidiary. If the fair value of the subsidiary is less than its carrying value, an impairment loss is recognised immediately in profit or loss and the carrying value of the asset reduced by the amount of the loss.

Valuation of investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Fair value is based on current prices for similar properties in the same location and condition using internal valuation models based on yield comparables and any available recent market transactions taking cognisance of the principles of Royal Institute of Chartered Surveyors (RICS) valuation methodology.

Fair value of the investment properties is determined on at least an annual basis by officers of the Group. A selection of properties may be valued by external appointed surveyors from time to time as the commercial need arises. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Accounting developments

The IASB issued IFRS 9 'Financial Instruments' in November 2009 simplifying the classification and measurement requirements in International Accounting Standard (IAS) 39 'Financial Instruments: Recognition and Measurement' in respect of financial assets. The standard reduces the measurement categories for financial assets to two: fair value and amortised cost. A financial asset is classified on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. Only assets with contractual terms that give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding and which are held within a business model whose objective is to hold assets in order to collect contractual cash flows are classified as amortised cost. All other financial assets are measured at fair value. Changes in the value of financial assets measured at fair value are generally taken to profit or loss.

In October 2010, IFRS 9 was updated to include the classification and measurement of liabilities. It is not markedly different from IAS 39 except for liabilities measured at fair value where the movement is due to changes in credit rating of the preparer it is recognised not in profit or loss but in other comprehensive income.

The standard is effective for annual periods beginning on or after 1 January 2015.

This standard makes major changes to the framework for the classification and measurement of financial assets and will have a significant effect on the Group and Bank's financial statements. The changes relating to the classification and measurement of liabilities carried at fair value will have a less significant effect on the Group and Bank's financial statements. The Group is assessing these impacts which are likely to depend on the outcome of the other phases of IASB's IAS 39 replacement project.

ULSTER BANK IRELAND LIMITED

ACCOUNTING POLICIES (continued)

Accounting developments (continued)

The IASB issued an amendment to IAS 12 'Income Taxes' in December 2010 to clarify that recognition of deferred tax should have regard to the expected manner of recovery or settlement of the asset or liability. The amendment and consequential withdrawal of SIC 21 'Deferred Tax: Recovery of Underlying Assets', effective for annual periods beginning on or after 1 January 2012, is not expected to have a material effect on the Group or Bank.

In May 2011, the IASB issued six new or revised standards:

IFRS 10 Consolidated Financial Statements which replaces SIC-12 Consolidation - Special Purpose Entities and the consolidation elements of the existing IAS 27 Consolidated and Separate Financial Statements. The new standard adopts a single definition of control: a reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity to generate returns for the reporting entity.

IAS 27 Separate Financial Statements which comprises those parts of the existing IAS 27 that dealt with separate financial statements.

IFRS 11 Joint Arrangements which supersedes IAS 31 Interests in Joint Ventures. IFRS 11 distinguishes between joint operations and joint ventures. Joint operations are accounted for by the investor recognising its assets and liabilities including its share of any assets held and liabilities incurred jointly and its share of revenues and costs. Joint ventures are accounted for in the investor's consolidated accounts using the equity method.

IAS 28 Investments in Associates and Joint Ventures covers joint ventures as well as associates; both must be accounted for using the equity method. The mechanics of the equity method are unchanged.

IFRS 12 Disclosure of Interests in Other Entities covers disclosures for entities reporting under IFRS 10 and IFRS 11 replacing those in IAS 28 and IAS 27. Entities are required to disclose information that helps financial statement readers evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries, in associates and joint arrangements and in unconsolidated structured entities.

IFRS 13 Fair Value Measurement which sets out a single IFRS framework for defining and measuring fair value and requiring disclosures about fair value measurements.

These standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Revised standards IFRS 10-13 must be adopted at the same time. The Group is reviewing the standards to determine their effect on the Group and Bank's financial reporting.

In June 2011, the IASB issued amendments to two standards:

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income that require items that will never be recognised in profit or loss to be presented separately in other comprehensive income from those that are subject to subsequent reclassification. The amendment is effective for accounting periods ending on or after 1 July 2012. The Group is reviewing the amendment to determine the effect on the Group and Bank's financial reporting.

Amendments to IAS 19 Employee Benefits require the immediate recognition of all actuarial gains and losses eliminating the 'corridor approach'; interest cost to be calculated on the net pension liability or asset at the appropriate corporate bond rate; and all past service costs to be recognised immediately when a scheme is curtailed or amended. The amendment is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Group is reviewing the amendment and expect that it will have a material effect on the Group and Bank's financial reporting.

In December 2011, the IASB issued 'Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)' and 'Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)'. The amendment to IAS 32 adds application guidance on the meaning of 'a legally enforceable right to set off' and on simultaneous settlement. IFRS 7 is amended to require disclosures facilitating comparisons between those entities reporting under IFRS and those reporting under US GAAP. The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

1. Net interest income

	Group	
	2011	2010
	€m	€m
Loans and advances to customers ⁽¹⁾	1,391	1,391
Loans and advances to banks	61	176
Debt securities	6	14
Interest receivable	1,458	1,581
Customer accounts	(271)	(258)
Deposits by banks	(371)	(382)
Debt securities in issue	(68)	(63)
Subordinated liabilities	(35)	(16)
Interest payable	(745)	(719)
Net interest income	713	862

(1) €18m has been reclassified from non interest income to net interest income in the year to 31 December 2010 to better reflect the underlying nature of the income stream.

2. Non-interest income

	Group	
	2011	2010
	€m	€m
Fees and commission receivable	92	113
Fees and commission payable	(4)	(11)
Income from trading activities:		
Foreign exchange ⁽¹⁾	46	25
Interest rates ⁽²⁾	(7)	(27)
Other operating income:		
Profit on disposal of Ulster Bank Merchant Services	-	24
Profit on buyback of securitisation bonds	291	-
Other income ⁽³⁾	4	3
Non-interest income	422	127

The analysis of trading income is based on how the business is organised and the underlying risks managed.

During the year the Group bought back certain externally issued mortgage securitisation bonds at a discount to par and realised a gain of €291m (2010: €nil).

Notes:

Trading income comprises gains and losses on financial instruments held-for-trading, both realised and unrealised, interest income and dividends and the related funding costs. The types of instruments include:

(1) Foreign exchange: spot foreign exchange contracts, currency swaps and options, emerging markets and related hedges and funding.

(2) Interest rates: interest rate swaps, forward foreign exchange contracts, forward rate agreements, interest rate options, interest rate futures and related hedges and funding.

(3) €18m has been reclassified from non interest income to net interest income in the year to 31 December 2010 to better reflect the underlying nature of the income stream.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

3. Operating expenses

	Group	
	2011	2010
	€m	€m
Wages, salaries and other staff costs	216	222
Restructure costs	3	13
Social security costs	22	23
Pension costs (see Note 4)	23	28
Staff costs	264	286
Premises	112	107
Administration	134	112
Other expenses	246	219
Property, plant and equipment depreciation (see Note 14)	23	23
Impairment of property, plant and equipment (see Note 14)	-	31
Depreciation, amortisation and impairment	23	54
	533	559

The average number of persons employed by the Group during the year, excluding temporary staff was 3,543 (2010: 3,438). The average number of temporary employees during 2011 was 151 (2010: 103). The number of persons employed by the Group at 31 December, excluding temporary staff, was as follows:

	Group	
Employee Numbers	2011	2010
	Number	Number
Retail Markets	1,450	1,477
Corporate Markets/Other	2,097	2,062
	3,547	3,539

	Group	
Auditors' remuneration	2011	2010
	€k	€k
Statutory audit work	1,091	894
Other services:		
- Non audit services	-	363
- Other assurance service	10	18
	10	381
	1,101	1,275

No remuneration was payable to the auditors in respect of tax advisory services (2010: €nil).

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

4. Pension costs

The Group operates the following defined benefit pension schemes, the assets of which are independent of the Group's finances:

Name of schemes

Ulster Bank Pension Scheme (Republic of Ireland)

First Active Pension Scheme

The schemes were closed to new entrants in 2009, when a new defined contribution scheme was launched.

Employees make contributions at varying levels depending on which section of the scheme they are in. In addition, employees may make voluntary contributions to secure additional benefits on a money-purchase basis.

The Group and Bank also makes contributions to a small number of RBS Group Pension Schemes, the costs of which are accounted for as defined contributions.

The Group made contributions of €2,148k to defined contribution schemes in 2011 (2010: €700k). The Bank made contributions of €2,147k to defined contribution schemes in 2011 (2010: €714k).

The corridor method of accounting permits the Group to defer recognition of actuarial gains and losses that are within 10% of the larger of the fair value of plan assets and the present value of the defined benefits obligations of the scheme on an individual basis at the beginning of the year. Any excess variations are amortised prospectively over the average remaining service lives of current members of the scheme.

An interim valuation of the scheme was prepared to 31 December 2011 by an independent actuary, using the following assumptions:

Principal actuarial assumptions at 31 December	Group and Bank	
	2011	2010
Discount rate	5.75%	5.60%
Expected return on plan assets	5.32% - 5.44%	6.09% - 6.30%
Rate of increase in salaries	1.00% - 3.00%	1.75%
Rate of increase in pensions in payment	1.50% - 2.00%	1.50% - 2.00%
Inflation assumption	2.00%	2.00%

Major classes of plan assets as a percentage of total plan assets	Group and Bank	
	2011	2010
Equities	44%	46%
Index-linked bonds	13%	-
Government fixed interest bonds	5%	14%
Corporate and other bonds	16%	15%
Hedge funds	7%	-
Property	5%	5%
Derivatives	-	-
Cash and other assets	10%	20%

The expected return on plan assets at 31 December 2011 is based upon the weighted average of the following assumptions of the returns on the major classes of plan assets:

	Group and Bank	
	2011	2010
Equities	7.10% - 7.70%	7.70%
Index-linked bonds	3.10%	-
Government fixed interest bonds	2.50%	3.70%
Corporate and other bonds	4.00% - 4.60%	4.70%
Hedge Funds	6.00%	-
Property	6.10% - 6.70%	6.70%
Derivatives	3.00%	-
Cash and other assets	2.40% - 3.00%	3.50% - 6.00%

The returns on the major classes of plan assets are based on market expectations at the end of the period.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

4. Pension costs (continued)

Post-retirement mortality assumptions (Main scheme)	Group and Bank	
	2011	2010
Longevity at age 70 for current pensioners (years)		
Males	17.1	16.9
Females	18.6	18.4
Longevity at age 63 for future pensioners (years)		
Males	23.7	23.5
Females	25.4	25.2

These post-retirement mortality assumptions are derived from standard mortality tables used by the scheme actuary.

Changes in value of net pension liability	Group and Bank		
	Fair value of plan assets €m	Present value of defined benefit obligations €m	Net pension asset/(liability) €m
At 1 January 2011	717	(753)	(36)
Income statement:			
Expected return	44	-	44
Interest cost	-	(42)	(42)
Current service cost	-	(24)	(24)
Past service cost	-	(1)	(1)
	44	(67)	(23)
Actuarial (loss)/gain	(61)	35	(26)
Contributions by employer	42	-	42
Contributions by plan participants	4	(4)	-
Benefits paid	(23)	23	-
At 31 December 2011	723	(766)	(43)
Unrecognised actuarial losses			54
Retirement benefit assets at 31 December 2011			11

The Group expects to contribute €41.7m to its defined benefit pension schemes in 2012.

Changes in value of net pension liability	Group and Bank		
	Fair value of plan assets €m	Present value of defined benefit obligations €m	Net pension liability €m
At 1 January 2010	503	(667)	(164)
Transfer from fellow subsidiary	118	(135)	(17)
Income statement:			
Expected return	40	-	40
Interest cost	-	(41)	(41)
Current service cost	-	(25)	(25)
Past service cost	-	(2)	(2)
	40	(68)	(28)
Actuarial gain	23	97	120
Contributions by employer	53	-	53
Contributions by plan participants	4	(4)	-
Benefits paid	(24)	24	-
At 31 December 2010	717	(753)	(36)
Unrecognised actuarial losses			28
Retirement benefit liabilities at 31 December 2010			(8)

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

4. Pension costs (continued)

History of defined benefit schemes (Group and Bank)	2011 €m	2010 €m	2009 €m	2008 €m	2007 €m
Present value of defined benefit obligations	(766)	(753)	(667)	(671)	(634)
Fair value of plan assets	723	717	503	409	545
Net deficit	(43)	(36)	(164)	(262)	(89)
Experience gains on plan liabilities	35	97	11	26	18
Experience (losses)/gains on plan assets	(61)	23	47	(196)	(34)
Actual return on pension scheme assets	(17)	63	74	(159)	1

The table below sets out the sensitivities of the pension cost for the year and the present value of defined benefit obligations at the balance sheet dates to a change in the principal actuarial assumptions:

	Group and Bank			
	Increase/(decrease) in pension cost for the year		Increase/(decrease) in obligation at 31 December	
	2011 €m	2010 €m	2011 €m	2010 €m
0.25% increase in the discount rate	(2)	(3)	(32)	(39)
0.25% increase in inflation	4	5	34	42
0.25% additional rate of increase in pensions in payment	2	2	19	23
0.25% additional rate of increase in deferred pensions	-	-	4	6
0.25% additional rate of increase in salaries	2	2	11	13
Longevity increase of 1 year	1	2	13	16

The Finance (No.2) Act 2011 introduced a levy at the rate of 0.6% per annum for each of the next four years, 2011 to 2014. The Act states that payment is due by 25 September each year. The levy is payable on all of a scheme's assets (other than "excluded assets"). An amount of €4.4m (excluding Additional Voluntary Contributions) was deducted from the asset value of the Ulster Bank Pension Scheme (Republic of Ireland) and First Active Pension Schemes within the statutory deadlines

5. Emoluments of directors

	2011 €	2010 €
Non-executive directors - emoluments	89,908	62,495
Chairman and executive directors - emoluments	1,651,371	1,195,449
Contributions and allowances in respect of pension schemes	50,055	158,770
Total emoluments received by directors	1,791,334	1,416,714

The emoluments include an allocation of the remuneration paid by other Group companies for all of the executive directors in respect of their services to the Bank. The emoluments have been incurred wholly for services as directors during the year.

Performance related bonuses are awarded on the basis of measuring annual performance against certain specified financial targets, which include both corporate performance objectives and key strategic objectives.

Included within executive directors' emoluments is €336,732 (2010: €nil) in respect of compensation payments for loss of office.

The executive directors may also participate in the RBS Group's executive share option and sharesave schemes. Details of their interests in RBS Group shares arising from their participation are given in Note 33.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

6. Taxation

	Group	
	2011 €m	2010 €m
Current taxation:		
<i>Corporation Tax</i>		
Credit/(charge) for the year	3	(11)
Over provision in respect of prior periods	30	26
Total current taxation	33	15
Deferred taxation:		
Credit for the year	75	91
Over/(under) provision in respect of prior periods	6	(23)
Total deferred taxation	81	68
Tax credit for the year	114	83

The standard rate of tax for the year, based on the Irish standard rate of Corporation Tax is 12.5% (2010: 12.5%). The actual tax credit for the current and previous year differs from the standard rate for the reasons set out below:

	2011 €m	2010 €m
Operating loss before taxation	(2,811)	(3,322)
Tax credit on operating loss at the standard rate	351	415
<i>Factors affecting the charge for the year:</i>		
Unrecognised losses	(292)	(321)
Other timing differences	16	-
Tax arising at rates other than the standard rate of tax	3	(14)
Adjustments to tax credit in respect of prior periods	36	3
Actual tax credit for the year	114	83

The effective tax rate for the year was 4.1% (2010: 2.5%).

7. Loss dealt with in the financial statements of the Bank

In accordance with section 148(8) of the Companies Act, 1963 and Section 7(1A) of the Companies (Amendment) Act 1986, the Bank is availing of the exemption from presenting its individual Income Statement and from filing it with the Registrar of Companies. The Bank's loss for the financial year, determined in accordance with IFRS, was €2,829m (2010: €3,245m).

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

8. Financial instruments

The following tables analyse the financial assets and financial liabilities in accordance with the categories of financial instruments in accordance with IAS 39. Assets and liabilities outside the scope of IAS 39 are shown separately.

2011	Group						Total €m
	Held-for- trading €m	Designated as at fair value through profit or loss €m	Available- for-sale €m	Loans and receivables €m	Other (amortised cost) €m	Non financial assets/ liabilities €m	
Assets							
Cash and balances at central banks	-	-	-	272	-	-	272
Loans and advances to banks ⁽¹⁾	25	-	-	3,379	-	-	3,404
Loans and advances to customers ⁽²⁾	38	-	-	38,975	-	-	39,013
Debt securities	-	-	32	-	-	-	32
Equity shares	-	-	6	-	-	-	6
Derivatives	1,245	-	-	-	-	-	1,245
Property, plant and equipment	-	-	-	-	-	265	265
Prepayments, accrued income and other assets	-	-	-	-	-	47	47
Retirement benefit assets	-	-	-	-	-	11	11
Deferred taxation	-	-	-	-	-	341	341
	1,308	-	38	42,626	-	664	44,636
Liabilities							
Deposits by banks ⁽³⁾	71	-	-	-	12,235	-	12,306
Customer accounts	126	1,465	-	-	16,375	-	17,966
Debt securities in issue ⁽⁴⁾	-	-	-	-	4,175	-	4,175
Derivatives	1,673	-	-	-	-	-	1,673
Accruals, deferred income and other liabilities	-	-	-	-	-	324	324
Deferred taxation	-	-	-	-	-	1	1
Subordinated liabilities	-	-	-	-	946	-	946
	1,870	1,465	-	-	33,731	325	37,391
Equity							7,245
							44,636

For notes relating to this table refer to page 33.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

8. Financial instruments (continued)

	Group						
	Held-for-trading €m	Designated as at fair value through profit or loss €m	Available-for-sale €m	Loans and receivables €m	Other (amortised cost) €m	Non financial assets/liabilities €m	Total €m
2010							
Assets							
Cash and balances at central banks	-	-	-	279	-	-	279
Loans and advances to banks ⁽¹⁾	19	-	-	3,632	-	-	3,651
Loans and advances to customers ⁽²⁾	-	-	-	44,105	-	-	44,105
Debt securities	-	-	213	-	-	-	213
Equity shares	-	-	4	-	-	-	4
Derivatives	1,157	-	-	-	-	-	1,157
Property, plant and equipment	-	-	-	-	-	359	359
Prepayments, accrued income and other assets	-	-	-	-	-	35	35
Deferred taxation	-	-	-	-	-	263	263
Assets held for sale	1	-	-	-	-	-	1
	1,177	-	217	48,016	-	657	50,067
Liabilities							
Deposits by banks ⁽³⁾	19	-	-	-	14,420	-	14,439
Customer accounts	86	976	-	-	20,110	-	21,172
Debt securities in issue ⁽⁴⁾	-	-	-	-	6,114	-	6,114
Derivatives	1,644	-	-	-	-	-	1,644
Accruals, deferred income and other liabilities	-	-	-	-	-	383	383
Retirement benefit liabilities	-	-	-	-	-	8	8
Deferred taxation	-	-	-	-	-	5	5
Subordinated liabilities	-	-	-	-	934	-	934
	1,749	976	-	-	41,578	396	44,699
Equity							5,368
							50,067

Notes:

- (1) Includes repurchase agreements of €nil (2010: €21m) and items in the course of transmission from other banks of €148m (2010: €207m) for Group and Bank.
- (2) Ulster Bank Ireland Limited has advances secured on residential property subject to non-recourse funding. Under IAS 39, these securitised mortgages qualify for full recognition on the balance sheet at 31 December 2011 and are included in loans and advances to customers. As at 31 December 2011 €15,135m (2010: €16,182m) are included in loans and advances to customers.
- (3) Includes repurchase agreements of €1,651m (2010: €3,480m) and items in the course of transmission to other banks of €142m (2010: €248m) for Group and Bank.
- (4) Comprises Bonds and medium term notes of €4,152m (2010: €5,916m). Certificates of deposit and other commercial paper of €23m (2010: €198m).

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

8. Financial instruments (continued)

2011	Bank						Total €m
	Held-for- trading €m	Designated as at fair value through profit or loss €m	Available- for-sale €m	Loans and receivable €m	Other (amortised cost) €m	Non financial assets/ liabilities €m	
Assets							
Cash and balances at central banks	-	-	-	272	-	-	272
Loans and advances to banks ⁽¹⁾	25	-	-	2,249	-	-	2,274
Loans and advances to customers ⁽¹⁾	38	23	-	41,216	-	-	41,277
Debt securities	-	-	32	12,548	-	-	12,580
Equity shares	-	-	6	-	-	-	6
Investments in Group undertakings	-	-	-	-	-	191	191
Derivatives	1,125	-	-	-	-	-	1,125
Property, plant and equipment	-	-	-	-	-	184	184
Prepayments, accrued income and other assets	-	-	-	-	-	30	30
Retirement benefit assets	-	-	-	-	-	11	11
Deferred taxation	-	-	-	-	-	341	341
	1,188	23	38	56,285	-	757	58,291
Liabilities							
Deposits by banks ⁽²⁾	71	-	-	-	12,248	-	12,319
Customer accounts ⁽²⁾	126	1,465	-	-	34,799	-	36,390
Debt securities in issue	-	-	-	-	23	-	23
Derivatives	1,325	-	-	-	-	-	1,325
Accruals, deferred income and other liabilities	-	-	-	-	-	310	310
Deferred taxation	-	-	-	-	-	1	1
Subordinated liabilities	-	-	-	-	946	-	946
	1,522	1,465	-	-	48,016	311	51,314
Equity							6,977
							58,291

2010	Bank						Total €m
	Held-for- trading €m	Designated as at fair value through profit or loss €m	Available- for-sale €m	Loans and receivable €m	Other (amortised cost) €m	Non financial assets/ liabilities €m	
Assets							
Cash and balances at central banks	-	-	-	279	-	-	279
Loans and advances to banks ^{(1) (3)}	19	-	-	3,559	-	-	3,578
Loans and advances to customers ^{(1) (3)}	-	-	-	45,219	-	-	45,219
Debt securities ⁽³⁾	-	-	213	15,242	-	-	15,455
Equity shares	-	-	4	-	-	-	4
Investments in Group undertakings	-	-	-	-	-	191	191
Derivatives	1,044	-	-	-	-	-	1,044
Property, plant and equipment	-	-	-	-	-	201	201
Prepayments, accrued income and other assets	-	-	-	-	-	23	23
Deferred taxation	-	-	-	-	-	263	263
Assets held for sale	1	-	-	-	-	-	1
	1,064	-	217	64,299	-	678	66,258
Liabilities							
Deposits by banks ⁽²⁾	19	-	-	-	14,565	-	14,584
Customer accounts ⁽²⁾	86	976	-	-	42,616	-	43,678
Debt securities in issue	-	-	-	-	198	-	198
Derivatives	1,261	-	-	-	-	-	1,261
Accruals, deferred income and other liabilities	-	-	-	-	-	395	395
Retirement benefit liabilities	-	-	-	-	-	8	8
Deferred taxation	-	-	-	-	-	5	5
Subordinated liabilities	-	-	-	-	934	-	934
	1,366	976	-	-	58,313	408	61,063
Equity							5,195
							66,258

(1) Includes amounts due from parent or fellow group undertakings.

(2) Includes amounts due to parent or fellow group undertakings.

(3) The Bank has reclassified certain inter-group balance sheet items from 'Loans and advances to customers' to 'Debt securities' (€15,242m) to better reflect the underlying nature of the transaction. This does not impact the valuation of the underlying assets. As these are inter-group transactions there is no impact on the Group balance sheet.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

8. Financial instruments (continued)

The following table shows the financial instruments carried at fair value by valuation method

	Group							
	2011				2010			
	Level 1 ⁽¹⁾ €m	Level 2 ⁽²⁾ €m	Level 3 ⁽³⁾ €m	Total €m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Assets								
Loans and advances to banks	-	25	-	25	-	19	-	19
Loans and advances to customers	-	38	-	38	-	-	-	-
Debt securities	32	-	-	32	213	-	-	213
Equity shares	-	6	-	6	-	4	-	4
Derivatives	699	546	-	1,245	-	1,157	-	1,157
Assets held for sale	-	-	-	-	-	1	-	1
Total	731	615	-	1,346	213	1,181	-	1,394
Liabilities								
Deposits by banks	-	71	-	71	-	19	-	19
Deposits by customers	-	1,591	-	1,591	-	1,062	-	1,062
Derivatives	1,192	481	-	1,673	-	1,644	-	1,644
Total	1,192	2,143	-	3,335	-	2,725	-	2,725

	Bank							
	2011				2010			
	Level 1 ⁽¹⁾ €m	Level 2 ⁽²⁾ €m	Level 3 ⁽³⁾ €m	Total €m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Assets								
Loans and advances to banks	-	25	-	25	-	19	-	19
Loans and advances to customers	-	61	-	61	-	-	-	-
Debt securities	32	-	-	32	213	-	-	213
Equity shares	-	6	-	6	-	4	-	4
Derivatives	698	427	-	1,125	-	1,044	-	1,044
Assets held for sale	-	-	-	-	-	1	-	1
Total	730	519	-	1,249	213	1,068	-	1,281
Liabilities								
Deposits by banks	-	71	-	71	-	19	-	19
Deposits by customers	-	1,591	-	1,591	-	1,062	-	1,062
Derivatives	1,192	133	-	1,325	-	1,261	-	1,261
Total	1,192	1,795	-	2,987	-	2,342	-	2,342

(1) Valued using unadjusted quoted prices in active markets for identical financial instruments. This category includes listed equity shares, certain exchange-traded derivatives, G10 government securities and certain US agency securities.

(2) Valued using techniques based significantly on observable market data. Instruments in this category are valued using:
a) quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or
b) valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

The type of instruments that trade in markets that are not considered to be active, but are based on quoted market prices, broker dealer quotations or alternative pricing sources with reasonable levels of price transparency and those instruments valued using techniques include most government agency securities, investment-grade corporate bonds, certain mortgage products, certain bank and bridge loans, repos and reverse repos, less liquid equities, state and municipal obligations, most physical commodities, investment contracts issued by the Group's life assurance businesses and certain money market securities and loan commitments and most OTC derivatives.

(3) Instruments in this category have been valued using a valuation technique where at least one input (which could have a significant effect on the instrument's valuation) is not based on observable market data. Where inputs can be observed from market data without undue cost and effort, the observed input is used. Otherwise, the Group determines a reasonable level for the input.

Financial instruments included within Level 3 of the fair value hierarchy primarily consist of cash instruments which trade infrequently, certain syndicated and commercial mortgage loans, unlisted equity shares, certain residual interests in securitisations, super senior tranches of high grade and mezzanine collateralised debt obligations (CDO's), and other mortgage-based products and less liquid debt securities, certain structured debt securities in issue and OTC derivatives where valuation depends upon unobservable inputs such as certain credit and exotic derivatives. No gain or loss is recognised on the initial recognition of a financial instrument valued using a technique incorporating significant unobservable data.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

8. Financial instruments (continued)

The following tables show the carrying values and the fair values of financial instruments on the balance sheet carried at amortised cost.

	Group			
	2011 Carrying value €m	2011 Fair value €m	2010 Carrying value €m	2010 Fair value €m
Financial assets				
Cash and balances at central banks	272	272	279	279
Loans and advances to banks				
Loans and receivables	3,379	3,380	3,632	3,545
Loans and advances to customers				
Loans and receivables	38,975	30,461	44,105	35,527
Financial liabilities				
Deposit by banks	12,235	12,236	14,420	14,419
Customer accounts	16,375	16,505	20,110	20,200
Debt securities in issue	4,175	2,501	6,114	4,008
Subordinated liabilities	946	947	934	934
	Bank			
	2011 Carrying value €m	2011 Fair value €m	2010 Carrying value €m	2010 Fair value €m
Financial assets				
Cash and balances at central banks	272	272	279	279
Loans and advances to banks				
Loans and receivables	2,249	2,249	3,559	3,530
Loans and advances to customers				
Loans and receivables	41,216	32,726	45,219	37,322
Debt securities				
Loans and receivables	12,548	12,548	15,242	15,242
Financial liabilities				
Deposit by banks	12,248	12,249	14,565	14,565
Customer accounts	34,799	32,983	42,616	42,706
Debt securities in issue	23	23	198	198
Subordinated liabilities	946	947	934	934

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

8. Financial instruments (continued)

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. 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 or settlement. As a wide range of valuation techniques is available, it may be inappropriate to compare the Group's fair value information to independent markets or other financial institutions' fair values.

The assumptions and methodologies underlying the calculation of fair values of financial instruments at the balance sheet date are set out below:

The fair value of financial instruments that are of short maturity (3 months or less) approximates their carrying value. This applies mainly to cash and balances at central banks, items in the course of collection from other banks, settlement balances, items in the course of transmission to other banks and demand deposits.

The Group uses a number of methodologies to determine the fair values of financial instruments for which observable prices in active markets for identical instruments are not available. These techniques include: relative value methodologies based on observable prices for similar instruments; present value approaches where future cash flows from the asset or liability are estimated and then discounted using a risk-adjusted interest rate; option pricing models (such as Black-Scholes or binomial option pricing models) and simulation models such as Monte-Carlo.

The principal inputs to these valuation techniques are listed below. Values between and beyond available data points are obtained by interpolation and extrapolation. When utilising valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk.

- Bond prices - quoted prices are generally available for government bonds, certain corporate securities and some mortgage-related products.
- Credit spreads - where available, these are derived from prices of credit default swaps or other credit based instruments, such as debt securities. For others, credit spreads are obtained from pricing services.
- Interest rates - these are principally benchmark interest rates such as the European Interbank Offered Rate (EURIBOR) and quoted interest rates in the swap, bond and futures markets.
- Foreign currency exchange rates - there are observable markets both for spot and forward contracts and futures in the world's major currencies.

Loans and advances to banks and customers

Fair value is estimated by grouping loans into homogeneous portfolios and applying a discount rate to the cash flows. The discount rate is based on the market rate applicable at the balance sheet date for a similar portfolio with similar maturity and credit risk characteristics.

Debt securities

Fair values are determined using quoted prices where available or by reference to quoted prices of similar instruments.

Deposits by banks and customer accounts

The fair values of deposits are estimated using discounted cash flow valuation techniques.

Debt securities in issue and subordinated liabilities

Fair values are determined using quoted prices where available or by reference to valuation techniques and adjusting for own credit spreads where appropriate.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

8. Financial instruments (continued)

Remaining maturity

2011	Group		Total €m
	Less than 12 months €m	More than 12 months €m	
Assets			
Cash and balances at central banks	272	-	272
Loans and advances to banks	3,404	-	3,404
Loans and advances to customers	7,634	31,379	39,013
Debt securities	10	22	32
Equity shares	-	6	6
Derivatives	92	1,153	1,245
Liabilities			
Deposits by banks	12,077	229	12,306
Customer accounts	16,231	1,735	17,966
Debt securities in issue	6	4,169	4,175
Derivatives	505	1,168	1,673
Subordinated liabilities	-	946	946

2010	Group		Total €m
	Less than 12 months €m	More than 12 months €m	
Assets			
Cash and balances at central banks	279	-	279
Loans and advances to banks	3,651	-	3,651
Loans and advances to customers	9,885	34,220	44,105
Debt securities	182	31	213
Equity shares	-	4	4
Derivatives	330	827	1,157
Assets held for sale	1	-	1
Liabilities			
Deposits by banks	14,439	-	14,439
Customer accounts	19,806	1,366	21,172
Debt securities in issue	182	5,932	6,114
Derivatives	1,081	563	1,644
Subordinated liabilities	-	934	934

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

8. Financial instruments (continued)

Remaining maturity

	Bank		Total €m
	Less than 12 months €m	More than 12 months €m	
2011			
Assets			
Cash and balances at central banks	272	-	272
Loans and advances to banks	2,274	-	2,274
Loans and advances to customers	9,655	31,622	41,277
Debt securities	12,559	21	12,580
Equity shares	-	6	6
Derivatives	83	1,042	1,125
Liabilities			
Deposits by banks	12,088	231	12,319
Customer accounts	19,714	16,676	36,390
Debt securities in issue	6	17	23
Derivatives	400	925	1,325
Subordinated liabilities	-	946	946
	Bank		Total €m
	Less than 12 months €m	More than 12 months €m	
2010			
Assets			
Cash and balances at central banks	279	-	279
Loans and advances to banks	3,578	-	3,578
Loans and advances to customers	13,902	31,317	45,219
Debt securities	15,424	31	15,455
Equity shares	-	4	4
Derivatives	330	714	1,044
Assets held for sale	1	-	1
Liabilities			
Deposits by banks	14,445	139	14,584
Customer accounts	37,066	6,612	43,678
Debt securities in issue	181	17	198
Derivatives	1,026	235	1,261
Subordinated liabilities	-	934	934

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

9. Financial assets - impairment

The following table shows the movement in the provision for impairment losses for loans and advances.

	Group and Bank			
	Individually assessed €m	Collectively assessed €m	Latent €m	Total €m
At 1 January 2011	4,326	723	560	5,609
Currency translation and other adjustments	22	-	1	23
Amounts written-off ⁽¹⁾	(148)	(30)	-	(178)
Charged to the income statement	2,661	702	50	3,413
Unwind of discount	(204)	(29)	-	(233)
At 31 December 2011 ⁽²⁾	6,657	1,366	611	8,634

	Group and Bank			
	Individually assessed €m	Collectively assessed €m	Latent €m	Total €m
At 1 January 2010	1,299	305	206	1,810
Transfer from fellow subsidiary	163	111	36	310
Amounts written-off ⁽¹⁾	(6)	(32)	-	(38)
Charged to the income statement	3,045	389	318	3,752
Unwind of discount	(175)	(50)	-	(225)
At 31 December 2010 ⁽²⁾	4,326	723	560	5,609

⁽¹⁾ Amounts written off do not include any loans and advances to banks.

⁽²⁾ Impairment losses at 31 December 2011 and 31 December 2010 do not include any loans and advances to banks.

Loan impairment

At 31 December 2011, the non-accrual loans and loans past due 90 days amounted to €16,598m (2010: €12,521m) for both Group and Bank. Loan impairment provisions of €8,023m (2010: €5,049m) were held against the loans.

	Group and Bank	
	2011 €m	2010 €m
Gross income not recognised but which would have been recognised under the original terms of non-accrual and restructured loans		
Domestic	973	526

The Group considers financial assets to be impaired when there is no longer a reasonable prospect of receiving the contractual cash flows in accordance with the contract and the net present value of any security is less than the outstanding amount.

The following table shows analysis of impaired financial assets.

Group and Bank	2011			2010		
	Cost €m	Provision €m	Carrying amount €m	Cost €m	Provision €m	Carrying amount €m
Impaired financial assets						
Loans and advances to customers	16,288	(8,023)	8,265	12,169	(5,049)	7,120
Equity shares	8	(2)	6	2	(1)	1
	16,296	(8,025)	8,271	12,171	(5,050)	7,121

The Group holds collateral in respect of certain loans and advances to banks and to customers that are past due or impaired. Such collateral includes mortgages over property (both personal and commercial); charge over business assets such as plant, inventories and trade receivables; and guarantees of lending from parties other than the borrower.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

9. Financial assets - impairment (continued)

The following table shows financial and non-financial assets, recognised on the Group's balance sheet, obtained during the year by taking possession of collateral or calling on other credit enhancements.

	Group	
	2011 €m	2010 €m
Residential property	26	-
Other property	5	117
	31	117
	Bank	
	2011 €m	2010 €m
Residential property	21	-
Other property	5	117
	26	117

The following assets were past due at the balance sheet date but not considered impaired:

Group and Bank	Past due 1-29 days €m	Past due 30-59 days €m	Past due 60-89 days €m	Past due more than 90 days €m	Total €m
2011					
Loans and advances to customers	1,527	653	482	310	2,972
2010					
Loans and advances to customers	1,988	795	489	352	3,624

	Group and Bank	
	2011 €m	2010 €m
Impaired financial assets - individually assessed:		
Loans and advances to customers	6,657	4,326

Loans that have been renegotiated in the past 12 months that would otherwise have been past due or impaired amounted to €3,400m as at 31 December 2011 (2010: €1,756m) for the Group and Bank.

10. Debt securities

	Group					
	2011			2010		
	Other central and local government €m	Mortgage backed securities €m	Total €m	Other central and local government €m	Mortgage backed securities €m	Total €m
Available-for-sale	32	-	32	213	-	213
Gross unrealised gains	1	-	1	4	-	4

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

10. Debt securities (continued)

	Bank					
	2011			Revised 2010		
	Other central and local government €m	Mortgage backed securities €m	Total €m	Other central and local government €m	Mortgage backed securities €m	Total €m
Available-for-sale	32	-	32	213	-	213
Loans and receivables ⁽¹⁾	-	12,548	12,548	-	15,242	15,242
	32	12,548	12,580	213	15,242	15,455
Available-for-sale						
Gross unrealised gains	1	-	1	4	-	4

(1) The Bank has reclassified certain inter-group balance sheet items from 'Loans and advances to customers' to 'Debt securities' (€15,242m) to better reflect the underlying nature of the transaction. This does not impact the valuation of the underlying assets. As these are inter-group transactions there is no impact on the Group balance sheet.

11. Equity shares

	Group and Bank	
	2011	2010
	Unlisted €m	Unlisted €m
Available-for-sale	6	4

No gains or losses were realised on the available-for-sale equity shares (2010: €nil).

12. Investments in Group undertakings

Investments in Group undertakings are carried at cost less impairment. Movements during the year were as follows:

	Bank	
	2011 €m	2010 €m
At 1 January	191	187
Additional investments in Group undertakings	-	4
At 31 December	191	191

The principal subsidiary undertakings of the Bank are shown below. Their capital consists of ordinary shares which are unlisted. All of these undertakings are owned directly or indirectly through intermediate holding companies and are all wholly-owned.

Undertaking	Nature of business	Place of incorporation
First Active Insurance Services Limited	Intermediary for third party life assurance policies	Republic of Ireland
Ulster Bank Investment Funds Limited	Fund administration services	Republic of Ireland
Ulster Bank Wealth	Wealth management services	Republic of Ireland

Full list of subsidiary undertakings

In presenting details of its subsidiary undertakings, the exemption permitted by Regulation 10 of the European Communities (Credit Institutions: Accounts) Regulations, 1992, has been availed of. A full list of subsidiary undertakings will be annexed to the annual return for the Bank. All of these undertakings are included in the Group's consolidated financial statements and have an accounting reference date of 31 December.

There are a number of entities in which the Group holds less than half the voting rights which are consolidated when the substance of the relationship between the Group and the entity indicates that the entity is controlled by the Group. Such entities are deemed to be controlled by the Group when relationships with such entities give rise to benefits that are in substance no different from those that would arise were the entity a subsidiary.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

13. Intangible assets

Intangible assets comprising goodwill and computer software were fully impaired in 2008. The remaining intangible asset class, core deposit intangibles, was fully impaired in 2009. No further intangible assets were developed or acquired in the current or the previous year.

14. Property, plant and equipment

	Group					
	Investment properties €m	Freehold land and buildings €m	Leases of 50 years or more unexpired €m	Leases of 50 years or less unexpired €m	Computer and other equipment €m	Total €m
2011						
Cost:						
At 1 January 2011	131	121	18	111	148	529
Reclassifications	12	-	14	(26)	-	-
Additions	5	-	-	2	2	9
Disposals	-	(1)	(8)	-	(1)	(10)
Revaluation	(71)	-	-	-	-	(71)
At 31 December 2011	77	120	24	87	149	457
Accumulated depreciation and amortisation:						
At 1 January 2011	3	46	10	16	95	170
Reclassifications	(3)	-	3	-	-	-
Disposals	-	-	-	-	(1)	(1)
Depreciation charge for the year	-	3	2	8	10	23
At 31 December 2011	-	49	15	24	104	192
Carrying amount at 31 December 2011	77	71	9	63	45	265

There was no profit or loss on disposal of freehold land and buildings during the year (2010: €4m).

Rental income from investment properties was €2m (2010: €1m). Direct operating expenses of investment properties were €2m (2010: €1m). Direct operating expenses of investment properties not generating rental income were €10m (2010: €nil).

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

14. Property, plant and equipment (continued)

	Group					Total €m
	Investment properties €m	Freehold land and buildings €m	Leases of 50 years or more unexpired €m	Leases of 50 years or less unexpired €m	Computer and other equipment €m	
2010						
Cost:						
At 1 January 2010	131	107	18	93	141	490
Additions	-	21	-	19	9	49
Disposals	-	(7)	-	(1)	(2)	(10)
At 31 December 2010	131	121	18	111	148	529
Accumulated depreciation and impairment:						
At 1 January 2010	3	16	5	9	84	117
Disposals	-	-	-	-	(1)	(1)
Impairments	-	27	4	-	-	31
Depreciation charge for the year	-	3	1	7	12	23
At 31 December 2010	3	46	10	16	95	170
Carrying amount at 31 December 2010	128	75	8	95	53	359
	Bank					
	Freehold land and buildings €m	Leases of 50 years or more unexpired €m	Leases of 50 years or less unexpired €m	Computer and other equipment €m		Total €m
2011						
Cost:						
At 1 January 2011	119	18	85	137		359
Additions	-	-	2	2		4
Disposals	(1)	-	-	(1)		(2)
At 31 December 2011	118	18	87	138		361
Accumulated depreciation and amortisation:						
At 1 January 2011	46	10	16	86		158
Disposals	-	-	-	(1)		(1)
Depreciation charge for the year	3	-	8	9		20
At 31 December 2011	49	10	24	94		177
Carrying amount at 31 December 2011	69	8	63	44		184

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

14. Property, plant and equipment (continued)

	Bank				Total €m
	Freehold land and buildings €m	Leases of 50 years or more unexpired €m	Leases of 50 years or less unexpired €m	Computer and other equipment €m	
2010					
Cost:					
At 1 January 2010	106	18	67	129	320
Additions	20	-	19	10	49
Disposals	(7)	-	(1)	(2)	(10)
At 31 December 2010	119	18	85	137	359
Accumulated depreciation and amortisation:					
At 1 January 2010	16	5	9	76	106
Disposals	-	-	-	(1)	(1)
Impairment	27	4	-	-	31
Depreciation charge for the year	3	1	7	11	22
At 31 December 2010	46	10	16	86	158
Carrying amount at 31 December 2010	73	8	69	51	201

15. Derivatives

Companies in the Group transact derivatives as principal either as a trading activity or to manage balance sheet foreign exchange, interest rate and credit risk.

	Group					
	2011			2010		
	Notional amounts €m	Assets €m	Liabilities €m	Notional amounts €m	Assets €m	Liabilities €m
Free standing derivatives						
Exchange rate contracts:						
Spot, forwards and futures	4,679	148	83	6,512	84	104
Currency swaps	1,838	62	234	1,839	60	256
Interest rate contracts:						
Interest rate swaps	62,712	970	1,342	67,125	905	1,261
Options purchased	391	6	-	995	15	-
Options written	259	-	6	833	-	21
Futures and forwards	1,506	8	8	1,653	17	2
Equity and commodity contracts	1,431	51	-	941	76	-
	72,816	1,245	1,673	79,898	1,157	1,644

ULSTER BANK IRELAND LIMITED

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15. Derivatives (continued)

	Bank					
	2011			2010		
	Notional amounts €m	Assets €m	Liabilities €m	Notional amounts €m	Assets €m	Liabilities €m
Free standing derivatives						
Exchange rate contracts:						
Spot, forwards and futures	4,679	148	83	6,512	84	104
Currency swaps	1,090	61	60	1,089	60	59
Interest rate contracts:						
Interest rate swaps	47,614	851	1,168	49,277	792	1,075
Options purchased	261	6	-	865	15	-
Options written	259	-	6	833	-	21
Futures and forwards	1,506	8	8	1,653	17	2
Equity and commodity contracts	1,431	51	-	941	76	-
	56,840	1,125	1,325	61,170	1,044	1,261

16. Prepayments, accrued income and other assets

	Group		Bank	
	2011	2010	2011	2010
	€m	€m	€m	€m
Prepayments	21	26	14	20
Accrued income	11	6	7	-
Other assets	15	3	9	3
	47	35	30	23

17. Assets held for sale

	Group and Bank	
	2011	2010
	€m	€m
Other assets	-	1
	-	1

To comply with European Commission State Aid requirements, the RBS Group has agreed to make a series of divestments within four years from December 2009. During 2010, the RBS Group successfully completed the disposal of the majority of Global Merchant Services which included Ulster Bank Merchant Services. The divestment met the criteria for classification as held for sale at 31 December 2010. The transaction was completed in 2011.

18. Accruals, deferred income and other liabilities

	Group		Bank	
	2011	2010	2011	2010
	€m	€m	€m	€m
Accruals	209	239	206	232
Deferred income	7	52	7	51
Other liabilities	108	92	97	112
	324	383	310	395

Provisions of €65m (2010: €58m) for the Group and €63m (2010: €56m) for the Bank are included in other liabilities.

Provisions include property provisions and other provisions arising in the normal course of business.

ULSTER BANK IRELAND LIMITED

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19. Deferred taxation

Provision for deferred taxation has been made as follows:

	Group and Bank	
	2011	2010
	€m	€m
Deferred tax asset	341	263
Deferred tax liability	(1)	(5)
Net deferred tax	340	258

	Group and Bank							
	Pension	Accelerated capital allowances	Provisions	Deferred gains	AFS	Hedging	Tax losses	Total
	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January 2010	6	2	-	(5)	(1)	-	178	180
(Charge)/credit to income statement	(3)	(1)	-	1	-	-	71	68
Other	(2)	(1)	-	-	-	-	13	10
At 1 January 2011	1	-	-	(4)	(1)	-	262	258
(Charge)/credit to income statement	(2)	2	-	4	-	-	77	81
Other	-	-	-	-	1	-	-	1
At 31 December 2011	(1)	2	-	-	-	-	339	340

20. Subordinated liabilities

	Group and Bank	
	2011	2010
	€m	€m
Dated loan capital	755	742
Dated subordinated bonds	76	76
Perpetual subordinated bonds	105	106
Undated loan capital	10	10
	946	934

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

20. Subordinated liabilities (continued)

	Group and Bank	
	2011 €m	2010 €m
Dated loan capital:		
Euro loan capital repayable 2022:		
- held by Ulster Bank Limited	431	430
Euro loan capital repayable 2022:		
- held by RBS plc	100	100
Euro (floating rate)		
-held by First Active plc	149	133
Euro (floating rate) repayable 2020:		
- held by Ulster Bank Limited	40	40
Euro (floating rate) repayable 2019:		
- held by Ulster Bank Limited	35	39
	755	742
Dated subordinated bonds		
£60m 6.375% subordinated bonds 2018 (callable April 2013)		
- held by ABN AMRO	76	76
	76	76
Perpetual subordinated bonds:		
Euro (fixed: 11.375%)	63	64
Sterling (fixed: 11.75%)	40	40
Sterling (floating rates)	2	2
	105	106
Undated loan capital		
Sterling loan capital - held by parent company	10	10
	10	10
Total	946	934

Dated loan capital

Claims in respect of the Group's and Bank's loan capital are subordinate to the claims of other creditors. None of the loan capital is secured.

Interest on Euro-denominated loan capital is payable quarterly at a margin over Euro Interbank Offer rates. Early repayment of the dated loan may take place at any time with a notice period of at least 30 days, subject to the prior agreement of the Central Bank of Ireland (CBI).

Dated subordinated bonds

The Sterling fixed subordinated bonds mature on 4 April 2018 but are callable on 4 April 2013. The claims of the holders of the bonds are subordinate to the claims of all trade payables of the Bank other than the holders of the perpetual subordinated bonds.

Perpetual subordinated bonds

The subordinated perpetual bonds were issued by First Active plc, in the Republic of Ireland, at par on conversion of First National Building Society to a public limited company pursuant to Section 107 of the Building Societies Act, 1989 to replace the issued fixed and floating rate permanent interest bearing shares of the Society. The claims of the holders of the bonds are subordinate to the claims of all creditors of the Bank. These bonds were transferred from First Active plc on 15 February 2010.

Undated loan capital

The Sterling loan stock, which is perpetual, is held by another Group company and is repayable at the option of the Bank only with prior consent of the CBI.

ULSTER BANK IRELAND LIMITED

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21. Share capital

	Group and Bank			
	Allotted, called up and fully paid		Authorised	
	2011 €m	2010 €m	2011 €m	2010 €m
<i>Equity shares:</i>				
Ordinary B shares of €1.27	1,825	1,825	2,223	2,223
Ordinary B shares of €1	1,745	1,745	2,400	2,400
Ordinary A shares of stg £1	22	22	37	37
Total share capital	3,592	3,592	4,660	4,660

Number of shares	Allotted, called up and fully paid		Authorised	
	2011 Millions	2010 Millions	2011 Millions	2010 Millions
<i>Equity shares:</i>				
Ordinary B shares of €1.27	1,437	1,437	1,750	1,750
Ordinary B shares of €1	1,745	1,745	2,400	2,400
Ordinary A shares of stg £1	15	15	25	25
Total share capital	3,197	3,197	4,175	4,175

All share classes rank pari passu in all respects.

22. Leases

Minimum amounts payable under non-cancellable leases:

Year in which payment will occur:	Group and Bank							
	2011				2010			
	Within 1 year €m	After 1 year but within 5 years €m	After 5 years €m	Total €m	Within 1 year €m	After 1 year but within 5 years €m	After 5 years €m	Total €m
Operating lease obligations:								
Future minimum lease payables:								
Premises	23	90	111	224	23	90	113	226
Equipment	2	2	-	4	2	2	-	4
	25	92	111	228	25	92	113	230

	Group and Bank	
	2011 €m	2010 €m
Amounts recognised as expense		
Operating lease payables - minimum payments	24	22

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

23. Collateral and securitisations

Securities repurchase agreements and lending transactions

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers cash or securities as collateral in accordance with normal practice. Generally, the agreements require additional collateral to be provided if the value of the securities fall below a predetermined level.

Under standard terms for repurchase transactions in the Republic of Ireland, the recipient of the collateral has an unrestricted right to sell or repledge it, subject to returning equivalent securities on settlement of the transaction.

The fair value (and carrying value) of securities transferred under repurchase transactions included within debt securities are shown on the balance sheet. Securities received as collateral under reverse repurchase agreements amounted to €nil (2010: €21m).

Other collateral given

	Group	
	2011	2010
	€m	€m
Group assets charged as security for liabilities		
Loans and advances to customers	17,828	20,052
Investment properties	23	-
Derivatives	10	12
	17,861	20,064
	Group	
	2011	2010
	€m	€m
Liabilities secured by charges on assets		
Debt securities in issue	4,151	5,916
Deposits by banks	1,650	1,800
Other liabilities	24	-
Derivatives	23	-
	5,848	7,716

Included in deposits by banks is the Group's obligation to the CBI under the terms of the Mortgage Backed Promissory Note programme. These obligations are secured by way of a floating charge to the CBI over all its right, title, interest and benefit.

Securitisations and other asset transfers

The Group undertakes securitisations to fund specific portfolios of assets. In a securitisation, assets, or interests in a pool of assets, are transferred generally to a special purpose entity (SPE) which then issues liabilities to third party investors. SPEs are vehicles established for a specific, limited purpose, usually do not carry out a business or trade and typically have no employees. They take a variety of legal forms - trusts, partnerships and companies - and fulfil many different functions.

The following section aims to address the significant exposures which arise from the Group's activities through specific types of SPEs.

The table below sets out the asset categories together with the carrying amounts of the assets and associated liabilities for those securitisations where substantially all the risks and rewards of the asset have been retained by the Group and continue to be presented in its balance sheet.

	2011		2010	
	Assets	Liabilities	Assets	Liabilities
	€m	€m	€m	€m
Residential mortgages	13,998	4,151	16,182	5,916
Corporate and commercial loans	1,137	-	1,254	-
	15,135	4,151	17,436	5,916

24. Risk management

The major risks associated with the Group's businesses are market, liquidity, credit, regulatory, reputational, operational and sovereign risk. The Group has established a comprehensive framework for managing these risks which is continually evolving as the Group's business activities change in response to market, credit, product and other developments. The Group is also exposed to risks from its defined benefit pension schemes.

The Group has established clear risk policies, including limits, reporting lines and control procedures. This framework is designed to provide tight control and is reviewed regularly by both Executive and Board Committees.

Market risk

Market risk is defined as the risk of loss as a result of adverse changes in market factors. The risk factors include interest rates, foreign currency and equity prices together with related parameters such as market volatilities.

The principal market risks to which the Group is exposed are interest rate and foreign exchange risks. The RBS Group manages market risk within its trading and non-trading portfolios through a comprehensive market risk management framework. This framework includes limits based on, but not limited to VaR, scenario analysis, position and sensitivity analyses. The Group, in conjunction with RBS Group Market Risk and Group Treasury, annually agree sub limits based on the Group's approved market risk appetite.

At the RBS Group level, the risk appetite is expressed in the form of a combination of VaR, sensitivity and scenario limits. VaR is a technique that produces estimates of the potential 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 trading day and confidence level of 99% as it is considered that this provides greater clarity in respect of more severe potential economic outcomes. The Group's VaR model is based on a historical simulation model utilising data from the previous two years trading results.

The VaR disclosure is broken down into trading and non-trading, where trading VaR relates to the trading activities and non-trading reflects the VaR associated with reclassified assets, money market business and the management of internal funds flow within the Group's businesses.

The Group calculates VaR using historical simulation models but does not make any assumption about the nature or type of underlying loss distribution other than implied by history. The methodology uses the previous 500 trading days of market data and calculates both general market risk (the risk due to movement in general market benchmarks) and idiosyncratic market risk (the risk due to movements in the value of securities by reference to specific issuers). The Group VaR should be interpreted in light of the limitations of the methodology used as follows:

- Historical simulation VaR may not provide the best estimate of future market movements. It can only provide a prediction of the future based on events that occurred in the time series horizon. Therefore, events that are more severe than those in the historical data series cannot be predicted;
- VaR that uses a 99% confidence level does not reflect the extent of potential losses beyond that percentile;
- VaR that uses a one-day time horizon will not fully capture the profit or loss implications of positions that cannot be liquidated or hedged within one day; and
- The Group computes the VaR of trading portfolios and non trading money markets portfolio at the close of business. Treasury Interest Rate risk VaR is computed monthly.

A 'Risks not in VaR' framework has been developed to address those market risks not adequately captured by the market standard VaR methodology. Where risks are not included in the model, various non-VaR controls (for example, position monitoring, sensitivity limits, triggers or stress limits) are in place. These limitations mean that the Group cannot guarantee that losses will not exceed the VaR.

(i) Trading portfolios

The Group eliminates its market risk in these portfolios by entering into back-to-back positions with its ultimate parent company, The Royal Bank of Scotland Group plc.

(ii) Non-trading

The principal market risks arising from the Group's non-trading activities are interest rate risk and currency risk. Non-trading risk is managed by both the Money Market Desk and Treasury and arises from mismatches between the repricing of assets and liabilities in its wholesale markets, retail, business and corporate bank.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

24. Risk management - market risk (continued)

Short Term Markets and Financing (STMF) VaR

The STMF desk is responsible for raising funding in the international wholesale and repo markets and funding the corporate loan book.

STMF Total VaR is presented in the table below:

	31 December 2011 €m	Maximum €m	Minimum €m	Average €m
Value-at-Risk	1.0	1.3	0.5	0.8
	31 December 2010 €m	Maximum €m	Minimum €m	Average €m
Value-at-Risk	1.0	2.5	0.7	1.7

STMF interest rate VaR

The Interest Rate VaR limit is a sub limit of the Total VaR limit and is monitored daily.

STMF Interest Rate VaR is presented in the table below:

	31 December 2011 €m	Maximum €m	Minimum €m	Average €m
Value-at-Risk	1.0	1.2	0.4	0.7
	31 December 2010 €m	Maximum €m	Minimum €m	Average €m
Value-at-Risk	0.9	2.3	0.6	1.4

Treasury Interest rate risk

The Group's portfolio of non-trading financial instruments principally comprise retail and commercial banking loans and deposits, debt securities, debt securities issued, loan capital and derivatives.

Non-trading interest rate risk is calculated on the basis of establishing the repricing behavior of each asset, liability and off-balance sheet product. For many products, the actual interest rate repricing characteristics differ from the contractual repricing. In most cases, the repricing maturity is determined by the market interest rate that most closely fits the historical behaviour of the product interest rate. For example with non-interest bearing current accounts, the repricing maturity is determined by the stability of the portfolio. The repricing maturities used are approved by RBS Group Treasury and the Group Asset and Liability Committee (GALCO) at least annually. Key conventions are reviewed annually by GALCO. Short-term exposures are measured and controlled in terms of net interest income sensitivity over 12 months to a 1% parallel movement in interest rates. Risk is managed through arm's length cash transactions, bonds and derivatives, principally interest rate swaps.

A static maturity gap report is produced as at the month-end, in each functional currency based on the behavioralised repricing for each product. It is Group policy to include in the gap report, non-financial assets and liabilities, mainly property, plant and equipment and the Group's capital and reserves, spread over medium and longer term maturities. This report also includes hedge transactions, principally derivatives.

Any residual non-trading interest rate exposures are controlled by limiting repricing mismatches in the balance sheets. Potential exposures to interest rate movements in the medium to long term are measured and controlled using a version of the same VaR methodology that is used for the Group's trading portfolios but without discount factors. Net accrual income exposures are measured and controlled in terms of sensitivity over time to movements in interest rates.

Risk is managed within VaR limits approved by GALCO through the execution of cash and derivative instruments. Execution of the hedging is carried out by the relevant division through the Group's treasury function. The residual risk position is reported to GALCO.

Non-trading interest rate VaR is split between Euro and Sterling currency balances to which separate risk limits are applied. At 31 December 2011, Sterling VaR was calculated to be €433,000 (2010: €269,000). Euro VaR was calculated to be €464,000 (2010: €351,000).

Principal amounts only are included. Average balances are used for products where this is considered to provide a more accurate representation of the exposure. A separate ladder is produced for each material currency.

24. Risk management - market risk (continued)

Option risk in the non-trading businesses principally occurs in certain fixed rate assets and liabilities. It arises 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 prior to their maturity. In managing this risk, historic early repayment rates are taken into account.

The Group generally seeks to protect itself from early repayment risk through the imposition of contract breakage fees.

Foreign Exchange Risk in the Banking Book represents exposures to changes in the values of current holdings and future cash flows denominated in other currencies. Hedging instruments used to mitigate these risks include foreign currency options, currency swaps, futures, forwards and deposits. Foreign exchange risk results from the RBS Group's investments in overseas subsidiaries, associates and branches in three principal forms:

- Structural foreign currency exposures that arise from net investment in overseas subsidiaries, associates and branches;
- Transactional/commercial foreign currency exposures that arise from mismatches in the currency balance sheet; and
- Foreign currency profit streams.

The Group does not maintain material non-trading open currency positions other than the structural foreign currency translation exposures arising from its investments in foreign subsidiaries 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 foreign subsidiaries, equity accounted investments and branches, except where doing so would materially increase the sensitivity of either the Group's or the subsidiary's regulatory capital ratios to currency movements. The policy requires structural foreign exchange positions to be reviewed regularly by GALCO.

Foreign exchange differences arising on the translation of foreign operations are recognised directly in equity together with the effective portion of foreign exchange differences arising on hedging liabilities.

The Group has no structural foreign currency exposures and had no net investment hedge relationships at 31 December 2011 (2010: nil).

Changes in foreign exchange rates affect the Group's earnings and equity through differences on the retranslation of the net assets and related funding of overseas subsidiaries from the local functional currency to Sterling. Gains or losses on foreign currency investments in subsidiary and associated undertakings, net of any losses or gains on related foreign currency funding, are recognised in reserves. In 2011 exchange losses of €1m (2010: €8m) have been charged to reserves.

Liquidity risk

The Group's liquidity policy is designed to ensure that the Group can at all times meet its obligations as they fall due.

Liquidity management within the Group addresses the overall balance sheet structure and the control, within prudent limits, of risk arising from the mismatch of maturities across the balance sheet and from exposure to undrawn commitments and other contingent obligations.

Liquidity conditions in international money and debt markets continued to be very constrained during 2011. The continuing dislocation in the wholesale markets impacted the pricing and availability of liquidity and term funds for the Group, as it did with most other financial institutions. This market dislocation led to the continuance of a range of exceptional liquidity provision measures by Monetary Authorities and the Group continued to participate in the liquidity schemes of the European Central Bank, who provided funding under various collateralised schemes.

During October 2011, RBS Group's ratings were downgraded by Fitch to A/F1 (stable) and by Moody's to A2/P1 (negative). This downgrade by the rating agencies was based on the assumption that the UK government was relatively less likely to provide future support to financial institutions than previously. In November 2011, Standard & Poor's also downgraded RBS Group to A/A-1 (stable).

In October 2011 Moody's downgraded Ulster Bank Limited ('UBL') and the Bank to Baa1/P2 (negative), due to the RBS Group downgrade earlier in the month. Later in the month Fitch also downgraded both entities to A-/F1 (stable) for the same reason as Moody's.

Standard & Poor's downgraded UBL and the Bank to 'BBB+/A-2' (Stable) in April 2011 following the downgrade of the Irish sovereign.

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

24. Risk management – liquidity risk (continued)

On 9 December 2009, the Committee of European Banking Supervisors issued a paper entitled "Guidelines on Liquidity Buffers & Survival Periods". Member states of the European Union were expected to apply these guidelines by 30 June 2010. The Bank through consultation with the Financial Regulator, continues to apply the guidelines and consequently holds a liquidity buffer to address liquidity stress events.

Liquidity risk framework and governance

The Group has an approved risk appetite supported by explicit targets and metrics to control the size and extent of both short-term and long-term liquidity risk. The Bank's Group Asset and Liability Committee (Ulster GALCO), chaired by the Group Finance Director, is responsible for defining and approving the Group's liquidity policy and setting acceptable parameters and risk limits that aligns with the overall Group standards and risk appetite. The Group's liquidity policy is subject to annual, or more frequent, review as appropriate. Group Treasury is the functional area with responsibility for the monitoring and control of the Group's funding and liquidity positions.

Liquidity risk is constantly monitored to evaluate the Group's position having regard to its risk appetite and key metrics. Daily, weekly and monthly monitoring and control processes are in place, which allow management to take appropriate action.

The contractual maturity of on balance sheet assets and liabilities, shown in the tables following, highlight the maturity transformation which underpins the role of banks to lend longer-term but funded predominantly by short-term liabilities such as customer deposits. In practice, the behaviour profile of many assets and liabilities exhibit greater stability and longer maturity than the contractual maturity.

The Group is part of the RBS Group and receives ongoing capital, funding and liquidity resources which, coupled with other sources of funding and liquidity, enable the Group to meet its obligations as they fall due. Other sources of funding and liquidity include retail, wholesale and central bank liquidity facilities.

The directors are satisfied that the Group will continue to receive support from RBS Group by way of capital, funding and liquidity facilities. After considering the Group's financial outlook and related funding and capital needs, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

The tables below analyse the contractual undiscounted cash flows receivable and payable up to a period of twenty years including future receipts and payments of interest of the on balance sheets by contractual maturity. The balances in the tables below do not agree directly to the Group or Bank balance sheets, as the tables include all cash flows relating to principal and future coupon payments presented on an undiscounted basis.

	Group					
	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
2011						
Assets by contractual maturity						
Cash and balances at central banks	272	-	-	-	-	-
Loans and advances to banks	3,391	-	4	8	-	-
Debt securities	10	-	21	-	-	-
Total maturing assets	3,673	-	25	8	-	-
Loans and advances to customers	4,476	7,712	6,717	4,521	8,631	13,767
Total assets	8,149	7,712	6,742	4,529	8,631	13,767
Liabilities by contractual maturity						
Deposits by banks	12,063	22	201	26	3	-
Debt securities in issue	-	7	17	-	-	-
Subordinated liabilities	5	19	111	168	119	436
Total maturing liabilities	12,068	48	329	194	122	436
Customer accounts	12,593	3,718	1,257	368	168	-
Total liabilities	24,661	3,766	1,586	562	290	436
Maturity gap	(16,512)	3,946	5,156	3,967	8,341	13,331
Cumulative maturity gap	(16,512)	(12,566)	(7,410)	(3,443)	4,898	18,229

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24. Risk management - liquidity risk (continued)

	Group					
	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
2010						
Assets by contractual maturity						
Cash and balances at central banks	279	-	-	-	-	-
Loans and advances to banks	4,081	7	19	-	-	-
Debt securities	-	182	32	-	-	-
Finance leases	26	-	-	-	-	-
Total maturing assets	4,386	189	51	-	-	-
Loans and advances to customers	7,980	6,232	8,340	4,514	10,908	11,203
Total assets	12,366	6,421	8,391	4,514	10,908	11,203
Liabilities by contractual maturity						
Deposits by banks	6,581	7,443	205	3	-	-
Debt securities in issue	183	-	15	1	-	-
Subordinated liabilities	4	18	104	163	110	650
Total maturing liabilities	6,768	7,461	324	167	110	650
Customer accounts	17,287	2,750	819	392	95	-
Total liabilities	24,055	10,211	1,143	559	205	650
Maturity gap	(11,689)	(3,790)	7,248	3,955	10,703	10,553
Cumulative maturity gap	(11,689)	(15,479)	(8,231)	(4,276)	6,427	16,980
	Bank					
	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
2011						
Assets by contractual maturity						
Cash and balances at central banks	272	-	-	-	-	-
Loans and advances to banks	2,261	-	4	8	-	-
Debt securities	11,852	706	21	-	-	-
Total maturing assets	14,385	706	25	8	-	-
Loans and advances to customers	6,498	7,717	6,729	4,533	8,662	13,829
Total assets	20,883	8,423	6,754	4,541	8,662	13,829
Liabilities by contractual maturity						
Deposits by banks	12,077	22	208	19	3	-
Debt securities in issue	-	7	17	-	-	-
Subordinated liabilities	5	19	111	168	119	436
Total maturing liabilities	12,082	48	336	187	122	436
Customer accounts	16,261	3,718	1,257	368	168	-
Total liabilities	28,343	3,766	1,593	555	290	436
Maturity gap	(7,460)	4,657	5,161	3,986	8,372	13,393
Cumulative maturity gap	(7,460)	(2,803)	2,358	6,344	14,716	28,109

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

24. Risk management - liquidity risk (continued)

	Bank					
	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
2010						
Assets by contractual maturity						
Cash and balances at central banks	279	-	-	-	-	-
Loans and advances to banks	4,011	3	19	-	-	-
Debt securities	15,242	182	31	-	-	-
Total maturing assets	19,532	185	50	-	-	-
Loans and advances to customers	8,326	6,101	7,852	4,077	9,876	7,152
Total assets	27,858	6,286	7,902	4,077	9,876	7,152
Liabilities by contractual maturity						
Deposits by banks	16,440	7,443	205	3	-	-
Debt securities in issue	181	-	16	1	-	-
Subordinated liabilities	4	16	104	163	110	650
Total maturing liabilities	16,625	7,459	325	167	110	650
Customer accounts	18,053	3,642	3,051	2,406	4,526	7,311
Total liabilities	34,678	11,101	3,376	2,573	4,636	7,961
Maturity gap	(6,820)	(4,815)	4,526	1,504	5,240	(809)
Cumulative maturity gap	(6,820)	(11,635)	(7,109)	(5,605)	(365)	(1,174)

Other contractual cash obligations

	Group					
	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
2011						
Operating leases	6	19	48	44	75	31
Contractual obligations to purchase goods or services	1	2	3	-	-	-
	7	21	51	44	75	31

	Bank					
	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
2011						
Operating leases	6	19	48	44	75	31
Contractual obligations to purchase goods or services	1	2	2	-	-	-
	7	21	50	44	75	31

	Group and Bank					
	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
2010						
Operating leases	7	19	47	45	76	32
Contractual obligations to purchase goods or services	1	2	3	-	-	-
	8	21	50	45	76	32

24. Risk management - liquidity risk (continued)

Financial assets have been reflected in the time band of the latest date on which they could be repaid unless earlier repayment can be demanded by the reporting entity; financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty.

If the repayment of a financial asset or liability is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the asset is included in the latest date on which it can repay regardless of early repayment whereas the liability is included at the earliest possible date that the conditions could be fulfilled without considering the probability of the conditions being met. For example, if a structured note is automatically prepaid when an equity index exceeds a certain level, the cash outflow will be included in the less than three months period whatever the level of the index at the year end. The settlement date of debt securities in issue issued by certain securitisation vehicles consolidated by UBL depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of the cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date. As the repayment of assets and liabilities are linked, the repayment of assets in securitisations are shown on the earliest date that the asset can be prepaid as this is the basis used for liabilities.

The principal amounts of financial assets and liabilities that are repayable after 20 years or where the counterparty has no right to repayment of the principal are excluded from the table as are interest payments after 20 years.

Credit risk

Credit risk is the risk of financial loss owing to the failure of customers or counterparties to meet payment obligations. The quantum and nature of credit risk assumed in the Group's different businesses varies considerably, while the overall credit risk outcome usually exhibits a high degree of correlation to the macroeconomic environment.

Credit risk organisation

The existence of a strong credit risk management organisation is vital to support the goals of the Group. The potential for loss through economic cycles is mitigated through the embedding of a robust credit risk culture within the business units and a focus on the importance of sustainable lending practices. The role of the credit risk management organisation is to provide the business with the support necessary to develop and maintain a sound lending franchise within risk appetite while providing strong independent oversight and challenge.

RBS Group is responsible for the development of RBS Group-wide policies, credit risk frameworks, RBS Group-wide portfolio management and assessment of provision adequacy. Ulster Bank Credit Risk (UBCR) is responsible for the execution of these policies and frameworks within the Group. Activities within UBCR include credit approval, transaction and portfolio analysis, early problem recognition and ongoing credit risk stewardship.

Credit risk appetite

Credit risk appetite is set by the Board through: a combination of quantitative measures, limit thresholds and authorities and is maintained by receiving regular analysis, monitoring and reporting on the Group's portfolios.

Credit risk appetite is managed and controlled through a series of frameworks designed to limit concentration by sector, counterparty, country or asset class. These are supported by a suite of policies setting out the risk parameters within which business units may operate.

For wholesale, credit approval authority is discharged by way of a framework of individual delegated authorities that requires at least two individuals to approve each credit decision, one from the business and one from the credit risk management function. Both parties must hold sufficient delegated authority under the Group-wide authority grid. The level of authority granted to an individual is dependent on their experience and expertise with only a small number of Senior Executives holding the highest authority provided under the framework.

Daily monitoring of individual counterparty limits is undertaken. For certain counterparties early warning indicators are also in place to detect deteriorating trends which are of concern in limit utilisation or account performance.

As a minimum, credit relationships are reviewed and re-approved annually. The renewal process addresses: borrower performance, including reconfirmation or adjustment of risk parameter estimates; the adequacy of security; and compliance with terms and conditions.

24. Risk management - credit risk (continued)

Product/asset class

Retail: a formal risk appetite framework establishes Group-level statements and thresholds that are cascaded to business lines. These include measures that relate to both aggregate portfolios and origination asset quality that are monitored frequently to ensure consistency with Group standards and appetite. This appetite setting and monitoring then informs the processes and parameters employed in origination activities that require a large volume of small scale credit decisions, typically involving an application for a new product or a change in facilities on an existing product. A high proportion of these decisions are based upon automated strategies utilising credit and behaviour scoring techniques. Scores and strategies are typically segmented by product, brand and other significant drivers of credit risk. These data driven strategies utilise a wide range of credit information relating to a customer including, where appropriate, information across a customer's holdings. Where an automated decision is not made these applications are subject to additional manual underwriting by authorised approvers in specialist units. These include higher value more complex small business transactions and some residential mortgage applications.

Wholesale: Where the nature of credit risk incurred could represent a concentration risk, or a specific or heightened risk, formal policies, specialised tools and expertise, tailored monitoring and reporting and in certain cases specific limits and thresholds are deployed to address these risks across the Group. Such portfolios are subject to formal governance, including periodic review.

Sector

Across wholesale portfolios, exposures are assigned to, and reviewed in the context of, a defined set of industry sectors. Through this sector framework, appetite and portfolio strategies are agreed and set at both aggregate and more granular levels where exposures have the potential to represent excessive concentration or where trends in both external factors and internal portfolio performance give cause for concern. Formal periodic reviews are undertaken, depending on materiality, that include an assessment of the Group's franchise in a particular sector, an analysis of the outlook (including downside outcomes) and identification of key vulnerabilities. Specific reporting on trends in sector risk is provided to senior management and the Board.

Single name

Within wholesale portfolios, much of the activity undertaken by the credit risk function is organised around the assessment, approval and management of the credit risk associated with a borrower or group of related borrowers.

A formal single name concentration framework addresses the risk of excessive exposure to a borrower or borrower group. The framework includes specific and elevated approval requirements; additional reporting and monitoring; and the requirement to develop plans to address and reduce excess exposures over an appropriate timeframe.

Country

Country risk arises from sovereign events (for example, default or restructuring); economic events (for example, contagion of sovereign default to other parts of the economy, cyclical economic shock); political events (for example, convertibility restrictions and expropriation or nationalisation); and natural disaster or conflict. Such events have the potential to impact elements of the Group's credit portfolio that are directly or indirectly linked to the affected country and can also give rise to market, liquidity, operational and franchise risk related losses. Sovereign risk is discussed on page 71.

Global Restructuring Group (GRG)

GRG manages problem and potential problem exposures in the Group's wholesale credit portfolios. Its primary function is to actively manage the exposures to minimise loss for the Group and, where feasible, to return the exposure to the Group's mainstream loan book.

Originating business units consult with GRG prior to transferring exposures to it when a potentially negative event or trend emerges that might affect a customer's ability to service its debt or increase the Group's risk exposure to that customer. Such circumstances include deteriorating trading performance, likely breach of covenant, challenging macroeconomic conditions, a missed payment or the expectation of a missed payment to the Group or another creditor.

On transfer of the relationship, GRG aim to devise a bespoke strategy that optimises recoveries from the debt. This strategy may also involve GRG reviewing the business operations and performance of the customer. A number of alternative approaches will typically be considered including:

- *Covenant relief:* the temporary waiver or recalibration of covenants may be granted to mitigate a potential or actual covenant breach. Such relief is usually granted in exchange for fees, increased margin, additional security, or a reduction in maturity profile of the original loan.
- *Amendment of restrictive covenants:* restrictions in loan documents may be amended or waived as part of an overall remedial strategy to allow: additional indebtedness; the granting of collateral; the sale of a business; the granting of junior lien on the collateral; or other fundamental change in capital or operating structure of the enterprise.
- *Variation in margin:* contractual margin may be amended to bolster the customer's day-to-day liquidity, with the aim of helping to sustain the customer's business as a going concern. This would normally be accompanied by the Group receiving an exit payment, payment in kind or deferred fee.

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24. Risk management - credit risk (continued)

- *Payment holidays and loan rescheduling:* payment holidays or changes to the contracted amortisation profile including extensions in contracted maturity or roll-overs may be granted to improve customer liquidity. Such concessions often depend on the expectation that liquidity will recover when market conditions improve or from capital raising initiatives that access alternative sources of liquidity. Recently, these types of concessions have become more common in commercial real estate transactions in situations when a shortage of market liquidity rules out immediate refinancing and makes short-term forced collateral sales unattractive.
- *Forgiveness of all or part of the outstanding debt:* debt may be forgiven or exchanged for equity where a fundamental shift in the customer's business or economic environment means that other forms of restructuring strategies are unlikely to succeed in isolation and the customer is incapable of servicing current debt obligations. Debt forgiveness is often an element in leveraged finance transactions which are typically structured on the basis of projected cash flows from operational activities rather than underlying tangible asset values. Maintaining the business as a going concern with a sustainable level of debt is the preferred option rather than realising value of the underlying assets, provided that the underlying business model and strategy are considered viable.

Depending on the case in question, GRG may employ a combination of these options in order to achieve the best outcome. It may also consider alternative approaches, either alone or together with the options listed above.

The following are generally considered as options of last resort:

- *Enforcement of security or otherwise taking control of assets:* where the Group holds underlying collateral or other security interest and is entitled to enforce its rights, it may take ownership or control of the assets. The Group's preferred strategy is to consider other possible options prior to exercising these rights.
- *Insolvency:* where there is no suitable restructuring option or the business is no longer regarded as sustainable, insolvency will be considered. Insolvency may be the only option that ensures that the assets of the business are properly and efficiently distributed to relevant creditors.

As discussed above, GRG will consider a range of possible restructuring strategies. At the time of execution, the ultimate outcome of the strategy adopted is unknown and highly dependent on the cooperation of the borrower and the continued existence of a viable business. The customer's financial position, its anticipated future prospects and the likely effect of the restructuring including any concessions are considered by the GRG relationship manager to establish whether an impairment provision is required, subject to divisional and Group governance.

Retail collections and recoveries

There are collections and recoveries functions in each of the consumer businesses. Their role is to provide support and assistance to customers who are currently experiencing difficulties meeting their financial obligations. Where possible, the aim of the collections and recoveries teams is to return the customer to a satisfactory position, by working with them to restructure their finances. If this is not possible, the team has the objective of reducing the loss to the Group.

Forbearance

Within the Group's retail businesses, forbearance generally occurs when the business, for reasons relating to the actual or potential financial stress of a borrower, grants a permanent or temporary concession to that borrower. Forbearance is granted principally to customers with mortgages. Granting of forbearance to unsecured customers is less extensive.

Identification of forbearance

Mortgages are identified for forbearance treatment following initial contact from the customer, in the event of payment arrears or when the customer is transferred to collections or recoveries.

Forbearance is granted following an assessment of the customer's ability to pay. Customers receiving these types of treatment whilst in collections or recoveries are typically showing signs of financial difficulties. Within the Group, requests by customers for an amendment to their contractual terms whilst they are fully up-to-date with payments are considered to be a potential impairment indicator.

Types of retail forbearance

A number of forbearance options are utilised by the Group's retail businesses. These include, but are not limited to, reduced repayments, payment holidays, capitalisation of arrears, term extensions and conversion to interest only

For those loans classified as non-performing, the Group's objective in granting forbearance is to minimise the loss on these accounts and, wherever possible, return the customer to a performing state. The Group's aim is to enable customers who are current on their payments to continue to service the loan.

The mortgage forbearance population is reviewed regularly to ensure that customers are meeting the agreed terms of the arrangement. Key metrics have been developed to record the proportion of customers who fail to meet the agreed terms over time as well as the proportion of customers who return to a performing state with no arrears.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

24. Risk management - credit risk (continued)

The mortgage arrears information for retail accounts in forbearance and related provisions are shown in the table below.

Arrears status and provisions	2011	
	Balance €m	Provisions €m
No missed payments	1,051	92
1-3 months in arrears	609	53
>3 months in arrears	500	148
Total	2,160	293

The incidence of the main types of retail forbearance on the balance sheet as at 31 December 2011 is analysed below. Definitions are based on those used within the Financial Services Authority forbearance guidelines. For a small proportion of mortgages, more than one forbearance type applies.

	2011 €m
Interest only	944
Term extensions – capital repayment & interest only	68
Payment concession/holidays	1,029
Capitalisation of arrears	119
Total	2,160
% of total mortgage stock	10.1%

Provisioning for retail customers

Provisions are assessed in accordance with the Group's provisioning policies which comply with IAS 39 'Financial Instruments: Recognition and Movement' (refer to section on Impairment loss provision methodology on page 61). For the non-performing population, a collective assessment is made. Within the performing book, latent loss provisions are held for those loans that are impaired but not yet identified.

The majority of mortgage accounts subject to forbearance remain in the performing book but are identified and monitored separately from other performing accounts. They are subject to higher provisioning rates than the remainder of the performing book (currently approximately eight times higher). These rates are reviewed monthly. Once forbearance is granted, the account continues to be assessed separately for latent provisioning until the forbearance period expires. After that point, the account is no longer separately identified for latent provisioning. Non-performing mortgage accounts that have been granted forbearance carry the same provision rate as non-forborne accounts.

Credit risk mitigation

The Group employs a number of structures and techniques to mitigate credit risk. Netting of debtor and creditor balances will be undertaken in accordance with relevant regulatory and internal policies. Exposure on over-the-counter (OTC) derivative and secured financing transactions is further mitigated by the exchange of financial collateral and documented on market standard terms. Further mitigation may be undertaken in a range of transactions, from retail mortgage lending to large wholesale financing, by structuring a security interest in a physical or financial asset.

The use and approach to credit risk mitigation varies by product type, customer and business strategy. Minimum standards applied across the Group cover: general requirements, including acceptable credit risk mitigation types and any conditions or restrictions applicable to those mitigants; the means by which legal certainty is to be established, including required documentation and all necessary steps required to establish legal rights; acceptable methodologies for the initial and any subsequent valuations of collateral and the frequency with which they are to be revalued; actions to be taken in the event the current value of mitigation falls below required levels; management of the risk of correlation between changes in the credit risk of the customer and the value of credit risk mitigation; management of concentration risks, for example, setting thresholds and controls on the acceptability of credit risk mitigants and on lines of business that are characterised by a specific collateral type or structure; and collateral management to ensure that credit risk mitigation remains legally effective and enforceable.

Measurement

Credit risk models are used throughout the Group to support the quantitative risk assessment element of the credit approval process, ongoing credit risk management, monitoring and reporting and portfolio analytics. Credit risk models used by the Group may be divided into three categories.

Probability of default/customer credit grade (PD)

These models assess the probability that a customer will fail to make full and timely repayment of its obligations. The probability of a customer failing to do so is measured over a one year period through the economic cycle, although certain retail scorecards use longer periods for business management purposes.

24. Risk management - credit risk (continued)

- Wholesale businesses: as part of the credit assessment process, each counterparty is assigned an internal credit grade and a default probability. There are a number of different credit grading models in use across the Group, each of which considers risk characteristics particular to that type of customer. The credit grading models score a combination of quantitative inputs (for example, recent financial performance) and qualitative inputs, (for example, management performance or sector outlook).
- Retail businesses: each customer account is separately scored using models based on the most material drivers of default. In general, scorecards are statistically derived using customer data. Customers are assigned a score which in turn, is mapped to a probability of default. The probabilities of default are used to group customers into risk pools. Pools are then assigned a weighted average probability of default using regulatory default definitions.

Loss given default (LGD)

These models estimate the economic loss that may be experienced (the amount that cannot be recovered) by the Group on a credit facility in the event of default. The Group's LGD models take into account both borrower and facility characteristics for unsecured or partially unsecured facilities, as well as the quality of any risk mitigation that may be in place for secured facilities, plus the cost of collections and a time discount factor for the delay in cash recovery.

Stress testing

Stress testing forms an integral part of portfolio analysis, providing a measure of potential vulnerability to exceptional but plausible economic and geopolitical events which assists management in the identification of risk not otherwise apparent in more benign circumstances.

Provision analysis

The Group's consumer portfolios, which consist of small value, high volume credits, have highly efficient, largely automated processes for identifying problem credits.

Corporate portfolios consist of higher value, lower volume credits, which tend to be structured to meet individual customer requirements.

Early and active management of problem exposures ensures that credit losses are minimised. Specialised units are used for different customer types to ensure that appropriate risk mitigation is taken in a timely manner.

Portfolio provisions are reassessed regularly as part of the Group's ongoing monitoring process.

Provisions methodology

Provisions for impairment losses are assessed under three categories as described below:

- Individually assessed provisions are the provisions required for individually significant impaired assets which are assessed on a case-by-case basis, taking into account the financial condition of the counterparty and any guarantor. This incorporates an estimate of the discounted value of any recoveries and realisation of security or collateral. The asset continues to be assessed on an individual basis until it is repaid in full, transferred to the performing portfolio or written-off.
- Collectively assessed provisions are the provisions on impaired credits below an agreed threshold which are assessed on a portfolio basis, to reflect the homogeneous nature of the assets, such as credit cards or personal loans. The provision is determined from a quantitative review of the relevant portfolio, taking account of the level of arrears, security and average loss experience over the recovery period.
- Latent loss provisions are the provisions held against the estimated impairment in the performing portfolio which has yet to be identified as at the balance sheet date. To assess the latent loss within the portfolio, the Group has developed methodologies to estimate the time that an asset can remain impaired within a performing portfolio before it is identified and reported as such.

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24. Risk management – credit risk (continued)

Credit risk asset quality

Using the PD models described on page 60, customers are assigned credit grades and scores, which are used for internal management reporting across portfolios, including a Group level asset quality scale, as shown below.

Expressed as an annual probability of default, the upper and lower boundaries for each of these Group level asset quality grades are as follows:

Asset Quality Grade	Minimum	Maximum
AQ1	0.000	0.034
AQ2	0.034	0.048
AQ3	0.048	0.095
AQ4	0.095	0.381
AQ5	0.381	1.076
AQ6	1.076	2.153
AQ7	2.153	6.089
AQ8	6.089	17.222
AQ9	17.222	100.000
AQ10	100.000	100.000

Internal reporting and oversight of risk assets is principally differentiated by credit grade. Customers are assigned credit grades, based on various credit grading models that reflect the key drivers of default for the customer type. All credit grades across the Group map to both a Group level asset quality scale (illustrated above), used for external financial reporting, and a master grading scale for wholesale exposures used for internal management reporting across portfolios. Accordingly, measurement of risk is easily aggregated and can be reported at increasing levels of granularity depending on stakeholder or business need.

The following tables provide an analysis of the credit quality of third party financial assets by probability of default.

	Group					
	Cash and balances at central banks €m	Loans and advances to banks €m	Loans and advances to customers €m	Derivatives €m	Commitments €m	Contingent liabilities €m
2011						
AQ1	272	3,366	924	876	295	52
AQ2	-	-	72	13	140	41
AQ3	-	-	250	45	218	39
AQ4	-	26	528	12	480	125
AQ5	-	-	1,849	23	370	40
AQ6	-	1	6,861	8	489	108
AQ7	-	11	10,284	35	307	88
AQ8	-	-	2,340	106	143	14
AQ9	-	-	5,279	127	72	27
AQ10	-	-	-	-	333	117
Accruing past due	-	-	2,972	-	-	-
Non-accrual	-	-	16,288	-	-	-
Impairment provisions	-	-	(8,634)	-	-	-
Total	272	3,404	39,013	1,245	2,847	651

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

24. Risk management - credit risk (continued)

	Group					
	Cash and balances at central banks	Loans and advances to banks	Loans and advances to customers	Derivatives	Commitments	Contingent liabilities
2010	€m	€m	€m	€m	€m	€m
AQ1	279	3,642	470	784	366	1,868
AQ2	-	-	93	19	75	2
AQ3	-	1	258	10	214	72
AQ4	-	-	467	9	490	28
AQ5	-	-	4,769	79	554	156
AQ6	-	1	7,530	95	573	48
AQ7	-	7	12,770	7	364	127
AQ8	-	-	4,876	23	166	20
AQ9	-	-	2,670	84	40	5
AQ10	-	-	18	47	210	80
Accruing past due	-	-	3,624	-	-	-
Non-accrual	-	-	12,169	-	-	-
Impairment provisions	-	-	(5,609)	-	-	-
Total	279	3,651	44,105	1,157	3,052	2,406

	Bank					
	Cash and balances at central banks	Loans and advances to banks	Loans and advances to customers	Derivatives	Commitments	Contingent liabilities
2011	€m	€m	€m	€m	€m	€m
AQ1	272	2,236	3,188	756	295	52
AQ2	-	-	72	13	140	41
AQ3	-	-	250	45	218	39
AQ4	-	26	528	12	480	125
AQ5	-	-	1,849	23	370	40
AQ6	-	1	6,861	8	489	108
AQ7	-	11	10,284	35	307	88
AQ8	-	-	2,340	106	143	14
AQ9	-	-	5,279	127	72	27
AQ10	-	-	-	-	333	117
Accruing past due	-	-	2,972	-	-	-
Non-accrual	-	-	16,288	-	-	-
Impairment provisions	-	-	(8,634)	-	-	-
Total	272	2,274	41,277	1,125	2,847	651

	Bank					
	Cash and balances at central banks	Loans and advances to banks	Loans and advances to customers	Derivatives	Commitments	Contingent liabilities
2010	€m	€m	€m	€m	€m	€m
AQ1	279	3,569	483	671	366	1,868
AQ2	-	-	96	20	75	2
AQ3	-	1	265	10	214	72
AQ4	-	-	496	9	490	28
AQ5	-	-	4,954	79	554	156
AQ6	-	1	7,776	95	573	48
AQ7	-	7	13,136	7	364	127
AQ8	-	-	5,043	23	166	20
AQ9	-	-	2,750	84	40	5
AQ10	-	-	23	46	210	80
Accruing past due	-	-	3,624	-	-	-
Non-accrual	-	-	12,182	-	-	-
Impairment provisions	-	-	(5,609)	-	-	-
Total	279	3,578	45,219	1,044	3,052	2,406

Loans and advances to customers, past due at balance sheet date but not considered impaired are shown in Note 9.

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24. Risk management - credit risk (continued)

Credit risk assets by industry and geography

Industry analysis plays an important part in assessing the potential for concentration risk in the loan portfolio. Particular attention is given to industry sectors where the Group believes there is a high degree of risk or potential for volatility in the future. The table below analyses credit risk assets by industry sector and geography.

2011	Group				
	Gross loans and advances to banks and customers €m	Debt securities and equity shares €m	Derivatives €m	Total €m	Netting and offset ⁽¹⁾ €m
UK					
Manufacturing	76	-	-	76	-
Finance	14	-	-	14	-
Service industries and business activities	62	-	-	62	-
Property	1,113	-	-	1,113	-
Interest accruals	4	-	-	4	-
Total UK	1,269	-	-	1,269	-
Rest of Europe					
Central and local government	53	-	-	53	-
Manufacturing	883	-	-	883	11
Construction	647	-	-	647	29
Finance	4,043	38	1,245	5,326	1
Service industries and business activities	6,183	-	-	6,183	82
Agriculture, forestry and fishing	832	-	-	832	37
Property	14,651	-	-	14,651	11
Individuals					
Home mortgages	21,250	-	-	21,250	-
Other	1,176	-	-	1,176	-
Interest accruals	64	-	-	64	-
Total Rest of Europe	49,782	38	1,245	51,065	171
Total					
Central and local government	53	-	-	53	-
Manufacturing	959	-	-	959	11
Construction	647	-	-	647	29
Finance	4,057	38	1,245	5,340	1
Service industries and business activities	6,245	-	-	6,245	82
Agriculture, forestry and fishing	832	-	-	832	37
Property	15,764	-	-	15,764	11
Individuals					
Home mortgages	21,250	-	-	21,250	-
Other	1,176	-	-	1,176	-
Interest accruals	68	-	-	68	-
	51,051	38	1,245	52,334	171

⁽¹⁾ This column shows the amount by which the Group's credit risk exposures is reduced through arrangements, such as master netting agreements, which give the Group a legal right to set-off the financial asset against a financial liability due to the same counterparty. In addition, the Group holds collateral in respect of individual loans and advances to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant, inventories and trade receivables; and guarantees of lending from parties other than the borrower. The Group obtains collateral in the form of securities in reverse repurchase agreements. Cash and securities are received as collateral in respect of derivative transactions.

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24. Risk management - credit risk (continued)

2010	Group				
	Gross loans and advances to banks and customers €m	Debt securities and equity shares €m	Derivatives €m	Total €m	Netting and offset ⁽¹⁾ €m
UK					
Manufacturing	87	-	-	87	-
Construction	6	-	-	6	-
Finance	17	-	-	17	-
Service industries and business activities	101	-	-	101	-
Property	1,349	-	-	1,349	-
Interest accruals	6	-	-	6	-
Total UK	1,566	-	-	1,566	-
Rest of Europe					
Central and local government	59	-	-	59	-
Manufacturing	988	-	-	988	7
Construction	768	-	-	768	16
Finance	4,226	217	1,157	5,600	1
Service industries and business activities	6,501	-	-	6,501	56
Agriculture, forestry and fishing	901	-	-	901	24
Property	14,878	-	-	14,878	6
Individuals					
Home mortgages	21,984	-	-	21,984	5
Other	1,408	-	-	1,408	-
Interest accruals	86	-	-	86	-
Total Rest of Europe	51,799	217	1,157	53,173	115
Total					
Central and local government	59	-	-	59	-
Manufacturing	1,075	-	-	1,075	7
Construction	774	-	-	774	16
Finance	4,243	217	1,157	5,617	1
Service industries and business activities	6,602	-	-	6,602	56
Agriculture, forestry and fishing	901	-	-	901	24
Property	16,227	-	-	16,227	6
Individuals					
Home mortgages	21,984	-	-	21,984	5
Other	1,408	-	-	1,408	-
Interest accruals	92	-	-	92	-
	53,365	217	1,157	54,739	115

(1) This column shows the amount by which the Group's credit risk exposures is reduced through arrangements, such as master netting agreements, which give the Group a legal right to set-off the financial asset against a financial liability due to the same counterparty. In addition, the Group holds collateral in respect of individual loans and advances to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant, inventories and trade receivables; and guarantees of lending from parties other than the borrower. The Group obtains collateral in the form of securities in reverse repurchase agreements. Cash and securities are received as collateral in respect of derivative transactions.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

24. Risk management - credit risk (continued)

	Bank				
	Gross loans and advances to banks and customers €m	Debt securities and equity shares €m	Derivatives €m	Total €m	Netting and offset ⁽¹⁾ €m
2011					
UK					
Manufacturing	76	-	-	76	-
Finance	14	-	-	14	-
Service industries and business activities	62	-	-	62	-
Property	1,113	-	-	1,113	-
Interest accruals	4	-	-	4	-
Total UK	1,269	-	-	1,269	-
Rest of Europe					
Central and local government	53	-	-	53	-
Manufacturing	883	-	-	883	11
Construction	647	-	-	647	29
Finance	5,178	12,586	1,125	18,889	1
Service industries and business activities	6,183	-	-	6,183	82
Agriculture, forestry and fishing	831	-	-	831	37
Property	14,651	-	-	14,651	11
Individuals					
Home mortgages	21,250	-	-	21,250	-
Other	1,176	-	-	1,176	-
Interest accruals	64	-	-	64	-
Total Rest of Europe	50,916	12,586	1,125	64,627	171
Total					
Central and local government	53	-	-	53	-
Manufacturing	959	-	-	959	11
Construction	647	-	-	647	29
Finance	5,192	12,586	1,125	18,903	1
Service industries and business activities	6,245	-	-	6,245	82
Agriculture, forestry and fishing	831	-	-	831	37
Property	15,764	-	-	15,764	11
Individuals					
Home mortgages	21,250	-	-	21,250	-
Other	1,176	-	-	1,176	-
Interest accruals	68	-	-	68	-
	52,185	12,586	1,125	65,896	171

(1) This column shows the amount by which the Group's credit risk exposures is reduced through arrangements, such as master netting agreements, which give the Group a legal right to set-off the financial asset against a financial liability due to the same counterparty. In addition, the Group holds collateral in respect of individual loans and advances to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant, inventories and trade receivables; and guarantees of lending from parties other than the borrower. The Group obtains collateral in the form of securities in reverse repurchase agreements. Cash and securities are received as collateral in respect of derivative transactions.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

24. Risk management - credit risk (continued)

2010	Bank				
	Gross loans and advances to banks and customers €m	Debt securities and equity shares €m	Derivatives €m	Total €m	Netting and offset ⁽¹⁾ €m
UK					
Manufacturing	87	-	-	87	-
Construction	6	-	-	6	-
Finance	17	-	-	17	-
Service industries and business activities	101	-	-	101	-
Property	1,349	-	-	1,349	-
Interest accruals	6	-	-	6	-
Total UK	1,566	-	-	1,566	-
Rest of Europe					
Central and local government	59	-	-	59	-
Manufacturing	988	-	-	988	7
Construction	768	-	-	768	16
Finance	9,473	15,459	1,044	25,976	1
Service industries and business activities	6,496	-	-	6,496	56
Agriculture, forestry and fishing	901	-	-	901	24
Property	14,878	-	-	14,878	6
Individuals					
Home mortgages	17,790	-	-	17,790	5
Other	1,401	-	-	1,401	-
Interest accruals	86	-	-	86	-
Total Rest of Europe	52,840	15,459	1,044	69,343	115
Total					
Central and local government	59	-	-	59	-
Manufacturing	1,075	-	-	1,075	7
Construction	774	-	-	774	16
Finance	9,490	15,459	1,044	25,993	1
Service industries and business activities	6,597	-	-	6,597	56
Agriculture, forestry and fishing	901	-	-	901	24
Property	16,227	-	-	16,227	6
Individuals					
Home mortgages	17,790	-	-	17,790	5
Other	1,401	-	-	1,401	-
Interest accruals	92	-	-	92	-
	54,406	15,459	1,044	70,909	115

⁽¹⁾ This column shows the amount by which the Group's credit risk exposures is reduced through arrangements, such as master netting agreements, which give the Group a legal right to set-off the financial asset against a financial liability due to the same counterparty. In addition, the Group holds collateral in respect of individual loans and advances to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant, inventories and trade receivables; and guarantees of lending from parties other than the borrower. The Group obtains collateral in the form of securities in reverse repurchase agreements. Cash and securities are received as collateral in respect of derivative transactions.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

24. Risk management – credit risk (continued)

Residential Mortgages

At 31 December 2011 the Ulster Bank Ireland Group residential mortgage portfolio totalled €20.9billion which represents a decline of 3.3% from €21.6billion at 31 December 2010.

The table below shows how the steep property value correction has affected the distribution of residential mortgages by loan-to-value (LTV) (indexed). LTV is based upon gross loan amounts and, whilst including defaulted loans, does not account for impairments already taken.

	Group	
	2011	2010
Residential mortgages – distribution by average LTV ⁽¹⁾ indexed	%	%
<=50%	32.1	35.7
>50% and <=60%	5.8	6.6
>60% and <=70%	5.7	6.8
>70% and <=80%	5.8	6.6
>80% and <=90%	5.8	6.5
>90% and <=100%	5.7	6.9
>100%	39.1	30.9
Total portfolio average LTV at 31 December	82.7	72.0
Average LTV on new originations during the year	67.9	70.4

Note:

(1) LTV averages calculated by transaction volume.

The table below details residential mortgages three months or more in arrears (by volume).

	Group	
	2011	2010
Personal	%	%
Mortgages	10.3	6.6
Other personal	38.1	33.6

Collateral and other credit enhancements received

Due to the challenging economic conditions a substantial proportion of Commercial Real Estate portfolio is in excess of 100% LTV. The market conditions make it extremely challenging to obtain appropriate market valuations and there can be significant differences in values based on geographic location and asset type. Consequently, 87% (€12.9bn) of the Commercial Real Estate portfolio is actively managed by GRG in Non Core of which €9.5bn is categorised REIL with a provision coverage of 54%.

	2011		2010	
	Loans €m	Provisions €m	Loans €m	Provisions €m
Non-performing corporate loans (excluding commercial real estate)				
Secured	2,521	1,148	1,957	738
Unsecured	638	485	361	285

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

24. Risk management – credit risk (continued)

Retail exposures

All borrowing applications, whether secured or not, are subject to appropriate credit risk underwriting processes including affordability assessments. Pricing is typically higher on unsecured than secured loans. For secured loans, pricing will typically vary by LTV: higher-LTV products are typically subject to higher interest rates commensurate with the associated risk.

The value of a property intended to secure a mortgage is assessed during the loan underwriting process using industry-standard methodologies. Property values supporting home equity lending reflect either an individual appraisal or valuations generated by statistically valid automated valuation models. Property values are updated each quarter using the relevant house price index (the Central Statistics Office Residential Property Price Index and the Nationwide House Price Index).

The existence of collateral has an impact on provisioning levels. Once a secured loan is classified as non-performing, the present realisable value of the underlying collateral and the costs associated with repossession are used to estimate the provision required.

The tables below shows period-end LTVs for the Group's residential mortgage portfolio split between performing and non-performing.

	2011 €m	2010 €m
Non-performing residential mortgages by average loan to value (LTV)		
<70%	378	338
>70% and <=90%	256	197
>90% and <=110%	292	289
>110% and <=130%	373	408
>130%	1,306	474
Total portfolio average by LTV	102.8%	87.7%
Performing residential mortgages by average loan to value (LTV)		
<70%	4,242	5,680
>70% and <=90%	2,317	3,125
>90% and <=110%	2,658	3,982
>110% and <=130%	3,000	4,457
>130%	6,038	2,621
Total portfolio average by LTV	80.5%	70.6%

Aside from the lending portfolios, the Group receives collateral and other credit enhancements on other financial assets on its balance sheet as detailed in the following table.

	2011 €m	2010 €m
Reverse repurchase agreements	-	21
Securities received as collateral	-	(21)
Derivative assets gross exposure	427	451

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

24. Risk management (continued)

Regulatory risk

Regulatory risk is managed by designing, maintaining and implementing policies and systems in order to ensure effective compliance with all regulatory and legal requirements in the jurisdiction in which the Group operates.

The Group's approach to regulatory risk has three distinct elements:

- The review of potential changes in regulation to ensure that the Group addresses the risks arising from such changes and responds appropriately;
- The monitoring of compliance with existing rules and regulations and the mitigation of the consequences of any inadvertent non-compliance; and
- The management of effective relationships with regulators to ensure constructive engagement.

Reputational risk

Reputation risk is defined as the potential loss in reputation that could lead to negative publicity, loss of revenue, costly litigation, or a decline in the customer base or the exit of key Group employees.

Reputational risk can arise from actions taken by the bank or a failure to take action, such as failing to assess the environmental, social or ethical impacts of clients or projects that the Bank has provided products or services to.

The Group seeks to safeguard its reputation by considering the impact on the value of its franchise from how it conducts business, its choice of customers and the way stakeholders view the Group. Managing reputation is the joint responsibility of all employees, and reputational considerations should, as part of standard practise, be integrated into the Group's day-to-day decision making structures.

The Board has ultimate responsibility for managing any impact on the reputation of the Group arising from its operations. The Ulster Bank Corporate Sustainability Working Group sets the overall strategy and approach for the management of Group Sustainability. However, all parts of the Group take responsibility for reputation management.

Currently the Group manages reputational risk through a number of functions, such as the Communications & Corporate Services division. At RBS Group level there is a Group Sustainability management function and also an Environmental, Social and Ethical (ESE) Risk management function. This latter function is responsible for assessing ESE risks associated with business engagements and divisions.

The risk is viewed as material given the central nature of the Group's market reputation in the strategic risk objectives.

Operational risk

Operational risks are inherent in the Group's business. Operational risk losses occur as the result of fraud, human error, missing or inadequately designed processes, failed systems, damage to physical assets, improper behaviour or from external events. The key processes include risk and control assessment, scenario analysis, loss data collection, new product approval process, key risk indicators, notifiable events process and the self certification process. The implementation of this process is facilitated and overseen by operational risk teams, with internal audit providing independent evaluation of the control framework.

Sovereign risk

The Group's sovereign portfolio comprises central governments, central banks and sub-sovereigns such as local authorities, primarily in the Group's key market in the Republic of Ireland. Exposure predominantly comprises cash balances placed with central banks such as the Bank of England, the Central Bank Of Ireland and consequently, the asset quality of this portfolio is high. Exposure to sovereigns fluctuates according to the Group's liquidity requirements and cash positions, which determine the level of cash placed with central banks.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

24. Risk management (continued)

Pension risk

The Group is exposed to risk from its defined benefit pension schemes to the extent that the assets of the schemes do not fully match the timing and amount of the schemes' liabilities. Pension scheme liabilities vary with changes to long-term interest rates, inflation, pensionable salaries and the longevity of scheme members as well as changes in legislation. Ultimate responsibility of the Group's pension schemes is separate from Group management. The Group is exposed to the risk that the market value of the schemes' assets, together with future returns and any additional future contributions could be considered insufficient to meet the liabilities as they fall due. In such circumstances, the Group could be obliged, or may choose, to make additional contributions to the schemes.

The Ulster Bank Pension Scheme (Republic of Ireland) is the main source of pension risk. It operates under a trust deed under which the corporate trustee is a wholly owned subsidiary of the Group. The trustee board comprises six directors selected by the Group and three directors nominated by members.

The trustees are solely responsible for the investment of the schemes' assets which are held separately from the assets of the Group. The Group and the trustee must agree on the investment principles and the funding plan.

In November 2009, the scheme was closed to new employees. In April 2010, the Group confirmed that it was making changes to the scheme and the Group's other defined benefit scheme, the First Active Pension Scheme. In some cases the Group has limited the amount by which pensionable salary would increase in future (the "pensionable salary cap") to 2% per annum (or CPI inflation, if lower). For those who decided not to accept terms which included the pensionable salary cap, and were not in the Provident Fund sections of the schemes, the Group agreed with the trustees of the schemes a reduction in the accrual rate from 60ths to 80ths for future service, in return for improvements in future funding of the schemes. In 2011 a further contract offer was made and this has reduced the number of employees who are subject to the lower accrual rate and increased the number subject to the pensionable earnings cap.

Risk appetite and investment policy are agreed by the trustees with quantitative and qualitative input from the scheme actuaries and investment advisers. The trustees also consult with the Group to obtain its view on the appropriate level of risk within the pension fund. The Group independently monitors risk within its pension funds as part of the ICAAP process.

The most recent funding valuation of the Ulster Bank Pension Scheme (Republic of Ireland) was carried out at 31 December 2009. Further details are given in Note 4 to the accounts.

Both schemes are invested in diversified portfolios of quoted and private equity, government and corporate fixed-interest and index-linked bonds, and other assets including property, derivatives and hedge funds.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

25. Capital resources

The following table analyses the Group's regulatory capital resources at 31 December:

	2011 €m	2010 €m
Shareholders' equity (excluding non-controlling interests)	7,222	5,309
<i>Non-controlling interests</i>	-	-
Non-controlling interests per balance sheet	23	59
Other adjustments to non-controlling interests for regulatory purposes	(23)	(59)
<i>Regulatory adjustments</i>	(167)	(41)
Defined benefit pension adjustment	(53)	(37)
Unrealised losses on AFS debt securities	(1)	(4)
Other adjustments for regulatory purposes	(113)	-
<i>Deductions</i>		
50% excess of expected losses over impairment (net of tax)	(2,500)	(1,205)
Total tier 1 capital	4,555	4,063
<i>Qualifying tier 2 capital</i>	882	906
Undated subordinated debt	114	113
Dated subordinated debt – net of amortisation	761	787
Collectively assess impairment allowances	7	6
<i>Tier 2 deductions</i>		
50% excess of expected losses over impairment	(882)	(906)
Total tier 2 capital	-	-
Total regulatory capital	4,555	4,063
Key capital ratios	%	%
Core tier 1	10.3	9.9
Tier 1	10.3	9.9
Total capital	10.3	9.9
Risk weighted assets by risk		
Credit risk	42,466	39,101
Counterparty risk	-	-
Market risk	309	235
Operational risk	1,616	1,567
Risk weighted assets	44,391	40,903

In the management of capital resources, the Group is governed by RBS Group's policy which is to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy the Group has regard to the supervisory requirements of the CBI. The CBI uses Risk Asset Ratio (RAR) as a measure of capital adequacy for Republic of Ireland banks, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are 'weighted' to reflect the inherent credit and other risks); by international agreement, the RAR should not be less than 8% with a Tier 1 component of not less than 4%. The Group has complied with the Central Bank capital requirements throughout the year apart from one temporary capital ratio breach in March 2011 which was immediately notified to the Central Bank and remediated thereafter.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

26. 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 2011. Although the 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 the Group's expectation of future losses.

	Group and Bank	
	2011 €m	2010 €m
Contingent liabilities:		
Guarantees and assets pledged as collateral security	426	2,130
Other contingent liabilities	225	276
	651	2,406
Commitments:		
Documentary credits and other short-term trade related transactions	6	7
- less than one year	1,804	1,933
- one year and over	1,037	1,112
	2,847	3,052

Banking commitments and contingent obligations, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. The Group's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table. These commitments and contingent obligations are subject to the Group's normal credit approval processes and any potential loss is taken into account in assessing provisions for bad and doubtful debts in accordance with the Group's provisioning policy.

Contingent liabilities

Guarantees - the Group gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that the Group will meet a customer's obligations to third parties if the customer fails to do so. The maximum amount that the Group could be required to pay under a guarantee is its principal amount as disclosed in the table above. The Group expects most guarantees it provides to expire unused.

Other contingent liabilities - these include standby letters of credit, supporting customer debt issues and contingent liabilities relating to customer trading activities such as those arising from performance and customs bonds, warranties and indemnities.

Commitments

Commitments to lend - under a loan commitment the Group agrees to make funds available to a customer in the future. Loan commitments, which are usually for a specified term may be unconditionally cancellable or may persist, provided all conditions in the loan facility are satisfied or waived. Commitments to lend include commercial standby facilities and credit lines, liquidity facilities to commercial paper conduits and unutilised overdraft facilities.

Other commitments - these include documentary credits, which are commercial letters of credit providing for payment by the Group to a named beneficiary against presentation of specified documents, forward asset purchases, forward deposits placed and undrawn note issuance and revolving underwriting facilities, documentary credits and other short-term trade related transactions.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

26. Memorandum items (continued)

Regulatory enquiries and investigations - in the normal course of business the Group and its subsidiaries co-operate with regulatory authorities in various jurisdictions in their enquiries or investigations into alleged or possible breaches of regulations.

Additional contingent liabilities arise in the normal course of the Group's business. It is not anticipated that any material loss will arise from these transactions.

The Bank has given guarantees under Section 17 of the Companies (Amendment) Act, 1986 of the Republic of Ireland in respect of:

Cherbou Property Limited	Norgay Property Limited
Cuvia Finance Limited	Sanlar
DA Property Limited	Sondey Limited
Danroc Limited	Thomas Property Limited
Easycash (Ireland) Limited	The RBS Group Ireland Retirement Savings Trustee Limited
First Active Insurance Services Limited	UIF Finance Company
First Active Investments No.4 Limited	Ulster Bank Wealth Nominees Limited
West Register (Republic of Ireland) Limited	Ulster Bank Wealth
West Register (Republic of Ireland) Property Limited	Ulster Bank Group Treasury Limited
GMM Property Limited	Ulster Bank Investment Funds Limited
Hume Street Nominees Limited	Ulster Bank Markets (Nominees) Limited
Larroquette	Ulster International Finance
Meritvale Limited	Vincent Property Limited
Michael Property Limited	Walter Property Limited

Contractual obligations for future expenditure not provided in the financial statements

The following table shows contractual obligations for future expenditure not provided for in the financial statements at the year end:

	Group		Bank	
	2011	2010	2011	2010
	€m	€m	€m	€m
Property, plant and equipment				
Contracts to purchase goods or services	6	6	5	9
	6	6	5	9

Litigation

The Group is involved in litigation in the Republic of Ireland. The litigation involves claims by and against Group companies which arise in the ordinary course of business. No material adverse effect on the net assets of the Group is expected to arise from the ultimate resolution of these claims.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

27. Net cash outflow from operating activities

	Group		Bank	
	2011	2010	2011	2010
	€m	€m	€m	€m
Operating loss before tax	(2,811)	(3,322)	(2,945)	(3,324)
Depreciation and amortisation	23	23	20	22
Interest on subordinated liabilities	35	16	19	16
Charge for defined benefit pension scheme	23	28	23	28
Loans and advances written off net of recoveries	3,235	3,714	3,235	3,714
Elimination of foreign exchange differences	32	-	34	-
Other non-cash items	(267)	162	(292)	82
Net cash flow from trading activities	270	621	94	538
Decrease/(increase) in loans and advances to banks and customers	1,669	(9,574)	497	(10,083)
Decrease in debt securities	15	38	2,703	38
(Increase)/decrease in other assets	(19)	21	(43)	12
(Increase)/decrease in derivative assets	(88)	6	(81)	(12)
Decrease/(increase) in deferred tax assets	(1)	-	1	-
Changes in operating assets	1,576	(9,509)	3,077	(10,045)
(Decrease)/increase in deposits by banks and customers	(5,339)	(4,083)	(9,553)	3,318
(Decrease)/increase in debt securities in issue	(1,939)	1,568	(175)	(1,764)
Increase in other liabilities	8	10	34	93
Increase in derivative liabilities	29	25	64	11
Decrease in deferred tax liabilities	1	-	(1)	-
Changes in operating liabilities	(7,240)	(2,480)	(9,631)	1,658
Total taxes received	40	34	15	34
Cash contribution to defined benefit pension schemes	(42)	(53)	(42)	(53)
Net cash outflow from operating activities	(5,396)	(11,387)	(6,487)	(7,868)

28. Interest received and paid

	Group		Bank	
	2011	2010	2011	2010
	€m	€m	€m	€m
Interest received	1,078	1,928	1,306	1,846
Interest paid	(710)	(554)	(1,056)	(745)
	368	1,374	250	1,101

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

29. Analysis of changes in financing during the year

	Group and Bank					
	Share capital and share premium		Capital contribution reserve		Subordinated liabilities	
	2011	2010	2011	2010	2011	2010
	€m	€m	€m	€m	€m	€m
At 1 January	4,734	4,393	4,512	500	934	539
Net cash inflows from financing	-	341	4,615	4,012	12	395
At 31 December	4,734	4,734	9,127	4,512	946	934

30. Analysis of cash and cash equivalents

	Group		Bank	
	2011	2010	2011	2010
	€m	€m	€m	€m
At 1 January				
Cash	279	293	279	293
Cash equivalents	3,633	9,825	3,559	6,241
	3,912	10,118	3,838	6,534
Net cash outflow	(644)	(6,241)	(1,723)	(2,727)
Effect of exchange rate changes on cash and cash equivalents	2	35	2	31
At 31 December	3,270	3,912	2,117	3,838
Comprising:				
Cash and balances at central banks	272	279	272	279
Loans and advances to banks and debt securities	2,998	3,633	1,845	3,559

31. Segmental analysis

The Group operates in the financial services industry in the United Kingdom and the Republic of Ireland and provides an integrated service to its customers. The directors manage the Group primarily by class of business (based on net interest income) and present the segmental analysis on that basis. Segments charge market prices for services rendered to other parts of the Group; funding charges between segments are determined by Group Treasury, having regard to commercial demands.

The Group's reportable segments are on a divisional basis as follows:

Retail Markets, which has branch networks in both Northern Ireland and the Republic of Ireland, operates in the personal and commercial sectors where it undertakes lending and deposit taking. It is also active in credit and debit card operations and in wealth management.

Corporate Markets provides a wide range of investment banking products and services to the corporate and institutional markets, which include foreign exchange, money market services and lending.

Both Retail Markets and Corporate Markets are supported by manufacturing, finance, human resources and head office divisions.

Other comprises Non-Core and Central functions.

Non-Core consists of assets that the Group intends to run off or dispose.

Central functions comprise Group and corporate functions such as treasury, funding and finance, risk management, legal, communications and human resources.

ULSTER BANK IRELAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

31. Segmental analysis (continued)

Segmental information by class of business and geographical area is set out below:

Class of Business	Total income			Operating expenses before depreciation	Depreciation and amortisation	Impairment losses	Operating loss before tax
	Interest income	Non-interest income	Total				
2011	€m	€m	€m	€m	€m	€m	€m
Retail Markets	302	61	363	(92)	(1)	(684)	(414)
Corporate Markets	333	88	421	(98)	(2)	(746)	(425)
Other	78	273	351	(320)	(20)	(1,983)	(1,972)
Total	713	422	1,135	(510)	(23)	(3,413)	(2,811)

Class of Business	Total income			Operating expenses before depreciation	Depreciation and amortisation	Impairment losses	Operating loss before tax
	Interest income	Non-interest income	Total				
2010	€m	€m	€m	€m	€m	€m	€m
Retail Markets	317	47	364	(105)	-	(355)	(96)
Corporate Markets	331	68	399	(62)	(2)	(802)	(467)
Other	214	12	226	(369)	(21)	(2,595)	(2,759)
Total	862	127	989	(536)	(23)	(3,752)	(3,322)

Class of Business	2011		2010	
	Assets	Liabilities	Assets	Liabilities
	€m	€m	€m	€m
Retail Markets	20,548	(20,548)	21,841	(21,841)
Corporate Markets	11,931	(11,931)	13,703	(13,703)
Other	12,157	(4,912)	14,523	(9,155)
Total	44,636	(37,391)	50,067	(44,699)

Geographical segments	United Kingdom	Republic of Ireland	Total	United Kingdom	Republic of Ireland	Total
	2011	2011	2011	2010	2010	2010
	€m	€m	€m	€m	€m	€m
Total Income	13	1,122	1,135	(2)	991	989
Operating profit/(loss) before tax	5	(2,816)	(2,811)	(2)	(3,320)	(3,322)
Net Assets	288	6,957	7,245	(158)	5,526	5,368
Total Assets	375	44,261	44,636	(181)	50,248	50,067

ULSTER BANK IRELAND LIMITED

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32. Transactions required to be disclosed under Sections 41 and 43 of the Companies Act 1990

- a. Transactions, agreements entered into by authorised institutions in respect of loans to persons who were directors of the Bank (or persons connected with them) at any time during the financial period were as follows:

Directors

Name of director	Principal and interest		Maximum liability during the year	Interest due but not yet paid	Provision
	As at 1 January (or date of appointment if later)	As at 31 December			
	€	€	€	€	€
T Bowen (1)	2,484	1,161	9,650	-	-
J Brown (1)	-	15,716	20,923	-	-
S Dorgan (1)	5,905	9,498	10,075	-	-
R Gallagher (1)	-	813	8,755	-	-
E Gleeson (1)	245	374	3,365	-	-
C McCarthy (1)	198,741	99,166	201,680	-	-
C McManus (1)	-	-	10	-	-
S Murphy (1)	4,646	264	7,148	-	-

Notes:

- (1) Personal & mortgage loans

Connected parties

There were no amounts required to be disclosed during the period pursuant to the provisions of the Companies Act 1990 (as amended by the Companies (Amendment) Act 2009) or the CBI.

There were no guarantees, security or arrangements involving a guarantee or security entered into by authorised institutions in the Group in respect of guarantees to persons who were directors of the Bank (or persons connected with them) at any time during the financial period.

At 31 December 2011, the total amount outstanding under any arrangement by the Bank with any director or person connected to a director was less than 10% of the Bank's total assets.

There were no amounts outstanding at 31 December 2011 (2010: €nil) in respect of loans made to directors by subsidiary undertakings which were not authorised institutions.

33. Directors' and secretaries' interest in shares

	RBS Group							
	Ordinary Shares of Stg 25p each							
	As at 1 January 2011 (or date of appointment if later)				As at 31 December 2011			
	Ordinary Shares	Options	Restricted Stock Awards*	Deferred Stock Awards	Ordinary Shares	Options*	Restricted Stock Awards**	Deferred Stock Awards
R Curran (Secretary)	11,394	35,077	152,168	13,111	14,086	35,077	216,677	13,111
J Brown	-	-	1,510,446	426,745	217,725	37,039	1,510,446	426,745
C McManus	-	-	-	-	-	-	956,546	-

*Options granted under the Executive Option Scheme are exercisable subject to the achievement of performance conditions.

**Vesting for these awards are subject to the achievement of performance conditions.

	Debentures	
	As at 1 January 2011 (or date of appointment if later)	As at 31 December 2011
	£	£
Deferred Stock Awards		
R Curran (Secretary)	11,383	11,383
J Brown	175,197	175,197

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34. Related parties

The Company's immediate parent company is Ulster Bank Holdings (ROI) Limited.

The Company's ultimate holding company, and the parent of the largest group into which the Company is consolidated, is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland. Copies of the consolidated financial statements for The Royal Bank of Scotland Group plc can be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

The smallest subgroup into which the Company is consolidated is Ulster Bank Limited, a company incorporated in Northern Ireland. Copies of the consolidated financial statements for this subgroup can be obtained from the Secretary, Ulster Bank Limited, 11-16 Donegall Square East, Belfast, BT1 5UB.

UK Government

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland Group plc. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly-owned by the UK Government. As a result the UK Government and UK Government controlled bodies became related parties of the Group.

As at 31 December 2011 balances with UK Government and UK controlled bodies were:

	Central Government (including the Bank of England) €m	Local Government €m	2011 total €m
2011			
Assets			
Balances at central banks	2	-	2
	2	-	2
Liabilities			
Customer accounts	-	14	14

No impairment losses were recognised by the Group in 2011 or 2010 in respect of balances with UK Government and UK Government controlled bodies.

	Central Government (including the Bank of England) €m	Local Government €m	2010 total €m
2010			
Assets			
Balances at central banks	2	-	2
	2	-	2
Liabilities			
Customer accounts	-	31	31

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

34. Related parties (continued)

(a) During the year the Group had the following transactions with related parties:

Directors and key managers

The aggregate transactions between the Bank and its directors, key managers, their close families and companies which they control were:

	Number of directors	Number of key managers	Connected parties	Transaction amount €
Transactions during the year				
Loans made during the year:				
- at a commercial rate	-	1	-	30,000
Balances outstanding at the end of the year				
Loans:				
- at a preferential rate	4	3	-	239,422
- at a commercial rate	6	3	6	1,830,083
Customer accounts:				
- savings	9	7	23	7,215,250

(b) Related party transactions

Included in the Group and bank's balance sheet are the following balances with related parties at the year end:

	Group		Bank	
	2011 €m	2010 €m	2011 €m	2010 €m
Assets				
Loans and advances:				
Parent companies	1,443	706	314	688
Key management	2	2	2	2
Other related parties, including fellow subsidiaries	359	287	15,152	16,631
	1,804	995	15,468	17,321
Derivatives:				
Parent companies	818	705	698	593
Total assets	2,622	1,700	16,166	17,914
Liabilities				
Deposits:				
Parent companies	10,275	10,431	10,288	6,521
Key management	3	-	3	-
Other related parties, including fellow subsidiaries	576	2,538	19,000	24,908
	10,854	12,969	29,291	31,429
Subordinated Loans:				
Parent companies	615	619	615	619
Other related parties, including fellow subsidiaries	331	315	331	315
	946	934	946	934
Derivatives:				
Parent companies	1,540	1,512	1,192	1,129
Total liabilities	13,340	15,415	31,429	33,492

(c) Compensation of key management

The aggregate remuneration of directors and other members of key management during the year was as follows:

	2011 €	2010 €
Short-term benefits	2,698,497	1,991,934
Termination benefit	336,732	-
Long-term benefit	627,648	134,380
	3,662,877	2,126,314

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2011

35. Prior Year Restatement/Reclassifications

The Group has reclassified an amount of €18m from Non-interest income to Net interest income in the Statement of Comprehensive Income for the year ended 31 December 2010, to better reflect the underlying nature of the income stream. This reclassification does not impact total income as previously disclosed.

Bank Balance Sheet

The Bank balance sheet has been restated/reclassified to reflect the changes in the table below. There is no impact on the Group balance sheet.

	Previously reported €m	2010 Restatement €m	Adjusted balance €m
Assets			
Cash and balances at central banks	279	-	279
Loans and advances to banks (2)	3,578	-	3,578
Loans and advances to customers (1) (2)	56,266	(11,047)	45,219
Debt securities (2)	213	15,242	15,455
Equity shares	4	-	4
Investments in Group undertakings	191	-	191
Derivatives	1,044	-	1,044
Property, plant and equipment	201	-	201
Prepayments, accrued income and other assets	23	-	23
Deferred taxation	263	-	263
Assets held for sale	1	-	1
Total assets	62,063	4,195	66,258
Liabilities			
Deposits by banks	14,445	139	14,584
Customer accounts (1)	39,622	4,056	43,678
Debt securities in issue	198	-	198
Derivatives	1,261	-	1,261
Accruals, deferred income and other liabilities	395	-	395
Retirement benefit liabilities	8	-	8
Deferred taxation	5	-	5
Subordinated liabilities	934	-	934
Total liabilities	56,868	4,195	61,063
Shareholders' equity:			
Called up share capital	3,592	-	3,592
Reserves	1,603	-	1,603
Total equity	5,195	-	5,195
Total liabilities and equity	62,063	4,195	66,258

(1) The Bank has restated its prior year balance sheet to correctly reflect the inclusion of loans and advances to customers (€4,056m) in its balance sheet. These loans were previously reflected in the balance sheet of other Group companies. The corresponding liability balance with Group companies is reflected in the increase in 'Customer accounts'. This does not impact the classification of 'Loans and advances to customers' or 'Customer accounts' in the Group Balance Sheet.

(2) The Bank has also reclassified certain inter-group balance sheet items from 'Loans and advances to customers' to 'Debt securities' (€15,242m) to better reflect the underlying nature of the transaction. This does not impact the valuation of the underlying assets. As these are inter-group transactions there is no impact on the Group balance sheet.

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NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2011*

36. Post balance sheet events

On 12 January 2012, Ulster Bank Group announced up to 950 proposed job losses resulting from a strategic review of its future operating model, up to 600 of which are expected to impact Ulster Bank Ireland Limited. Whilst the transition is likely to take up to two years, the majority of proposed job losses are expected to take effect during 2012.

No provision for restructuring costs has been included in these financial statements as the conditions at the balance sheet date do not meet the recognition criteria in IAS 37. As the Group is currently in consultation with employee representatives on the details of the proposals it is not possible to quantify the effect at this time.

37. Date of approval

The financial statements were approved by the Board of Directors on 22 March 2012.