

**Registered Number: R0000733**

**ULSTER BANK LIMITED**

**REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS**

**31 December 2011**

# ULSTER BANK LIMITED

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# **ULSTER BANK LIMITED**

## **BOARD OF DIRECTORS AND SECRETARIES**

### **Directors**

T Bowen  
J Brown  
C Campbell  
S Dorgan (Chairman)  
E Gleeson  
N Hamilton  
C M Mills  
A McLaughlin  
C McManus  
P Nolan  
B Rosewell  
I Webb

### **Registered Office**

11–16 Donegall Square East  
Belfast  
BT1 5UB

### **Secretaries**

R Bergin  
E Dignam (Deputy secretary)  
R Curran (Assistant secretary)

### **Auditors**

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

# ULSTER BANK LIMITED

## REPORT OF THE DIRECTORS

The directors of Ulster Bank 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 Northern Ireland and 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, particularly in the Republic of Ireland and intense competition within the banking market, notably 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 8.

Net interest income decreased by 19% due to the impact of higher funding costs coupled with a reduction in the loan book.

Non interest income increased from £252m to £446m, primarily attributable to the gain on the buy-back of certain externally issued mortgage securitisation bonds at a discount to par.

Operating expenses decreased by 6% on prior year, reflecting the benefit of the Group's cost initiatives.

Impairment losses have decreased from £3,843m to £3,718m 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 £48,945m (2010: £54,147m).

### *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 schemes. 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 21 to 24.

### *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 the 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 LIMITED

## REPORT OF THE DIRECTORS (continued)

### Share capital

Details of 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 and brief biographical details are shown on pages 83 to 84. From 1 January 2011 to date the following changes have taken place:

	<u>Appointed</u>	<u>Resigned</u>
<u>Directors</u>		
C McManus	28 March 2011	
J Brown	11 April 2011	
B Rosewell	21 November 2011	
R Ryan	21 November 2011	26 January 2012
M Bamber		28 February 2011
S Murphy		28 February 2011
C McCarthy		8 April 2011
R Gallagher		30 September 2011

### Deputy Secretary

E Dignam	1 January 2012
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### Assistant secretary

J Gribbon	30 June 2011
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In accordance with the Articles of Association, the directors are not required to retire by rotation.

### Directors' indemnities

In terms of Section 236 of the Companies Act 2006, all directors have been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc ("RBS Group").

### 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.

### Diversity

The attainment of an effective equal opportunities policy is a natural and integral part of good management practice. Key elements of policy are an intention to develop and treat people fairly and create an environment within which staff can 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. Through the Managing Diversity Programme, the Group aims to value and engage individual difference and maximise inclusion to create a positive experience for its people and customers.

The Group's commitment to diversity underpins its desire to be the financial services provider of choice for customers and to be the employer of choice. 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.

# **ULSTER BANK LIMITED**

## **REPORT OF THE DIRECTORS (continued)**

### **Safety, health and wellbeing**

The Group recognises that people are key to the success of its business. The vision is for 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 all jurisdictions. 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 United Kingdom and the Republic of Ireland totalling £1,264,983 (2010: £861,748).

### **Political donations**

During the year the Group made no political donations in the UK or the EU (2010: £nil).

### **Branches outside the UK**

Included within the consolidated financial statements of the Group are branches (as defined in the Companies Act 2006 Section 1046(3)) located outside of the United Kingdom.

### **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 risks.

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. 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 on ordinary shares (2010: £nil).

# ULSTER BANK LIMITED

## REPORT OF THE DIRECTORS (continued)

### Post balance sheet events

On 12 January 2012, the Group announced up to 950 proposed job losses resulting from a strategic review of its future operating model. Whilst the transition is likely to take up to two years, the majority of the proposed job losses are expected to take effect during 2012. Further details are included in Note 34 to the financial statements.

### Directors' disclosure to auditors

Each of the directors at the date of approval of this report confirms that:

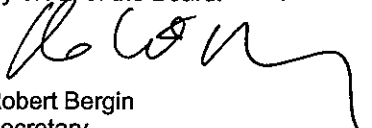
- (a) in so far as the director is aware, there is no relevant audit information of which the Bank's auditors are unaware; and
- (b) the director has taken all steps he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

### Auditors

The auditors Deloitte & Touche have indicated their willingness to continue in office as auditors.

By order of the Board:



Robert Bergin  
Secretary  
11-16 Donegall Square East  
Belfast  
BT1 5UB

16 February 2012

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# ULSTER BANK LIMITED

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

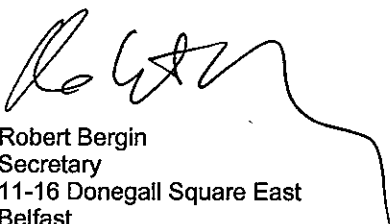
The directors are responsible for preparing the financial statements in accordance with applicable laws and regulation. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare Group and Bank financial statements in accordance with IFRS as adopted by the EU. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Bank and of the profit or loss for that period. In preparing these financial statements, the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group and Bank's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Bank and enable them to ensure that the financial statements comply with the Companies Act 2006. They are 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.

The directors confirm that these financial statements comply with the aforementioned requirements.

By order of the Board:



Robert Bergin  
Secretary  
11-16 Donegall Square East  
Belfast  
BT1 5UB

16 February 2012

Ulster Bank Limited is registered in Northern Ireland No. R0000733



# ULSTER BANK LIMITED

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

We have audited the financial statements of Ulster Bank Limited for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Group and Bank Balance Sheets, the Group and Bank Statements of Changes in Equity, the Group and Bank Cash Flow Statements, the accounting policies and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 company'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**

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Bank's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2011 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Bank's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



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

21 February 2012

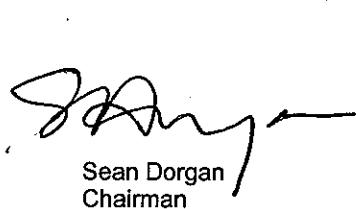
# ULSTER BANK LIMITED

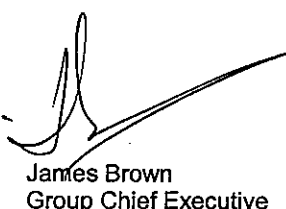
## CONSOLIDATED INCOME STATEMENT for the year ended 31 December 2011

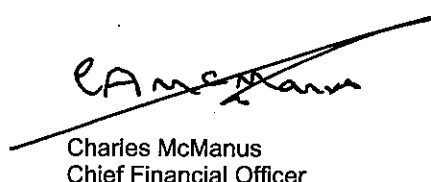
	Note	Group	
		2011 £m	2010 £m
Interest receivable		1,478	1,621
Interest payable		(638)	(581)
<b>Net interest income</b>	<b>1</b>	<b>840</b>	<b>1,040</b>
Fees and commission receivable		145	209
Fees and commission payable		(6)	(30)
Income from trading activities		55	40
Other operating income		252	33
<b>Non interest income</b>	<b>2</b>	<b>446</b>	<b>252</b>
<b>Total income</b>		<b>1,286</b>	<b>1,292</b>
<b>Operating expenses</b>	<b>3</b>	<b>(640)</b>	<b>(682)</b>
<b>Operating profit before impairment losses</b>		<b>646</b>	<b>610</b>
Impairment loss on loans and advances	9	(3,718)	(3,843)
<b>Operating loss before tax</b>		<b>(3,072)</b>	<b>(3,233)</b>
Tax credit	6	260	145
<b>Loss for the year</b>		<b>(2,812)</b>	<b>(3,088)</b>
<b>Profit/(loss) attributable to:</b>			
Non-controlling interests		8	(8)
Ordinary shareholders		(2,820)	(3,080)
		<b>(2,812)</b>	<b>(3,088)</b>

The accompanying accounting policies on pages 13 to 24 and the notes on pages 25 to 82 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 16 February 2012 and signed on its behalf by:

  
Sean Dorgan  
Chairman

  
James Brown  
Group Chief Executive

  
Charles McManus  
Chief Financial Officer

Ulster Bank Limited is registered in Northern Ireland No. R0000733

# ULSTER BANK LIMITED

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

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>£m</b>	<b>£m</b>
<b>Loss for the year</b>	<b>(2,812)</b>	<b>(3,088)</b>
Other comprehensive income/(losses):		
Fair value gains on available-for-sale financial assets	2	(2)
Cash flow hedges	-	(2)
Exchange differences on translation of foreign operations	(241)	(205)
Actuarial (losses)/gains on defined benefit plans and other movements	(10)	101
<b>Other comprehensive loss before tax</b>	<b>(249)</b>	<b>(108)</b>
Tax relating to components of other comprehensive income/(losses)	(1)	1
<b>Other comprehensive loss after tax</b>	<b>(250)</b>	<b>(107)</b>
<b>Total comprehensive loss for the year</b>	<b>(3,062)</b>	<b>(3,195)</b>
Attributable to:		
Non-controlling interests	(7)	(22)
Ordinary shareholders	(3,055)	(3,173)
	<b>(3,062)</b>	<b>(3,195)</b>

The accompanying accounting policies on pages 13 to 24 and the notes on pages 25 to 82 form an integral part of these financial statements.

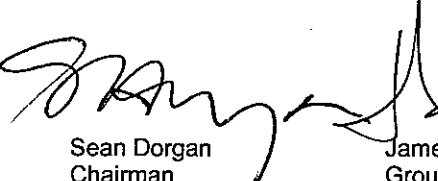
# ULSTER BANK LIMITED

## BALANCE SHEETS as at 31 December 2011

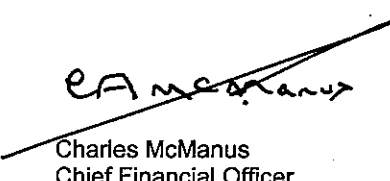
	Note	Group		Bank	
		2011 £m	2010 £m	2011 £m	2010 £m
<b>Assets</b>					
Cash and balances at central banks	8	749	854	522	613
Loans and advances to banks	8	7,331	5,742	6,757	4,206
Loans and advances to customers	8	38,945	45,403	6,453	7,458
Debt securities	8,10	98	379	71	195
Equity shares	8,11	5	4	-	-
Investments in Group undertakings	8,12	-	-	3,488	2,951
Derivatives	8,15	997	962	87	149
Property, plant and equipment	8,14	349	400	81	90
Prepayments, accrued income and other assets	8,16	155	176	149	142
Retirement benefit assets	4,8	31	-	23	-
Deferred taxation	8,19	285	226	1	4
Assets held for sale	8,17	-	1	-	-
<b>Total assets</b>		<b>48,945</b>	<b>54,147</b>	<b>17,632</b>	<b>15,808</b>
<b>Liabilities</b>					
Deposits by banks	8	12,830	14,135	4,365	2,722
Customer accounts	8	22,348	24,157	7,487	7,610
Debt securities in issue	8	3,530	6,842	38	114
Derivatives	8,15	1,352	1,396	84	162
Accruals, deferred income and other liabilities	8,18	871	1,115	639	812
Retirement benefit liabilities	4,8	-	17	-	10
Deferred taxation	8,19	18	14	15	11
Subordinated liabilities	8,20	1,183	1,215	961	986
<b>Total liabilities</b>		<b>42,132</b>	<b>48,891</b>	<b>13,589</b>	<b>12,427</b>
<b>Equity</b>					
Non-controlling interests		512	558	-	-
<b>Shareholders' equity:</b>					
Called up share capital	21	1,505	1,505	1,505	1,505
Reserves		4,796	3,193	2,538	1,876
<b>Total equity</b>	8	<b>6,813</b>	<b>5,256</b>	<b>4,043</b>	<b>3,381</b>
<b>Total liabilities and equity</b>		<b>48,945</b>	<b>54,147</b>	<b>17,632</b>	<b>15,808</b>

The accompanying accounting policies on pages 13 to 24 and the notes on pages 25 to 82 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 16 February 2012 and signed on its behalf by:

  
Sean Dorgan  
Chairman

  
James Brown  
Group Chief Executive

  
Charles McManus  
Chief Financial Officer

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# ULSTER BANK LIMITED

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

	Group		Bank	
	2011	2010	2011	2010
	£m	£m	£m	£m
<b>Called up share capital</b>				
At 1 January and 31 December	1,505	1,505	1,505	1,505
<b>Share premium account</b>				
At 1 January and 31 December	907	907	907	907
<b>Available-for-sale reserve</b>				
At 1 January	(1)	1	(5)	(2)
Unrealised (losses)/gains in the year	(2)	(2)	1	(2)
Exchange gains/(losses) in the year	4	(1)	5	(2)
Taxation	(1)	1	(1)	1
At 31 December	-	(1)	-	(5)
<b>Cash flow hedging reserve</b>				
At 1 January	-	2	-	-
Unrealised losses in the year	-	(7)	-	-
Gains/(losses) recycled on terminated hedges	-	5	-	-
At 31 December	-	-	-	-
<b>Foreign exchange reserve</b>				
At 1 January	190	381	(260)	(260)
Retranslation of net assets	(226)	(191)	-	-
At 31 December	(36)	190	(260)	(260)
<b>Retained earnings</b>				
At 1 January	(3,821)	(842)	(4,684)	(2,525)
Actuarial (losses)/gains on defined benefit plans and other movements	(10)	101	(2)	(21)
Loss attributable to ordinary shareholders	(2,820)	(3,080)	(3,999)	(2,138)
At 31 December	(6,651)	(3,821)	(8,685)	(4,684)
<b>Capital contribution</b>				
At 1 January	5,918	2,211	5,918	2,211
Capital contribution	4,658	3,707	4,658	3,707
At 31 December	10,576	5,918	10,576	5,918
<b>Shareholders' equity at 31 December</b>	<b>6,301</b>	<b>4,698</b>	<b>4,043</b>	<b>3,381</b>
<b>Non-controlling interests</b>				
At 1 January	558	522	-	-
(Decrease)/increase in loan classed as equity	(39)	58	-	-
Currency translation and other adjustments	(15)	(14)	-	-
Gain/(loss) attributable to non-controlling interests	8	(8)	-	-
At 31 December	512	558	-	-
<b>Total equity at 31 December</b>	<b>6,813</b>	<b>5,256</b>	<b>4,043</b>	<b>3,381</b>
Total comprehensive loss recognised in the Statement of Changes in Equity is attributable as follows:				
Non-controlling interests	(7)	(22)	-	-
Ordinary shareholders	(3,055)	(3,173)	(3,997)	(2,162)
	(3,062)	(3,195)	(3,997)	(2,162)

The accompanying accounting policies on pages 13 to 24 and the notes on pages 25 to 82 form an integral part of these financial statements.

# ULSTER BANK LIMITED

## CASH FLOW STATEMENTS for the year ended 31 December 2011

	Note	Group		Bank	
		2011 £m	2010 £m	2011 £m	2010 £m
<b>Operating activities</b>					
Operating loss before tax		(3,072)	(3,233)	(4,165)	(2,229)
Adjustments for:					
Depreciation and amortisation		30	32	10	11
Interest on subordinated liabilities		34	22	19	14
Charge for defined benefit pension schemes		27	35	6	11
Losses on loans and advances written off net of recoveries		3,544	3,794	737	575
Impairment of investments in Group undertakings		-	-	3,518	1,829
Elimination of foreign exchange differences		(411)	(184)	(7)	14
Other non-cash items		(295)	(30)	(51)	(182)
<b>Net cash flows from trading activities</b>	27	(143)	436	67	43
Cash contribution to defined benefit pension schemes		(75)	(75)	(39)	(29)
Changes in operating assets and liabilities		(3,228)	(4,115)	(2,076)	(54)
<b>Net cash flows from operating activities before tax</b>		(3,446)	(3,754)	(2,048)	(40)
Income taxes received		182	102	137	73
<b>Net cash flows from operating activities</b>	27	(3,264)	(3,652)	(1,911)	33
<b>Investing activities</b>					
Sale and maturity of securities		281	440	128	51
Purchase of equity shares		(3)	(2)	-	-
Sale of equity shares		1	-	-	-
Purchase of property, plant and equipment		(60)	(40)	(1)	(1)
Sale of property, plant and equipment		8	13	-	3
Investment in subsidiary undertakings		-	-	(4,068)	(3,428)
<b>Net cash flows from investing activities</b>		227	411	(3,941)	(3,375)
<b>Financing activities</b>					
Capital contribution		4,658	3,707	4,658	3,707
Interest on subordinated liabilities		(34)	(22)	(19)	(14)
<b>Net cash flows from financing activities</b>		4,624	3,685	4,639	3,693
<b>Effect of exchange rate changes on cash and cash equivalents</b>		(70)	(69)	-	(15)
<b>Net increase/(decrease) in cash and cash equivalents</b>		1,517	375	(1,213)	336
Cash and cash equivalents 1 January	30	4,180	3,805	4,176	3,840
<b>Cash and cash equivalents 31 December</b>	30	5,697	4,180	2,963	4,176

The accompanying accounting policies on pages 13 to 24 and the notes on pages 25 to 82 form an integral part of these financial statements.

# ULSTER BANK 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 Act 2006.

The Bank is incorporated and registered in Northern 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 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 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 interests 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 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.

### 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.



# ULSTER BANK LIMITED

## ACCOUNTING POLICIES (continued)

### 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 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.

### 10. Foreign currencies

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

Transactions in foreign currencies are translated into Sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling 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 Sterling 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 Sterling at foreign exchange rates ruling at the balance sheet date. Income and expenses of foreign operations are translated into Sterling 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.

# ULSTER BANK LIMITED

## ACCOUNTING POLICIES (continued)

### **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.

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.

# ULSTER BANK LIMITED

## ACCOUNTING POLICIES (continued)

### 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 as 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 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 an 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 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 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 standing.

### 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 the 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 assesses 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 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 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. UK 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 £47,996m (2010: £51,381m) and customer loan impairment provisions amounted to £9,051m (2010: £5,978m).

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 LIMITED

## ACCOUNTING POLICIES (continued)

### **Critical accounting policies and key sources of accounting judgements (continued)**

#### **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.

#### **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 £285m were recognised as at 31 December 2011 (2010: £226m). Deferred tax assets of £494m (2010: £277m) have not been recognised in respect of tax losses carried forward where doubt exists over the availability of future taxable profits.

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.

#### **Pensions**

There are three defined benefit pension schemes in operation within the Group: Ulster Bank Pension Scheme, Ulster Bank Pension Scheme (Republic of Ireland) and First Active Pension Scheme. The assets of 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 surplus recognised on the Balance Sheet at 31 December 2011 was £31m (2010: deficit £17m).

The UK Pension Bill, which will be enacted later this year, includes changes that mean that increases in payment to pensions for some UK schemes will in future reference the CPI rather than RPI measure of UK inflation. The Group's conclusion is that the Ulster Bank Pension Scheme is one of those affected and therefore the assumption used for the affected tranches of pension has been revised to reflect this.

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



# ULSTER BANK LIMITED

## ACCOUNTING POLICIES (continued)

### **Critical accounting policies and key sources of accounting judgements (continued)**

#### **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.

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.

#### **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

# ULSTER BANK LIMITED

## ACCOUNTING POLICIES (continued)

### **Accounting developments (continued)**

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.

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 requires 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 amendment 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 to IAS 32 are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and are also required to be applied retrospectively.

# ULSTER BANK 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 <sup>(1)</sup>	1,355	1,494
Loans and advances to banks	116	110
Debt securities	7	17
Interest receivable	1,478	1,621
Customer accounts	(347)	(317)
Deposits by banks	(193)	(171)
Debt securities in issue	(64)	(71)
Subordinated liabilities	(34)	(22)
Interest payable	(638)	(581)
Net interest income	840	1,040

(1) £34m 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	145	209
Fees and commission payable	(6)	(30)
Income from trading activities:		
Foreign exchange <sup>(1)</sup>	58	63
Interest rates <sup>(2)</sup>	(3)	(23)
Other operating income:		
Profit on disposal of Ulster Bank Merchant Services	-	28
Profit on buyback of securitisation bonds	255	-
Other income <sup>(3)</sup>	(3)	5
Non-interest income	446	252

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 £255m (2010: £nil).

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) £34m 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 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	272	272
Restructure costs	5	17
Social security costs	26	27
Pension costs (see Note 4)	27	35
Staff costs	330	351
Property, plant and equipment depreciation (see Note 14)	30	32
Impairment of property, plant and equipment (see Note 14)	-	35
Depreciation, amortisation and impairment	30	67
Premises	140	132
Administration	140	132
Other expenses	280	264
	640	682

The average number of persons employed by the Group during the year, excluding temporary staff was 5,725 (2010: 5,717). The average number of temporary employees during 2011 was 217 (2010: 167). The number of persons employed by the Group at 31 December, excluding temporary staff, was as follows:

	Group	
	2011	2010
	Number	Number
Retail Markets	2,366	2,410
Corporate Markets/Other	3,386	3,289
	5,752	5,699

	Group	
	2011	2010
	£k	£k
Auditors' remuneration		
Statutory audit work	1,118	1,172
Non-audit work:		
- Corporate finance	-	130
- Other services pursuant to legislation	9	8
- Other services	-	204
	9	342
	1,127	1,514

Other than the amounts disclosed above, no additional remuneration was payable to the auditors for any other services.

### Bank Levy

The Finance Act 2011 introduced an annual bank levy in the UK. The levy will be collected through the existing quarterly Corporation Tax collection mechanism starting with payment dates on or after 19 July 2011.

The levy is based on the total chargeable equity and liabilities as reported in the balance sheet at the end of a chargeable period. The first chargeable period for RBS Group is the year ending 31 December 2011. In determining the chargeable equity and liabilities the following amounts are excluded: adjusted Tier 1 capital; certain "protected deposits" (for example those protected under the Financial Services Compensation Scheme); liabilities that arise from certain insurance business within banking groups; liabilities in respect of currency notes in circulation; Financial Services Compensation Scheme liabilities; liabilities representing segregated client money; and deferred tax liabilities, current tax liabilities, liabilities in respect of the levy, revaluation of property liabilities, liabilities representing the revaluation of business premises and defined benefit retirement liabilities. It is also permitted in specified circumstances to reduce certain liabilities: by netting them against certain assets; offsetting assets on the relevant balance sheets that would qualify as high quality liquid assets (in accordance with the Financial Services Authority (FSA) definition); and repo liabilities secured against sovereign and supranational debt.

# ULSTER BANK LIMITED

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

### 3. Operating expenses (continued)

#### Bank Levy (continued)

The levy will be set at a rate of 0.075 per cent from 2011. Three different rates apply during 2011, these average to 0.0088 per cent. Certain liabilities are subject to only a half rate, namely any deposits not otherwise excluded, (except for those from financial institutions and financial traders) and liabilities with a maturity greater than one year at the balance sheet date. The levy is not charged on the first £20 billion of chargeable liabilities.

Bank levy costs in respect of the Bank will be borne by RBS Group for 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

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 scheme they are a member of and when they joined the scheme. In addition, employees may make voluntary contributions to secure additional benefits on a money-purchase basis.

The Group also make 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 £2,345k to its own defined contribution schemes in 2011 (2010: £778k). The Bank made contributions of £453k to its own defined contribution schemes in 2011 (2010: £176k).

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 present value of defined benefit obligations of the schemes, on an individual scheme basis at the beginning of the year. Any excess variations are amortised prospectively over the average remaining service lives of current members of the schemes.

Interim valuations of the Group's schemes were prepared to 31 December 2011 by independent actuaries, using the following assumptions:

Principal actuarial assumptions at 31 December (weighted average)	Group	
	2011	2010
Discount rate	5.00% – 5.75%	5.50% – 5.60%
Expected return on plan assets	5.44% – 5.72%	6.09% – 6.35%
Rate of increase in salaries	1.75%	1.75%
Rate of increase in pensions in payment	1.50% – 2.10%	1.50% – 2.70%
Inflation assumption	2.00% – 3.00%	2.00% – 3.30%

Major classes of plan assets as a percentage of total plan assets	Group	
	2011	2010
Equities	42%	44%
Index-linked bonds	16%	-
Government fixed interest bonds	2%	15%
Corporate and other bonds	15%	15%
Hedge Funds	8%	-
Property	5%	6%
Derivatives	-	-
Cash and other assets	12%	20%

# ULSTER BANK LIMITED

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

### 4. Pension costs (continued)

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	
	2011	2010
Equities	7.10% – 7.70%	7.70%
Index-linked bonds	3.10%	-
Government fixed interest bonds	2.50%	3.70% – 4.20%
Corporate and other bonds	4.00% – 4.70%	4.70% – 5.50%
Hedge Funds	6.00%	-
Property	6.10% – 6.70%	6.70%
Derivatives	2.60% – 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.

	Bank	
Principal actuarial assumptions at 31 December	2011	2010
Discount rate	5.00%	5.50%
Expected return on plan assets (weighted average)	5.72%	6.35%
Rate of increase in salaries	1.75%	1.75%
Rate of increase in pensions in payment	1.50% – 2.10%	2.00% – 2.70%
Inflation assumption	3.00%	3.30%

	Bank	
Major classes of plan assets as a percentage of total plan assets	2011	2010
Equities	38%	43%
Index-linked bonds	19%	-
Government fixed interest bonds	-	15%
Corporate and other bonds	15%	15%
Hedge Funds	9%	-
Property	5%	7%
Derivatives	-	-
Cash and other assets	14%	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:

	Bank	
	2011	2010
Equities	7.70%	7.70%
Index-linked bonds	3.10%	-
Government and other bonds	-	4.20%
Corporate and other bonds	4.70%	5.50%
Hedge Funds	6.00%	-
Property	6.70%	6.70%
Derivatives	2.60%	-
Cash and other assets	2.60%	4.00% – 6.00%

	Bank	
Post-retirement mortality assumptions (Main scheme)	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

# ULSTER BANK LIMITED

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

### 4. Pension costs (continued)

These post-retirement mortality assumptions are derived from standard mortality tables used by the scheme actuary to value the liabilities for the main scheme.

Group (all schemes)	Fair value of plan assets £m	Present value of defined benefit obligations £m	Net pension asset/(liability) £m
<b>Changes in value of net pension liability</b>			
At 1 January 2011	1,146	(1,180)	(34)
Currency translation and other adjustments	(19)	20	1
<i>Income statement:</i>			
Expected return	73	-	73
Interest cost	-	(65)	(65)
Current service cost	-	(33)	(33)
Past service cost	-	(2)	(2)
	73	(100)	(27)
Actuarial (loss)/gain	(79)	31	(48)
Contributions by employer	75	-	75
Contributions by plan participants	4	(4)	-
Benefits paid	(38)	38	-
<b>At 31 December 2011</b>	<b>1,162</b>	<b>(1,195)</b>	<b>(33)</b>
Unrecognised actuarial losses			64
<b>Retirement benefit assets at 31 December 2011</b>			<b>31</b>

The Group expects to contribute £72.2m to its defined benefit pension schemes in 2012.

Group (all schemes)	Fair value of plan assets £m	Present value of defined benefit obligations £m	Net pension liability £m
<b>Changes in value of net pension liability</b>			
At 1 January 2010	1,012	(1,272)	(260)
Currency translation and other adjustments	(16)	21	5
<i>Income statement:</i>			
Expected return	65	-	65
Interest cost	-	(68)	(68)
Current service cost	-	(30)	(30)
Past service cost	-	(2)	(2)
	65	(100)	(35)
Actuarial gain	44	137	181
Contributions by employer	75	-	75
Contributions by plan participants	5	(5)	-
Benefits paid	(39)	39	-
<b>At 31 December 2010</b>	<b>1,146</b>	<b>(1,180)</b>	<b>(34)</b>
Unrecognised actuarial losses			17
<b>Retirement benefit liabilities at 31 December 2010</b>			<b>(17)</b>

# ULSTER BANK LIMITED

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

### 4. Pension costs (continued)

Bank	Fair value of plan assets £m	Present value of defined benefit obligations £m	Net pension asset/(liability) £m
<b>Changes in value of net pension liability</b>			
<b>At 1 January 2011</b>	525	(527)	(2)
<i>Income statement:</i>			
Expected return	34	-	34
Interest cost	-	(29)	(29)
Current service cost	-	(11)	(11)
	34	(40)	(6)
Actuarial gains	(25)	(3)	(28)
Contributions by employer	39	-	39
Contributions by plan participants	1	(1)	-
Benefits paid	(18)	18	-
<b>At 31 December 2011</b>	556	(553)	3
Unrecognised actuarial losses			20
<b>Retirement benefit assets at 31 December 2011</b>			23

The Bank expects to contribute £37.3m to its defined benefit pension scheme in 2012.

Bank	Fair value of plan assets £m	Present value of defined benefit obligations £m	Net pension liability £m
<b>Changes in value of net pension liability</b>			
<b>At 1 January 2010</b>	458	(557)	(99)
<i>Income statement:</i>			
Expected return	31	-	31
Interest cost	-	(33)	(33)
Current service cost	-	(9)	(9)
	31	(42)	(11)
Actuarial gains	25	54	79
Contributions by employer	29	-	29
Contributions by plan participants	1	(1)	-
Benefits paid	(19)	19	-
<b>At 31 December 2010</b>	525	(527)	(2)
Unrecognised actuarial gains			(8)
<b>Retirement benefit liabilities at 31 December 2010</b>			(10)

History of defined benefit schemes (Group)	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of defined benefit obligations	(1,195)	(1,180)	(1,272)	(1,233)	(1,099)
Fair value of plan assets	1,162	1,146	1,012	867	940
Net deficit	(33)	(34)	(260)	(366)	(159)
Experience gains/(losses) on plan liabilities	31	137	(184)	(18)	(38)
Experience gains/(losses) on plan assets	(79)	44	83	(299)	23
Actual return on pension scheme assets	(6)	109	139	(232)	21



# ULSTER BANK LIMITED

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

### 4. Pension costs (continued)

History of defined benefit schemes (Bank)	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of defined benefit obligations	(553)	(527)	(557)	(462)	(532)
Fair value of plan assets	556	525	458	388	451
Net deficit	3	(2)	(99)	(74)	(81)
Experience gains/(losses) on plan liabilities	(3)	54	(137)	1	(4)
Experience gains/(losses) on plan assets	(25)	25	29	(108)	(9)
Actual return on pension scheme assets	9	56	56	(76)	20

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			
	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	(3)	(3)	(60)	(60)
0.25% increase in inflation	6	7	63	64
0.25% additional rate of increase in pensions in payment	3	3	38	38
0.25% additional rate of increase in deferred pensions	-	1	8	8
0.25% additional rate of increase in salaries	3	3	17	18
Longevity increase of 1 year	2	2	24	25

	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	(1)	(1)	(28)	(26)
0.25% increase in inflation	2	2	29	28
0.25% additional rate of increase in pensions in payment	1	1	19	18
0.25% additional rate of increase in deferred pensions	-	-	3	3
0.25% additional rate of increase in salaries	1	1	7	7
Longevity increase of 1 year	1	1	11	11

In the Republic of Ireland, 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 £3.6m (excluding Additional Voluntary Contributions) was deducted from the asset value of the Group's two Republic of Ireland pension schemes within the statutory deadlines.

### 5. Emoluments of directors

	2011 £	2010 £
Non-executive directors - emoluments	252,000	182,703
Chairman and executive directors - Emoluments	2,865,300	2,050,677
Total emoluments received by directors	3,117,300	2,233,380

Two of the non-executive directors of the Bank, Andrew McLaughlin and Christopher Campbell, are employed by The Royal Bank of Scotland plc and are remunerated for their services to RBS Group as a whole.

No retirement benefits are accruing to directors under either defined contribution or defined benefit schemes at year end. In 2010 four directors were accruing benefits under defined benefit schemes.

# ULSTER BANK LIMITED

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

### 5. Emoluments of directors (continued)

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 £584,265 (2010: £nil) in respect of compensation payments for loss of office.

During the year the highest paid director received emoluments of £561,948 (2010: £683,644). The highest paid director did not exercise any share options during the year.

The executive directors may also participate in the RBS Group's executive share option and sharesave schemes.

### 6. Taxation

	Group	
	2011 £m	2010 £m
<b>Current taxation:</b>		
<i>United Kingdom Corporation Tax at 26.5% (2010: 28%)</i>		
Credit for the year	180	113
Over/(under) provision in respect of prior periods	12	(24)
	192	89
<i>Overseas Tax at 12.5% (2010: 12.5%)</i>		
Credit for the year	-	-
Over provision in respect of prior periods	4	4
Total current taxation	196	93
<b>Deferred taxation:</b>		
Credit for the year	57	71
Over/(under) provision in respect of prior periods	7	(19)
Total deferred taxation	64	52
Tax credit for the year	260	145

The actual tax credit differs from the expected tax credit computed by applying the standard rate of UK Corporation Tax of 26.5% (2010: 28%) as follows:

	2011 £m	2010 £m
<b>Operating loss before tax</b>	(3,072)	(3,233)
<b>Expected tax credit</b>	814	905
<i>Factors affecting the charge for the year:</i>		
Tax arising at rates other than the standard rate of tax	(65)	(108)
Non-deductible/taxable items	(9)	4
Other timing differences	34	-
Unrecognised losses	(537)	(617)
Adjustments to tax credit in respect of prior periods	23	(39)
<b>Actual tax credit for the year</b>	260	145

The effective tax rate for the year was 8.5% (2010: 4.5%).

# ULSTER BANK LIMITED

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

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

In accordance with the exemption contained within Section 408(3) of the Companies Act 2006 the primary financial statements of the Bank do not include an Income Statement or Statement of Comprehensive Income. The Bank's loss after tax at 31 December 2011 is £3,999m (2010: £2,138m), which includes write downs of investments in Group undertakings which eliminate on consolidation in the results of the Group.

### 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.

	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
<b>2011</b>							
<b>Assets</b>							
Cash and balances at central banks <sup>(1)</sup>	-	-	-	749	-	-	749
Loans and advances to banks <sup>(2)</sup>	21	-	-	7,310	-	-	7,331
Loans and advances to customers <sup>(3)</sup>	32	-	-	38,913	-	-	38,945
Debt securities	-	-	98	-	-	-	98
Equity shares	-	-	5	-	-	-	5
Derivatives	997	-	-	-	-	-	997
Property, plant and equipment	-	-	-	-	-	349	349
Prepayments, accrued income and other assets	-	-	-	-	-	155	155
Retirement benefit assets	-	-	-	-	-	31	31
Deferred taxation	-	-	-	-	-	285	285
	<b>1,050</b>	<b>-</b>	<b>103</b>	<b>46,972</b>	<b>-</b>	<b>820</b>	<b>48,945</b>
<b>Liabilities</b>							
Deposits by banks <sup>(4)</sup>	59	-	-	-	12,771	-	12,830
Customer accounts <sup>(5)</sup>	116	1,691	-	-	20,541	-	22,348
Debt securities in issue <sup>(6)</sup>	-	-	-	-	3,530	-	3,530
Derivatives	1,352	-	-	-	-	-	1,352
Accruals, deferred income and other liabilities	-	-	-	-	-	871	871
Deferred taxation	-	-	-	-	-	18	18
Subordinated liabilities	-	-	-	-	1,183	-	1,183
	<b>1,527</b>	<b>1,691</b>	<b>-</b>	<b>-</b>	<b>38,025</b>	<b>889</b>	<b>42,132</b>
<b>Equity</b>							<b>6,813</b>
							<b>48,945</b>

For notes relating to this table refer to page 34.

# ULSTER BANK LIMITED

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

### 8. Financial instruments (continued)

	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	
<b>2010</b>							
<b>Assets</b>							
Cash and balances at central banks <sup>(1)</sup>	-	-	-	854	-	-	854
Loans and advances to banks <sup>(2)</sup>	40	-	-	5,702	-	-	5,742
Loans and advances to customers <sup>(3)</sup>	34	-	-	45,369	-	-	45,403
Debt securities	-	-	379	-	-	-	379
Equity shares	-	-	4	-	-	-	4
Derivatives	962	-	-	-	-	-	962
Property, plant and equipment	-	-	-	-	-	400	400
Prepayments, accrued income and other assets	-	-	-	-	-	176	176
Deferred taxation	-	-	-	-	-	226	226
Assets held for sale	1	-	-	-	-	-	1
	<b>1,037</b>	<b>-</b>	<b>383</b>	<b>51,925</b>	<b>-</b>	<b>802</b>	<b>54,147</b>
<b>Liabilities</b>							
Deposits by banks <sup>(4)</sup>	17	-	-	-	14,118	-	14,135
Customer accounts <sup>(5)</sup>	74	1,292	-	-	22,791	-	24,157
Debt securities in issue <sup>(6)</sup>	-	-	-	-	6,842	-	6,842
Derivatives	1,396	-	-	-	-	-	1,396
Accruals, deferred income and other liabilities	-	-	-	-	-	1,115	1,115
Retirement benefit liabilities	-	-	-	-	-	17	17
Deferred taxation	-	-	-	-	-	14	14
Subordinated liabilities	-	-	-	-	1,215	-	1,215
	<b>1,487</b>	<b>1,292</b>	<b>-</b>	<b>-</b>	<b>44,966</b>	<b>1,146</b>	<b>48,891</b>
<b>Equity</b>							<b>5,256</b>
							<b>54,147</b>

(1) Cash and balances at central banks includes Bank of England notes held in respect of notes in circulation in Northern Ireland.

(2) Includes reverse repurchase agreements of £nil (2010: £18m) and items in the course of collection from other banks of £198m (2010: £265m).

(3) Ulster Bank Group has advances secured on residential properties and corporate and commercial loans subject to non-recourse funding. Under IAS 39, these securitised mortgages qualify for full recognition on the balance sheet at 31 December 2011. As at 31 December 2011, £12,660m (2010: £15,034m) are included in loans and advances to customers.

(4) Includes repurchase agreements of £1,381m (2010: £3,001m) and items in the course of transmission to other banks of £159m (2010: £252m).

(5) The carrying amount of other customer accounts designated as at fair value through profit or loss is £65m less (2010: £20m less) than the principal amount.

(6) Comprises Bonds and medium term notes of £3,472m (2010: £6,394m) and Certificates of deposit and other commercial paper of £58m (2010: £448m).

# ULSTER BANK 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 receivables £m	Other (amortised cost) £m	Non financial assets/ liabilities £m	
<b>Assets</b>							
Cash and balances at central banks	-	-	-	522	-	-	522
Loans and advances to banks <sup>(1), (3)</sup>	-	-	-	6,757	-	-	6,757
Loans and advances to customers <sup>(1)</sup>	-	-	-	6,453	-	-	6,453
Debt securities	-	-	71	-	-	-	71
Investments in Group undertakings	-	-	-	-	-	3,488	3,488
Derivatives	87	-	-	-	-	-	87
Property, plant and equipment	-	-	-	-	-	81	81
Prepayments, accrued income and other assets	-	-	-	-	-	149	149
Retirement benefit assets	-	-	-	-	-	23	23
Deferred taxation	-	-	-	-	-	1	1
	87	-	71	13,732	-	3,742	17,632
<b>Liabilities</b>							
Deposits by banks <sup>(2), (4)</sup>	-	-	-	-	4,365	-	4,365
Customer accounts	10	466	-	-	7,011	-	7,487
Debt securities in issue	-	-	-	-	38	-	38
Derivatives	84	-	-	-	-	-	84
Accruals, deferred income and other liabilities	-	-	-	-	-	639	639
Deferred taxation	-	-	-	-	-	15	15
Subordinated liabilities	-	-	-	-	961	-	961
	94	466	-	-	12,375	654	13,589
<b>Equity</b>							4,043
							17,632

2010	Bank						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	
<b>Assets</b>							
Cash and balances at central banks	-	-	-	613	-	-	613
Loans and advances to banks <sup>(1), (3)</sup>	-	-	-	4,206	-	-	4,206
Loans and advances to customers <sup>(1)</sup>	-	-	-	7,458	-	-	7,458
Debt securities	-	-	195	-	-	-	195
Investments in Group undertakings	-	-	-	-	-	2,951	2,951
Derivatives	149	-	-	-	-	-	149
Property, plant and equipment	-	-	-	-	-	90	90
Prepayments, accrued income and other assets	-	-	-	-	-	142	142
Deferred taxation	-	-	-	-	-	4	4
	149	-	195	12,277	-	3,187	15,808
<b>Liabilities</b>							
Deposits by banks <sup>(2), (4)</sup>	-	-	-	-	2,722	-	2,722
Customer accounts	-	451	-	-	7,159	-	7,610
Debt securities in issue	-	-	-	-	114	-	114
Derivatives	162	-	-	-	-	-	162
Accruals, deferred income and other liabilities	-	-	-	-	-	812	812
Retirement benefit liabilities	-	-	-	-	-	10	10
Deferred taxation	-	-	-	-	-	11	11
Subordinated liabilities	-	-	-	-	986	-	986
	162	451	-	-	10,981	833	12,427
<b>Equity</b>							3,381
							15,808

(1) Includes amounts due from subsidiaries.

(2) Includes amounts due to subsidiaries.

(3) Includes items in the course of collection from other banks of £74m (2010: £87m).

(4) Includes items in the course of transmission to other banks of £40m (2010: £39m).

# ULSTER BANK LIMITED

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

### 8. Financial instruments (continued)

The following tables show the financial instruments carried at fair value by valuation method:

	Group							
	2011				2010			
	Level 1 <sup>(1)</sup> £m	Level 2 <sup>(2)</sup> £m	Level 3 <sup>(3)</sup> £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Assets</b>								
Loans and advances to banks	-	21	-	21	-	40	-	40
Loans and advances to customers	-	32	-	32	-	34	-	34
Debt securities	27	71	-	98	184	195	-	379
Equity shares	-	5	-	5	-	4	-	4
Derivatives	528	469	-	997	-	962	-	962
<b>Total</b>	<b>555</b>	<b>598</b>	<b>-</b>	<b>1,153</b>	<b>184</b>	<b>1,235</b>	<b>-</b>	<b>1,419</b>
<b>Liabilities</b>								
Deposits by banks	-	59	-	59	-	17	-	17
Deposits by customers	-	1,807	-	1,807	-	1,366	-	1,366
Derivatives	947	405	-	1,352	-	1,396	-	1,396
<b>Total</b>	<b>947</b>	<b>2,271</b>	<b>-</b>	<b>3,218</b>	<b>-</b>	<b>2,779</b>	<b>-</b>	<b>2,779</b>

	Bank							
	2011				2010			
	Level 1 <sup>(1)</sup> £m	Level 2 <sup>(2)</sup> £m	Level 3 <sup>(3)</sup> £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Assets</b>								
Debt securities	-	71	-	71	-	195	-	195
Derivatives	82	5	-	87	-	149	-	149
<b>Total</b>	<b>82</b>	<b>76</b>	<b>-</b>	<b>158</b>	<b>-</b>	<b>344</b>	<b>-</b>	<b>344</b>
<b>Liabilities</b>								
Deposits by banks	-	-	-	-	-	-	-	-
Deposits by customers	-	476	-	476	-	451	-	451
Derivatives	83	1	-	84	-	162	-	162
<b>Total</b>	<b>83</b>	<b>477</b>	<b>-</b>	<b>560</b>	<b>-</b>	<b>613</b>	<b>-</b>	<b>613</b>

(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 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
<b>Financial assets</b>				
Cash and balances at central banks	749	749	854	854
Loans and advances to banks				
Loans and receivables	7,310	7,310	5,702	5,702
Loans and advances to customers				
Loans and receivables	38,913	30,260	45,369	36,500
<b>Financial liabilities</b>				
Deposits by banks	12,771	12,771	14,118	14,117
Customer accounts	20,541	20,658	22,791	22,880
Debt securities in issue	3,530	2,130	6,842	5,023
Subordinated liabilities	1,183	1,197	1,215	1,227
	Bank			
	2011 Carrying value £m	2011 Fair value £m	2010 Carrying value £m	2010 Fair value £m
<b>Financial assets</b>				
Cash and balances at central banks	522	522	613	613
Loans and advances to banks				
Loans and receivables	6,757	6,757	4,206	4,206
Loans and advances to customers				
Loans and receivables	6,453	4,921	7,458	5,918
<b>Financial liabilities</b>				
Deposits by banks	4,365	4,364	2,722	2,722
Customer accounts	7,011	7,021	7,159	7,169
Debt securities in issue	38	38	114	114
Subordinated liabilities	961	961	986	986

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 are available, it may be inappropriate to compare the Group's fair value information to independent markets or other financial institutions' fair values.

# ULSTER BANK LIMITED

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

### 8. Financial instruments (continued)

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 London Inter-Bank Offered Rate (LIBOR) 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.

#### Remaining maturity

	Group		Total £m
	Less than 12 months £m	More than 12 months £m	
<b>2011</b>			
<b>Assets</b>			
Cash and balances at central banks	749	-	749
Loans and advances to banks	5,438	1,893	7,331
Loans and advances to customers	8,769	30,176	38,945
Debt securities	15	83	98
Equity shares	-	5	5
Derivatives	557	440	997
<b>Liabilities</b>			
Deposits by banks	11,100	1,730	12,830
Customer accounts	19,813	2,535	22,348
Debt securities in issue	44	3,486	3,530
Derivatives	981	371	1,352
Subordinated liabilities	-	1,183	1,183



# ULSTER BANK LIMITED

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

### 8. Financial instruments (continued)

2010	Group		Total £m
	Less than 12 months £m	More than 12 months £m	
<b>Assets</b>			
Cash and balances at central banks	854	-	854
Loans and advances to banks	5,742	-	5,742
Loans and advances to customers	12,269	33,134	45,403
Debt securities	352	27	379
Equity shares	-	4	4
Derivatives	525	437	962
<b>Liabilities</b>			
Deposits by banks	14,135	-	14,135
Customer accounts	23,103	1,054	24,157
Debt securities in issue	1,728	5,114	6,842
Derivatives	939	457	1,396
Subordinated liabilities	8	1,207	1,215

2011	Bank		Total £m
	Less than 12 months £m	More than 12 months £m	
<b>Assets</b>			
Cash and balances at central banks	522	-	522
Loans and advances to banks	4,289	2,468	6,757
Loans and advances to customers	2,531	3,922	6,453
Debt securities	6	65	71
Derivatives	57	30	87
<b>Liabilities</b>			
Deposits by banks	2,672	1,693	4,365
Customer accounts	6,404	1,083	7,487
Debt securities in issue	38	-	38
Derivatives	84	-	84
Subordinated liabilities	-	961	961

2010	Bank		Total £m
	Less than 12 months £m	More than 12 months £m	
<b>Assets</b>			
Cash and balances at central banks	613	-	613
Loans and advances to banks	4,206	-	4,206
Loans and advances to customers	3,606	3,852	7,458
Debt securities	195	-	195
Derivatives	80	69	149
<b>Liabilities</b>			
Deposits by banks	2,722	-	2,722
Customer accounts	7,610	-	7,610
Debt securities in issue	114	-	114
Derivatives	119	43	162
Subordinated liabilities	6	980	986

# ULSTER BANK LIMITED

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

### 9. Financial assets – impairments

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

	Group			
	Individually assessed	Collectively assessed	Latent	Total
	£m	£m	£m	£m
At 1 January 2011	4,616	753	609	5,978
Currency translation and other adjustments	(164)	(38)	(16)	(218)
Amounts written-off <sup>(1)</sup>	(131)	(43)	-	(174)
Charged/(credited) to the income statement	3,062	667	(11)	3,718
Unwind of discount	(226)	(27)	-	(253)
At 31 December 2011 <sup>(2)</sup>	7,157	1,312	582	9,051

	Group			
	Individually assessed	Collectively assessed	Latent	Total
	£m	£m	£m	£m
At 1 January 2010	1,729	452	284	2,465
Currency translation and other adjustments	(24)	(8)	(5)	(37)
Amounts written-off <sup>(1)</sup>	(6)	(43)	-	(49)
Charged to the income statement	3,114	399	330	3,843
Unwind of discount	(197)	(47)	-	(244)
At 31 December 2010 <sup>(2)</sup>	4,616	753	609	5,978

	Bank			
	Individually assessed	Collectively assessed	Latent	Total
	£m	£m	£m	£m
At 1 January 2011	886	122	126	1,134
Amounts written-off <sup>(1)</sup>	(3)	(16)	-	(19)
Charged/(credited) to the income statement	754	57	(55)	756
Unwind of discount	(48)	(2)	-	(50)
At 31 December 2011 <sup>(2)</sup>	1,589	161	71	1,821

	Bank			
	Individually assessed	Collectively assessed	Latent	Total
	£m	£m	£m	£m
At 1 January 2010	445	93	70	608
Amounts written-off <sup>(1)</sup>	-	(16)	-	(16)
Charged to the income statement	487	48	56	591
Unwind of discount	(46)	(3)	-	(49)
At 31 December 2010 <sup>(2)</sup>	886	122	126	1,134

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

<sup>(2)</sup> 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 Group's non-accrual loans and loans past due 90 days amounted to £17,134m (2010: £13,659m) and £3,243m (2010: £2,853m) for Bank. Loan impairment provisions of £8,469m (2010: £5,368m) were held against the Group loans and £1,750m (2010: £1,008m) against the Bank loans.

	Group		Bank	
	2011	2010	2011	2010
	£m	£m	£m	£m
Gross income not recognised but which would have been recognised under the original terms of non-accrual and restructured loans:				
Domestic	183	98	183	98
Foreign	814	454	-	-
	997	552	183	98

# ULSTER BANK LIMITED

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

### 9. Financial assets – impairments (continued)

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	2011			2010		
	Cost £m	Provision £m	Net book value £m	Cost £m	Provision £m	Net book value £m
<b>Impaired financial assets</b>						
Loans and advances to customers	16,763	(8,469)	8,294	13,211	(5,368)	7,843
Equity shares	7	(2)	5	1	(1)	-
	<b>16,770</b>	<b>(8,471)</b>	<b>8,299</b>	<b>13,212</b>	<b>(5,369)</b>	<b>7,843</b>

Bank	2011			2010		
	Cost £m	Provision £m	Net book value £m	Cost £m	Provision £m	Net book value £m
<b>Impaired financial assets</b>						
Loans and advances to customers	3,131	(1,750)	1,381	2,708	(1,008)	1,700

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.

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

	Group		Bank	
	2011 £m	2010 £m	2011 £m	2010 £m
Residential property	24	-	5	-
Other property	43	100	39	-
	<b>67</b>	<b>100</b>	<b>44</b>	<b>-</b>

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

Group	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
<b>2011</b>					
Loans and advances to customers	1,390	570	414	371	2,745
<b>2010</b>					
Loans and advances to customers	1,835	719	435	448	3,437
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
<b>2011</b>					
Loans and advances to customers	113	23	10	112	258
<b>2010</b>					
Loans and advances to customers	121	33	13	145	312

# ULSTER BANK LIMITED

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

### 9. Financial assets – impairments (continued)

	Group		Bank	
	2011 £m	2010 £m	2011 £m	2010 £m
Impaired financial assets – individually assessed:				
Loans and advances to customers	7,157	4,616	1,589	886

Loans that have been renegotiated in the past 12 months that would otherwise have been past due or impaired amounted to £3,008m as at 31 December 2011 (2010: £1,545m) for the Group and £164m (2010: £31m) for the Bank.

### 10. Debt securities

	Group							
	2011				2010			
	Other central and local government £m	Bank and building society £m	Mortgage backed securities £m	Total £m	Other central and local government £m	Bank and building society £m	Mortgage backed securities £m	Total £m
Available-for-sale	27	6	65	98	184	125	70	379
Gross unrealised gains	1	-	-	1	4	5	-	9
Gross unrealised losses	-	-	(2)	(2)	-	(10)	(2)	(12)

	Bank							
	2011				2010			
	Other central and local government £m	Bank and building society £m	Mortgage backed securities £m	Total £m	Other central and local government £m	Bank and building society £m	Mortgage backed securities £m	Total £m
Available-for-sale	-	6	65	71	-	125	70	195
Gross unrealised losses	-	-	(2)	(2)	-	(5)	(2)	(7)

### 11. Equity shares

	Group	
	2011 Unlisted £m	2010 Unlisted £m
Available-for-sale	5	4

As at 31 December 2011, the Bank held £154,549 unlisted equity shares (2010: £135,054).

Unquoted equity investments whose fair value cannot be reliably measured are carried at cost and classified as available-for-sale financial assets.

# ULSTER BANK LIMITED

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

### 12. Investments in Group undertakings

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

	Bank	
	2011	2010
	£m	£m
At 1 January	2,951	1,365
Exchange adjustment	(13)	(13)
Additional investments in Group undertakings	4,068	3,428
Impairment in Ulster Bank (Ireland) Holdings	(3,518)	(1,829)
At 31 December	3,488	2,951

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.

The principal related undertaking of the Bank is shown below. Its capital consists of ordinary shares which are unlisted. It is wholly owned by the Bank through intermediate holding companies.

Undertaking	Nature of business	Country of incorporation
Ulster Bank Ireland Limited <sup>(1)</sup>	Banking services, corporate and investment banking, foreign exchange services	Republic of Ireland

(1) Ulster Bank Ireland Limited and its subsidiaries also operate in the UK.

The above information is provided in relation to the principal related undertakings as permitted by section 410(2) of the Companies Act 2006. Full information on all related undertakings will be included in the Annual Return filed with the UK Companies House. 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.

### 13. Intangible assets

Intangible assets comprising goodwill, computer software and other acquired intangibles were fully impaired during 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.

# ULSTER BANK LIMITED

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

### 14. Property, plant and equipment

	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	
<b>2011</b>						
Cost:						
At 1 January 2011	113	170	61	86	237	667
Currency translation and other adjustments	(2)	(3)	(1)	(2)	(3)	(11)
Reclassifications	11	-	(11)	-	-	-
Additions	56	1	-	1	2	60
Disposals	-	(17)	(7)	(5)	(1)	(30)
Revaluation	(67)	-	-	-	-	(67)
At 31 December 2011	111	151	42	80	235	619
Accumulated depreciation and amortisation:						
At 1 January 2011	3	71	13	22	158	267
Currency translation and other adjustments	-	(1)	-	(1)	(3)	(5)
Reclassifications	(3)	-	3	-	-	-
Disposals	-	(17)	-	(5)	-	(22)
Depreciation charge for the year	-	4	2	8	16	30
At 31 December 2011	-	57	18	24	171	270
<b>Carrying amount at 31 December 2011</b>	<b>111</b>	<b>94</b>	<b>24</b>	<b>56</b>	<b>64</b>	<b>349</b>
	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	
<b>2010</b>						
Cost:						
At 1 January 2010	117	189	61	93	262	722
Currency translation and other adjustments	(4)	(5)	(1)	(4)	(3)	(17)
Additions	-	16	1	15	8	40
Disposals	-	(30)	-	(18)	(30)	(78)
At 31 December 2010	113	170	61	86	237	667
Accumulated depreciation and amortisation:						
At 1 January 2010	3	44	8	16	164	235
Currency translation and other adjustments	-	(1)	-	-	(3)	(4)
Disposals	-	(7)	-	(2)	(22)	(31)
Impairments	-	31	4	-	-	35
Depreciation charge for the year	-	4	1	8	19	32
At 31 December 2010	3	71	13	22	158	267
<b>Carrying amount at 31 December 2010</b>	<b>110</b>	<b>99</b>	<b>48</b>	<b>64</b>	<b>79</b>	<b>400</b>

There was no profit on disposal of freehold land and buildings during the year (2010: £nil).

# ULSTER BANK LIMITED

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

### 14. Property, plant and equipment (continued)

Rental income from investment properties was £6m (2010: £1m). Direct operating expenses of investment properties were £2m (2010: £1m).

	Bank				
	Freehold land and buildings	Leases of 50 years or more unexpired	Leases of 50 years or less unexpired	Computer and other equipment	Total
2011	£m	£m	£m	£m	£m
Cost:					
At 1 January 2011	52	21	10	107	190
Additions	1	-	-	-	1
At 31 December 2011	53	21	10	107	191
Accumulated depreciation and amortisation:					
At 1 January 2011	15	5	2	78	100
Depreciation charge for the year	1	-	1	8	10
At 31 December 2011	16	5	3	86	110
Carrying amount at 31 December 2011	37	16	7	21	81

	Bank				
	Freehold land and buildings	Leases of 50 years or more unexpired	Leases of 50 years or less unexpired	Computer and other equipment	Total
2010	£m	£m	£m	£m	£m
Cost:					
At 1 January 2010	56	21	10	106	193
Currency translation and other adjustments	(1)	-	-	-	(1)
Additions	-	-	-	1	1
Disposals	(3)	-	-	-	(3)
At 31 December 2010	52	21	10	107	190
Accumulated depreciation and amortisation:					
At 1 January 2010	10	3	1	69	83
Impairments	4	2	-	-	6
Depreciation charge for the year	1	-	1	9	11
At 31 December 2010	15	5	2	78	100
Carrying amount at 31 December 2010	37	16	8	29	90

# ULSTER BANK LIMITED

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

### 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
<b>Free standing derivatives</b>						
<b>Exchange rate contracts:</b>						
Spot, forwards and futures	4,134	128	73	7,434	90	110
Currency swaps	1,537	52	196	1,586	52	221
<b>Interest rate contracts:</b>						
Interest rate swaps	50,722	733	1,071	55,335	704	1,045
Options purchased	327	5	-	832	13	-
Options written	216	-	5	718	-	19
Futures and forwards	1,260	7	7	1,425	14	1
<b>Equity and commodity contracts</b>	1,672	72	-	1,258	89	-
	<b>59,868</b>	<b>997</b>	<b>1,352</b>	<b>68,588</b>	<b>962</b>	<b>1,396</b>

	Bank					
	2011			2010		
	Notional amounts £m	Assets £m	Liabilities £m	Notional amounts £m	Assets £m	Liabilities £m
<b>Free standing derivatives</b>						
<b>Exchange rate contracts:</b>						
Spot, forwards and futures	220	4	4	1,819	17	20
<b>Interest rate contracts:</b>						
Interest rate swaps	2,821	54	80	4,787	109	142
<b>Equity and commodity contracts</b>	475	29	-	447	23	-
	<b>3,516</b>	<b>87</b>	<b>84</b>	<b>7,053</b>	<b>149</b>	<b>162</b>



# ULSTER BANK LIMITED

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

### 16. Prepayments, accrued income and other assets

	Group		Bank	
	2011	2010	2011	2010
	£m	£m	£m	£m
Prepayments	19	21	5	3
Accrued income	13	8	4	3
Other assets	123	147	140	136
	<b>155</b>	<b>176</b>	<b>149</b>	<b>142</b>

### 17. Assets held for sale

	Group	
	2011	2010
	£m	£m
<b>Analysis of held for sale assets:</b>		
Other assets	-	1
	<b>-</b>	<b>1</b>

To comply with European Community 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
Notes in circulation	552	700	552	700
Accruals	227	277	55	71
Deferred income	9	45	3	-
Other liabilities	83	93	29	41
	<b>871</b>	<b>1,115</b>	<b>639</b>	<b>812</b>

Provisions of £82m (2010: £61m) for the Group and £27m (2010: £11m) for the Bank are included in other liabilities.

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

# ULSTER BANK LIMITED

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

### 19. Deferred taxation

Provision for deferred taxation has been made as follows:

	Group		Bank	
	2011 £m	2010 £m	2011 £m	2010 £m
Deferred tax asset	285	226	1	4
Deferred tax liability	(18)	(14)	(15)	(11)
<b>Net deferred tax</b>	<b>267</b>	<b>212</b>	<b>(14)</b>	<b>(7)</b>

	Group							
	Pension	Accelerated capital allowances	Provisions	Deferred gains	Fair value on financial instruments	Hedging	Other	Tax losses
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2010	4	3	1	(15)	-	1	(3)	173
(Charge) / credit to income statement	(7)	-	(1)	-	1	(1)	-	60
Credit to equity directly	2	-	-	-	-	-	-	-
Other	4	(3)	-	-	-	-	-	(7)
At 1 January 2011	3	-	-	(15)	1	-	(3)	226
(Charge) / credit to income statement	(9)	2	-	5	-	-	-	66
Charge to equity directly	(1)	-	-	-	-	-	-	-
Other	-	-	-	1	-	-	-	(9)
<b>At 31 December 2011</b>	<b>(7)</b>	<b>2</b>	<b>-</b>	<b>(9)</b>	<b>1</b>	<b>-</b>	<b>(3)</b>	<b>283</b>

Deferred tax liabilities of £132m (2010: £148m) have not been recognised in respect of retained earnings of overseas subsidiaries and held-over gains on the incorporation of overseas branches. Retained earnings of overseas subsidiaries are expected to be reinvested indefinitely or remitted to the UK free from further taxation. No taxation is expected to arise in the foreseeable future in respect of held-over gains.

Provisions for Deferred Tax	Bank £m
Balance at 1 January 2010	(3)
Charge to income statement	(5)
Credit directly to equity	2
Exchange and other movements	(1)
At 1 January 2011	(7)
Charge to income statement	(6)
Charge directly to equity	(1)
Exchange and other movements	-
At 31 December 2011	<b>(14)</b>

The Finance Act 2011 has reduced the corporation tax rate from 26% to 25% with effect from 1 April 2012. As a consequence the closing deferred tax assets and / or liabilities of the bank have been recognised at an effective rate of 25%.

# ULSTER BANK LIMITED

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

### 20. Subordinated liabilities

	Group		Bank	
	2011	2010	2011	2010
	£m	£m	£m	£m
Dated loan capital	944	968	861	883
Undated loan capital	100	103	100	103
Dated subordinated bonds	64	66	-	-
Undated perpetual subordinated bonds	75	78	-	-
	<b>1,183</b>	<b>1,215</b>	<b>961</b>	<b>986</b>
	Group		Bank	
	2011	2010	2011	2010
	£m	£m	£m	£m
<b>Dated loan capital:</b>				
Repayable 2014				
– held by immediate parent company	20	20	20	20
Repayable 2015				
– held by immediate parent company	20	20	20	20
Repayable 2019				
– held by RBS plc	100	100	100	100
Euro loan capital repayable 2017				
– held by RBS plc	335	345	335	345
Euro loan capital repayable 2020				
– held by RBS plc	151	155	151	155
Euro loan capital repayable 2022				
– held by RBS plc	318	328	235	243
	<b>944</b>	<b>968</b>	<b>861</b>	<b>883</b>
<b>Undated loan capital:</b>				
– held by RBS plc	100	103	100	103
	<b>100</b>	<b>103</b>	<b>100</b>	<b>103</b>
<b>Dated subordinated bonds</b>				
£60m 6.375% subordinated bonds 2018 (callable April 2013)	64	66	-	-
	<b>64</b>	<b>66</b>	<b>-</b>	<b>-</b>
<b>Undated perpetual subordinated bonds</b>				
€38m 11.375% perpetual tier two capital	47	50	-	-
£20m 11.75% perpetual tier two capital	26	26	-	-
£1.3m floating rates	2	2	-	-
	<b>75</b>	<b>78</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>1,183</b>	<b>1,215</b>	<b>961</b>	<b>986</b>

#### Dated loan capital

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

Interest on the Sterling-denominated dated loan capital held by fellow subsidiary undertakings, the immediate parent company and the ultimate holding company are payable quarterly at a margin over London Interbank Offer rates. Interest on Euro-denominated loan capital is payable quarterly at a margin over Euro Interbank Offer rates.

Early repayment of the dated loan capital may take place at any time with a notice period of at least 30 days, subject to the prior agreement of the FSA.

#### Dated subordinated bonds

The Sterling fixed subordinated bonds mature on 4 April 2018 but are callable in April 2013. The claims of the holders of the bonds are subordinate to the claims of all creditors of First Active plc other than the holders of the perpetual subordinated bonds.

# ULSTER BANK LIMITED

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

### 20. Subordinated liabilities (continued)

#### 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 Ulster Bank Ireland Limited. These bonds were transferred from First Active plc to Ulster Bank Ireland Limited 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 Central Bank of Ireland.

### 21. Share capital

	Group and Bank			
	Allotted, called up and fully paid		Authorised	
	1 January 2011 £m	31 December 2011 £m	2011 £m	2010 £m
<i>Equity shares:</i>				
Ordinary shares of £1	1,208	1,208	2,000	2,000
<i>Equity preference shares:</i>				
Non-cumulative redeemable preference shares of €1 each	297	297	346	346
<b>Total share capital</b>	<b>1,505</b>	<b>1,505</b>	<b>2,346</b>	<b>2,346</b>
	Allotted, called up and fully paid		Authorised	
	2011 Millions	2010 Millions	2011 Millions	2010 Millions
<i>Equity shares:</i>				
Ordinary shares of £1	1,208	1,208	2,000	2,000
<i>Equity Preference shares:</i>				
Non-cumulative redeemable preference shares of €1 each	450	450	500	500
<b>Total share capital</b>	<b>1,658</b>	<b>1,658</b>	<b>2,500</b>	<b>2,500</b>

The non-cumulative redeemable preference shares entitle the holders thereof to receive periodic non-cumulative cash dividends, at the discretion of the directors, at a specified floating rate payable out of distributable profits of the Bank. In a winding-up the holders of the preference shares have the right to repayment in priority to the holders of any other class of shares in the capital of the Bank. Any surplus assets available after repayment of the preference and ordinary shares will be distributable to the holders of the £1 ordinary shares.

The non-cumulative redeemable preference shares do not confer on the holder a right to attend or vote at general meetings of the Bank unless the business of the meeting includes the consideration of a resolution for winding up of the Bank or reducing its share capital or varying any of its special rights attached to the preference shares.

Subject to the provisions of company law and to the consent of the FSA, the Bank shall have the right to redeem the preference shares at any time by notice to the holders provided that no such notice may be issued in respect of any preference share prior to the day following the fifth anniversary of the date of its allotment.

# ULSTER BANK LIMITED

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

### 22. Leases

Amounts receivable under finance lease contracts and hire purchase agreements

Year in which receipt will occur:	Group					
	2011			2010		
	Gross amounts £m	Present value adjustments £m	Present value £m	Gross amounts £m	Present value adjustments £m	Present value £m
Within 1 year	4	-	4	-	-	-
After 1 year but within 5 years	9	-	9	-	-	-
	13	-	13	-	-	-

The Group provides asset finance to its customers through acting as a lessor. It purchases plant and equipment renting them to customers under lease arrangements that qualify as finance leases.

Minimum amounts payable under non-cancellable leases:

Year in which payment will occur:	Group							
	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
<i>Operating lease obligations:</i>								
Future minimum lease payables:								
Premises	22	80	182	284	22	83	187	292
Equipment	2	2	-	4	2	2	-	4
	24	82	182	288	24	85	187	296

Year in which payment will occur:	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
<i>Operating lease obligations:</i>								
Future minimum lease payables:								
Premises	2	6	89	97	2	6	89	97

	Group		Bank	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Amounts recognised as income and expense</b>				
Finance leases – contingent rental income	-	-	-	-
Operating lease payables – minimum payments	23	22	3	3

# ULSTER BANK 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 as collateral in accordance with normal market 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 United Kingdom and Republic of Ireland, the recipient of 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 on the balance sheet were £nil (2010: £nil). Securities received as collateral under reverse repurchase agreements amounted to £10m (2010: £18m).

#### Other collateral given

	Group	
	2011 £m	2010 £m
<b>Group assets charged as security for liabilities</b>		
Loans and advances to customers	14,912	17,289
Investment properties	19	-
Derivatives	9	10
	<b>14,940</b>	<b>17,299</b>
	Group	
	2011 £m	2010 £m
<b>Liabilities secured by charges on assets</b>		
Debt securities in issue	3,472	5,101
Deposits by banks	1,380	1,552
Derivatives	19	-
Other liabilities	20	-
	<b>4,891</b>	<b>6,653</b>

Of the assets above, £12.7 billion (2010: £15.0 billion) relate to securitisations.

Included in deposits by banks is Ulster Bank Ireland Limited's obligation to the Central Bank of Ireland (CBI) under the terms of a 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 £m	Liabilities £m	Assets £m	Liabilities £m
Residential mortgages	11,709	3,472	13,952	5,101
Corporate and commercial loans	951	-	1,082	-

### 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 risk and foreign exchange risk. 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.

# ULSTER BANK LIMITED

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

### 24. Risk management – market risk (continued)

#### (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.

#### 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

The VaR for the Group's dealing is presented in the table below:

	31 December 2011 £m	Maximum £m	Minimum £m	Average £m
Value-at-Risk	0.8	1.1	0.4	0.7
	31 December 2010 £m	Maximum £m	Minimum £m	Average £m
Value-at-Risk	0.9	2.1	0.6	1.4

#### 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	0.8	1.0	0.3	0.6
	31 December 2010 £m	Maximum £m	Minimum £m	Average £m
Value-at-Risk	0.8	2.0	0.5	1.2

#### 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 behavior 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 reviewed 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 £362,000 (2010: £232,000). Euro VaR was calculated to be £388,000 (2010: £303,000).



# ULSTER BANK LIMITED

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

### 24. Risk management – market risk (continued)

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.

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 table below sets out the Group's structural foreign currency exposures as at 31 December 2011:

2011						
	Net assets of overseas investment £m	Minority interest £m	Net investments £m	Currency borrowings £m	Economic hedges £m	Structural foreign currency exposures £m
Euro	6,112	(23)	6,089	(418)	(1,667)	4,004
2010						
	Net assets of overseas investment £m	Minority interest £m	Net investments £m	Currency borrowings £m	Economic hedges £m	Structural foreign currency exposures £m
Euro	4,580	(59)	4,521	(1,293)	(1,719)	1,509

At 31 December 2011, a 5% strengthening of foreign currencies would result in a gain of £196 million in equity (2010: £75m gain) and a 5% weakening of foreign currencies would result in a loss of £196 million in equity (2010: £75m loss).

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 £241m (2010: £191m) have been charged to reserves.

# ULSTER BANK LIMITED

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

### 24. Risk management (continued)

#### 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's to A/A-1 (stable).

In October 2011 Moody's downgraded the Bank and Ulster Bank Ireland Limited to Baa1/P2 (negative), due to the RBS plc 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 the Bank and Ulster Bank Ireland Limited to 'BBB+/A-2' (Stable) earlier in April 2011 following the downgrade of the Irish sovereign.

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 following tables, 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.

# ULSTER BANK LIMITED

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

### 24. Risk management – liquidity risk (continued)

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
<b>2011</b>						
<b>Assets by contractual maturity</b>						
Cash and balances at central banks	749	-	-	-	-	-
Loans and advances to banks	5,132	306	1,093	780	20	-
Debt securities	15	1	19	1	4	15
Finance leases	-	2	5	1	-	-
<b>Total maturing assets</b>	<b>5,896</b>	<b>309</b>	<b>1,117</b>	<b>782</b>	<b>24</b>	<b>15</b>
Loans and advances to customers	5,107	8,105	6,531	4,275	8,483	13,082
<b>Total assets</b>	<b>11,003</b>	<b>8,414</b>	<b>7,648</b>	<b>5,057</b>	<b>8,507</b>	<b>13,097</b>
<b>Liabilities by contractual maturity</b>						
Deposits by banks	11,086	17	1,712	16	3	-
Debt securities in issue	8	36	15	-	-	-
Subordinated liabilities	-	4	81	20	586	234
Other liabilities	552	-	-	-	-	-
<b>Total maturing liabilities</b>	<b>11,646</b>	<b>57</b>	<b>1,808</b>	<b>36</b>	<b>589</b>	<b>234</b>
Customer accounts	15,477	4,452	1,970	453	187	-
<b>Total liabilities</b>	<b>27,123</b>	<b>4,509</b>	<b>3,778</b>	<b>489</b>	<b>776</b>	<b>234</b>
<b>Maturity gap</b>	<b>(16,120)</b>	<b>3,905</b>	<b>3,870</b>	<b>4,568</b>	<b>7,731</b>	<b>12,863</b>
<b>Cumulative maturity gap</b>	<b>(16,120)</b>	<b>(12,215)</b>	<b>(8,345)</b>	<b>(3,777)</b>	<b>3,954</b>	<b>16,817</b>

	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
<b>2010</b>						
<b>Assets by contractual maturity</b>						
Cash and balances at central banks	854	-	-	-	-	-
Loans and advances to banks	3,497	358	901	986	-	-
Debt securities	-	157	151	-	-	72
Finance leases	23	7	-	-	-	-
<b>Total maturing assets</b>	<b>4,374</b>	<b>522</b>	<b>1,052</b>	<b>986</b>	<b>-</b>	<b>72</b>
Loans and advances to customers	7,618	8,587	8,037	4,390	11,091	10,870
<b>Total assets</b>	<b>11,992</b>	<b>9,109</b>	<b>9,089</b>	<b>5,376</b>	<b>11,091</b>	<b>10,942</b>
<b>Liabilities by contractual maturity</b>						
Deposits by banks	7,778	6,297	32	33	-	-
Debt securities in issue	405	1,295	42	1	-	-
Subordinated liabilities	-	5	62	-	623	449
Other liabilities	700	-	-	-	-	-
<b>Total maturing liabilities</b>	<b>8,883</b>	<b>7,597</b>	<b>136</b>	<b>34</b>	<b>623</b>	<b>449</b>
Customer accounts	18,722	3,486	1,546	445	105	-
<b>Total liabilities</b>	<b>27,605</b>	<b>11,083</b>	<b>1,682</b>	<b>479</b>	<b>728</b>	<b>449</b>
<b>Maturity gap</b>	<b>(15,613)</b>	<b>(1,974)</b>	<b>7,407</b>	<b>4,897</b>	<b>10,363</b>	<b>10,493</b>
<b>Cumulative maturity gap</b>	<b>(15,613)</b>	<b>(17,587)</b>	<b>(10,180)</b>	<b>(5,283)</b>	<b>5,080</b>	<b>15,573</b>

# ULSTER BANK 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
<b>2011</b>						
<b>Assets by contractual maturity</b>						
Cash and balances at central banks	522	-	-	-	-	-
Loans and advances to banks	3,986	313	1,260	789	128	364
Debt securities	7	1	1	1	4	7
<b>Total maturing assets</b>	<b>4,515</b>	<b>314</b>	<b>1,261</b>	<b>790</b>	<b>132</b>	<b>371</b>
Loans and advances to customers	1,515	1,654	909	493	1,263	1,566
<b>Total assets</b>	<b>6,030</b>	<b>1,968</b>	<b>2,170</b>	<b>1,283</b>	<b>1,395</b>	<b>1,937</b>
<b>Liabilities by contractual maturity</b>						
Deposits by banks	2,671	-	1,693	-	-	-
Debt securities in issue	8	30	-	-	-	-
Subordinated liabilities	-	-	20	20	586	235
Other liabilities	552	-	-	-	-	-
<b>Total maturing liabilities</b>	<b>3,231</b>	<b>30</b>	<b>1,713</b>	<b>20</b>	<b>586</b>	<b>235</b>
Customer accounts	5,399	1,053	918	145	47	-
<b>Total liabilities</b>	<b>8,630</b>	<b>1,083</b>	<b>2,631</b>	<b>165</b>	<b>633</b>	<b>235</b>
<b>Maturity gap</b>	<b>(2,600)</b>	<b>885</b>	<b>(461)</b>	<b>1,118</b>	<b>762</b>	<b>1,702</b>
<b>Cumulative maturity gap</b>	<b>(2,600)</b>	<b>(1,715)</b>	<b>(2,176)</b>	<b>(1,058)</b>	<b>(296)</b>	<b>1,406</b>
	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
<b>2010</b>						
<b>Assets by contractual maturity</b>						
Cash and balances at central banks	613	-	-	-	-	-
Loans and advances to banks	678	558	1,405	1,565	-	-
Debt securities	-	-	123	-	-	72
<b>Total maturing assets</b>	<b>1,291</b>	<b>558</b>	<b>1,528</b>	<b>1,565</b>	<b>-</b>	<b>72</b>
Loans and advances to customers	1,045	2,983	891	540	1,737	1,278
<b>Total assets</b>	<b>2,336</b>	<b>3,541</b>	<b>2,419</b>	<b>2,105</b>	<b>1,737</b>	<b>1,350</b>
<b>Liabilities by contractual maturity</b>						
Deposits by banks	2,689	-	-	32	-	-
Debt securities in issue	114	-	-	-	-	-
Subordinated liabilities	-	-	-	-	623	362
Other liabilities	700	-	-	-	-	-
<b>Total maturing liabilities</b>	<b>3,503</b>	<b>-</b>	<b>-</b>	<b>32</b>	<b>623</b>	<b>362</b>
Customer accounts	5,571	1,143	840	108	23	-
<b>Total liabilities</b>	<b>9,074</b>	<b>1,143</b>	<b>840</b>	<b>140</b>	<b>646</b>	<b>362</b>
<b>Maturity gap</b>	<b>(6,738)</b>	<b>2,398</b>	<b>1,579</b>	<b>1,965</b>	<b>1,091</b>	<b>988</b>
<b>Cumulative maturity gap</b>	<b>(6,738)</b>	<b>(4,340)</b>	<b>(2,761)</b>	<b>(796)</b>	<b>295</b>	<b>1,283</b>

# ULSTER BANK LIMITED

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

### 24. Risk management – liquidity risk (continued)

#### Other contractual cash obligations

2011	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
Operating leases	6	17	43	39	65	28
Contractual obligations to purchase goods or services	1	3	4	-	-	-
	<b>7</b>	<b>20</b>	<b>47</b>	<b>39</b>	<b>65</b>	<b>28</b>

2010	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
Operating leases	6	18	44	41	68	30
Contractual obligations to purchase goods or services	2	4	5	-	-	-
	<b>8</b>	<b>22</b>	<b>49</b>	<b>41</b>	<b>68</b>	<b>30</b>

2011	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
Operating leases	1	2	3	2	2	2
Contractual obligations to purchase goods or services	-	1	2	-	-	-
	<b>1</b>	<b>3</b>	<b>5</b>	<b>2</b>	<b>2</b>	<b>2</b>

2010	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
Operating leases	1	1	4	2	2	2
Contractual obligations to purchase goods or services	-	1	2	-	-	-
	<b>1</b>	<b>2</b>	<b>6</b>	<b>2</b>	<b>2</b>	<b>2</b>

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 the Group 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.

# ULSTER BANK LIMITED

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

### 24. Risk management - (continued)

#### 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.

#### 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.

### 24. Risk management – credit risk (continued)

#### *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 72.

#### **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.
- *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.

# ULSTER BANK LIMITED

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

### 24. Risk management – credit risk (continued)

- **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.

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	893	78
1-3 months in arrears	516	45
>3 months in arrears	421	124
Total	1,830	247

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.



# ULSTER BANK LIMITED

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

### 24. Risk management – credit risk (continued)

	2011
	£m
Interest only	795
Term extensions – capital repayment & interest only	58
Payment concession/holidays	876
Capitalisation of arrears	101
Total	1,830
% of total mortgage stock	9.1%

#### 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 64). 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.

- **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.

**24. Risk management – credit risk (continued)**

**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.

# ULSTER BANK LIMITED

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

### 24. Risk management – credit risk (continued)

#### Credit risk asset quality

Using the PD models described on page 63, 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 table provides 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
<b>2011</b>						
AQ1	749	7,297	506	681	304	43
AQ2	-	-	63	11	126	35
AQ3	-	-	233	38	225	35
AQ4	-	22	1,073	10	515	108
AQ5	-	-	3,178	27	751	45
AQ6	-	-	6,431	7	640	96
AQ7	-	12	9,254	29	406	122
AQ8	-	-	2,559	88	196	15
AQ9	-	-	5,191	106	112	30
AQ10	-	-	-	-	381	105
Accruing past due	-	-	2,745	-	-	-
Non-accrual	-	-	16,763	-	-	-
Impairment provisions	-	-	(9,051)	-	-	-
<b>Total</b>	<b>749</b>	<b>7,331</b>	<b>38,945</b>	<b>997</b>	<b>3,656</b>	<b>634</b>

# ULSTER BANK 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	854	5,736	362	639	374	54
AQ2	-	-	90	17	94	1
AQ3	-	-	238	9	207	62
AQ4	-	-	905	8	630	57
AQ5	-	-	5,775	68	933	161
AQ6	-	1	7,686	82	862	51
AQ7	-	5	11,825	6	479	122
AQ8	-	-	3,578	20	173	15
AQ9	-	-	4,124	73	103	12
AQ10	-	-	150	40	259	85
Accruing past due	-	-	3,437	-	-	-
Non-accrual	-	-	13,211	-	-	-
Impairment provisions	-	-	(5,978)	-	-	-
Total	854	5,742	45,403	962	4,114	620

	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	522	6,754	84	86	41	-
AQ2	-	-	1	-	2	-
AQ3	-	-	22	-	31	2
AQ4	-	-	628	-	88	2
AQ5	-	-	1,615	1	422	12
AQ6	-	-	638	-	205	6
AQ7	-	3	570	-	134	49
AQ8	-	-	588	-	69	4
AQ9	-	-	739	-	49	7
AQ10	-	-	-	-	91	7
Accruing past due	-	-	258	-	-	-
Non-accrual	-	-	3,131	-	-	-
Impairment provisions	-	-	(1,821)	-	-	-
Total	522	6,757	6,453	87	1,132	89

	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	613	4,206	51	149	40	2
AQ2	-	-	9	-	26	-
AQ3	-	-	16	-	13	-
AQ4	-	-	502	-	184	34
AQ5	-	-	1,660	-	427	27
AQ6	-	-	1,189	-	342	9
AQ7	-	-	819	-	148	13
AQ8	-	-	655	-	58	4
AQ9	-	-	537	-	32	-
AQ10	-	-	134	-	69	16
Accruing past due	-	-	312	-	-	-
Non-accrual	-	-	2,708	-	-	-
Impairment provisions	-	-	(1,134)	-	-	-
Total	613	4,206	7,458	149	1,339	105

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

# ULSTER BANK LIMITED

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

### 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.

	Group				
	Gross loans and advances to banks and customers £m	Debt securities and equity shares £m	Derivatives £m	Total £m	Netting and offset <sup>(1)</sup> £m
<b>2011</b>					
<b>UK</b>					
Manufacturing	300	-	1	301	6
Construction	320	-	-	320	15
Finance	464	71	3	538	-
Service industries and business activities	787	-	-	787	41
Agriculture, forestry and fishing	296	-	-	296	42
Property	3,803	-	-	3,803	21
Individuals					
Home mortgages	2,264	-	-	2,264	-
Other	414	-	-	414	-
Interest accruals	11	-	-	11	-
<b>Total UK</b>	<b>8,659</b>	<b>71</b>	<b>4</b>	<b>8,734</b>	<b>125</b>
<b>Rest of Europe</b>					
Central and local government	44	-	-	44	-
Manufacturing	868	-	10	878	9
Construction	543	-	18	561	24
Finance	7,150	33	735	7,918	2
Service industries and business activities	5,361	-	62	5,423	68
Agriculture, forestry and fishing	697	-	1	698	31
Property	13,189	-	167	13,356	9
Individuals					
Home mortgages	17,775	-	-	17,775	-
Other	984	-	-	984	-
Interest accruals	57	-	-	57	-
<b>Total Rest of Europe</b>	<b>46,668</b>	<b>33</b>	<b>993</b>	<b>47,694</b>	<b>143</b>
<b>Total</b>					
Central and local government	44	-	-	44	-
Manufacturing	1,168	-	11	1,179	16
Construction	863	-	18	881	39
Finance	7,614	104	738	8,456	2
Service industries and business activities	6,148	-	62	6,210	109
Agriculture, forestry and fishing	993	-	1	994	73
Property	16,992	-	167	17,159	30
Individuals					
Home mortgages	20,039	-	-	20,039	-
Other	1,398	-	-	1,398	-
Interest accruals	68	-	-	68	-
	<b>55,327</b>	<b>104</b>	<b>997</b>	<b>56,428</b>	<b>269</b>

(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 LIMITED

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

### 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 <sup>(1)</sup> £m
<b>UK</b>					
Manufacturing	309	-	-	309	8
Construction	427	-	-	427	18
Finance	419	195	6	620	1
Service industries and business activities	873	-	-	873	49
Agriculture, forestry and fishing	317	-	-	317	48
Property	3,876	-	-	3,876	28
Individuals					
Home mortgages	2,222	-	-	2,222	-
Other	475	-	-	475	-
Interest accruals	19	-	-	19	-
<b>Total UK</b>	<b>8,937</b>	<b>195</b>	<b>6</b>	<b>9,138</b>	<b>152</b>
<b>Rest of Europe</b>					
Central and local government	51	-	-	51	-
Manufacturing	993	-	-	993	6
Construction	670	-	-	670	13
Finance	5,608	188	956	6,752	1
Service industries and business activities	5,845	-	-	5,845	48
Agriculture, forestry and fishing	778	-	-	778	21
Property	13,991	-	-	13,991	5
Individuals					
Home mortgages	18,955	-	-	18,955	5
Other	1,215	-	-	1,215	-
Interest accruals	80	-	-	80	-
<b>Total Rest of Europe</b>	<b>48,186</b>	<b>188</b>	<b>956</b>	<b>49,330</b>	<b>99</b>
<b>Total</b>					
Central and local government	51	-	-	51	-
Manufacturing	1,302	-	-	1,302	14
Construction	1,097	-	-	1,097	31
Finance	6,027	383	962	7,372	2
Service industries and business activities	6,718	-	-	6,718	97
Agriculture, forestry and fishing	1,095	-	-	1,095	69
Property	17,867	-	-	17,867	33
Individuals					
Home mortgages	21,177	-	-	21,177	5
Other	1,690	-	-	1,690	-
Interest accruals	99	-	-	99	-
	<b>57,123</b>	<b>383</b>	<b>962</b>	<b>58,468</b>	<b>251</b>

<sup>(1)</sup> 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 LIMITED

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

### 24. Risk management – credit risk (continued)

2011	Bank				
	Gross loans and advances to banks and customers £m	Debt securities and equity shares £m	Derivatives £m	Total £m	Netting and offset <sup>(1)</sup> £m
UK					
Central and local government	-	-	-	-	-
Manufacturing	300	-	1	301	6
Construction	320	-	-	320	15
Finance	6,836	72	86	6,994	-
Service industries and business activities	787	-	-	787	41
Agriculture, forestry and fishing	296	-	-	296	42
Property	3,803	-	-	3,803	21
Individuals					
Home mortgages	2,264	-	-	2,264	-
Other	414	-	-	414	-
Interest accruals	11	-	-	11	-
<b>Total UK</b>	<b>15,031</b>	<b>72</b>	<b>87</b>	<b>15,190</b>	<b>125</b>

2010	Bank				
	Gross loans and advances to banks and customers £m	Debt securities and equity shares £m	Derivatives £m	Total £m	Netting and offset <sup>(1)</sup> £m
UK					
Central and local government	-	-	-	-	-
Manufacturing	309	-	-	309	8
Construction	443	-	-	443	18
Finance	4,284	195	149	4,628	1
Service industries and business activities	903	-	-	903	49
Agriculture, forestry and fishing	318	-	-	318	48
Property	3,919	-	-	3,919	28
Individuals					
Home mortgages	2,222	-	-	2,222	-
Other	474	-	-	474	-
Interest accruals	(74)	-	-	(74)	-
<b>Total UK</b>	<b>12,798</b>	<b>195</b>	<b>149</b>	<b>13,142</b>	<b>152</b>

<sup>(1)</sup> This column shows the amount by which the Bank's credit risk exposures is reduced through arrangements, such as master netting agreements, which give the Bank a legal right to set-off the financial asset against a financial liability due to the same counterparty. In addition, the Bank 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 Bank 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 LIMITED

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

### 24. Risk management – credit risk (continued)

#### Residential Mortgages

The table below shows how the continued decrease in property values 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 take account of provisions made.

	Group	
	2011 %	2010 %
<b>Residential mortgages – distribution by average LTV <sup>(1)</sup> indexed</b>		
<=50%	32.3	35.9
>50% and <=60%	6.2	6.8
>60% and <=70%	5.8	6.7
>70% and <=80%	5.8	6.8
>80% and <=90%	5.9	6.7
>90% and <=100%	6.6	7.9
>100%	37.4	29.2
Total portfolio average LTV at 31 December	81.4	71.2
Average LTV on new originations during the year	67.3	75.9

Note:

(1) LTV averages calculated by transaction volume.

#### Key points

- The residential mortgage portfolio across the Group totalled £20 billion at 31 December 2011 - with 89% in the Republic of Ireland and 11% in Northern Ireland. At constant exchange rates, the portfolio has decreased by 4% since 31 December 2010 due to natural amortisation and limited growth due to low market demand. New business originations continue to be very low, especially in the Republic of Ireland. In 2011, 2,442 new mortgages were originated, of which 76% were in Northern Ireland.
- The mortgage REIL (90 days past due) continued to increase due to the continued challenging economic environment. At 31 December 2011, REIL as a percentage of gross mortgages was 10.9% (by value) compared with 7.4% at 31 December 2010. The impairment charge for 2011 was £571 million compared with £336 million for 2010. Repossession levels were higher than in 2010, with a total of 161 properties repossessed at 31 December 2011 (compared with 76 for full year 2010). 76% of repossessions during 2011 were through voluntary surrender or abandonment of the property.

#### 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, 72% (£12.3bn) of the Commercial Real Estate portfolio is actively managed by GRG in Non Core of which £10.5bn is categorised REIL with a provision coverage of 54%.

	2011		2010	
	Loans £m	Provisions £m	Loans £m	Provisions £m
<b>Non-performing corporate loans (excluding commercial real estate)</b>				
Secured	2,364	1,072	2,120	753
Unsecured	627	492	391	291



# ULSTER BANK 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 Halifax Quarterly Regional House Price Index in the UK, and the Central Statistics Office Residential Property Price Index and the Nationwide House Price Index in Ireland).

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 show period-end LTVs for the Group's residential mortgage portfolio split between performing and non-performing.

	2011 £m	2010 £m
<b>Non-performing residential mortgages by average loan to value (LTV)</b>		
<70%	329	303
>70% and ≤90%	223	179
>90% and ≤110%	256	258
>110% and ≤130%	322	358
>130%	1,116	427

<b>Total portfolio average by LTV</b>	<b>102.4%</b>	<b>87.6%</b>
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	2011 £m	2010 £m
<b>Performing residential mortgages by average loan to value (LTV)</b>		
<70%	4,197	5,625
>70% and ≤90%	2,278	3,112
>90% and ≤110%	2,830	3,998
>110% and ≤130%	2,750	4,033
>130%	5,400	2,530

<b>Total portfolio average by LTV</b>	<b>79.3%</b>	<b>70.2%</b>
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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	-	18
Securities received as collateral	-	(18)
Derivative assets gross exposure	369	395

### 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 jurisdictions 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

Reputational 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 Bank's 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 markets in the UK and 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.

### 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 and the Ulster Bank Pension Scheme (Republic of Ireland) are the largest of the schemes and the main sources of pension risk. They both operate under trust deeds under which the corporate trustees are wholly owned subsidiaries of the Group. Both trustee boards comprise 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, both schemes were closed to new employees. In April 2010, the Group confirmed that it was making changes to both of these schemes 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 valuations of the schemes were carried out at 31 March 2010 (UBPS) and 31 December 2009 (UBPSROI). Further details are given in note 4 to the accounts.

All 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 LIMITED

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

### 25. Capital resources

	2011 £m	2010 £m
<i>Shareholders' equity (excluding non-controlling interests)</i>		
Shareholders' equity per balance sheet	6,301	4,697
Preference shares – equity	(959)	(959)
	5,342	3,738
<i>Non-controlling interests</i>		
Non-controlling interests per balance sheet	512	558
Other adjustments to non-controlling interests for regulatory purposes	(489)	(504)
	23	54
<i>Regulatory adjustments and deductions</i>		
Unrealised losses on AFS debt securities	-	1
Other adjustments for regulatory purposes	(134)	(69)
50% excess of expected losses over impairment provisions (net of tax)	(1,217)	(781)
50% of securitisation positions	-	(12)
	(1,351)	(861)
<b>Core tier 1 capital</b>	<b>4,014</b>	<b>2,931</b>
<i>Other tier 1 capital</i>		
Preference shares – equity	1,448	1,463
<i>Deductions</i>		
Tax on excess of expected losses over impairment provisions	439	312
Other adjustments for regulatory purposes	(492)	-
	(53)	312
<b>Total tier 1 capital</b>	<b>5,409</b>	<b>4,706</b>
<i>Qualifying tier 2 capital</i>		
Undated subordinated debt	100	103
Dated subordinated debt - net of amortisation	1,060	1,097
Collectively assessed impairment provisions	4	4
	1,164	1,204
<i>Tier 2 deductions</i>		
50% excess of expected losses over impairment provisions	(1,656)	(1,105)
Other adjustments for regulatory purposes	492	-
	(1,164)	(1,105)
<b>Total tier 2 capital</b>	<b>-</b>	<b>99</b>
<b>Total regulatory capital</b>	<b>5,409</b>	<b>4,805</b>
<b>Key capital ratios</b>	<b>%</b>	<b>%</b>
Core tier 1	12.9	11.5
Total capital	12.9	11.8
<b>Risk weighted assets by risk</b>		
Credit risk	38,300	37,300
Counterparty risk	1,100	1,100
Market risk	300	100
Operational risk	2,200	2,300
<b>Total risk weighted assets</b>	<b>41,900</b>	<b>40,800</b>

# ULSTER BANK LIMITED

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

### 25. Capital resources – (continued)

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 FSA. The FSA uses Risk Asset Ratio (RAR) as a measure of capital adequacy for 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 FSA's capital requirements throughout the year.

### 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		Bank	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Contingent liabilities:</b>				
Guarantees and assets pledged as collateral security	397	318	41	41
Other contingent liabilities	237	302	48	64
	<b>634</b>	<b>620</b>	<b>89</b>	<b>105</b>
<b>Commitments:</b>				
Documentary credits and other short-term trade related transactions	7	9	3	3
- less than one year	2,642	2,982	991	1,172
- one year and over	1,007	1,123	138	164
	<b>3,656</b>	<b>4,114</b>	<b>1,132</b>	<b>1,339</b>

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.

# ULSTER BANK LIMITED

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

### 26. Memorandum items – (continued)

#### 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.

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.

There are no contingent liabilities and commitments incurred by the Bank on behalf of subsidiary undertakings.

#### 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 £m	2010 £m	2011 £m	2010 £m
Property, plant and equipment				
Other capital expenditure	1	-	1	-
Contracts to purchase goods or services	8	9	3	4
	9	9	4	4

#### Litigation

The Group is involved in litigation in the United Kingdom and 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.

#### Capital Support Deed

The Bank, together with other members of the RBS Group, is party to a capital support deed (CSD). Under the terms of the CSD, the Bank may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to the Bank's capital resources in excess of the capital and financial resources needed to meet its regulatory requirements. The Bank may also be obliged to make onward distribution to its ordinary shareholders of dividends or other capital distributions received from subsidiaries that are party to the CSD. The CSD also provides that, in certain circumstances, funding received by the Bank from other parties to the CSD becomes immediately repayable, such repayment being limited to the Bank's available resources

# ULSTER BANK 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	(3,072)	(3,233)	(4,165)	(2,229)
Depreciation and amortisation	30	32	10	11
Interest on subordinated liabilities	34	22	19	14
Charge for defined benefit pension schemes	27	35	6	11
Losses on Loans and advances written off net of recoveries	3,544	3,794	737	575
Impairment of investments in Group undertaking	-	-	3,518	1,829
Elimination of foreign exchange differences	(411)	(184)	(7)	14
Other non-cash items	(295)	(30)	(51)	(182)
Net cash inflow/(outflow) from trading activities	(143)	436	67	43
Decrease/(increase) in loans and advances to banks and customers	3,492	3,568	(3,271)	866
(Increase)/decrease in debt securities	(74)	150	(87)	96
(Increase)/decrease in other assets	37	4	30	82
(Increase)/decrease in derivative assets	(35)	241	62	(119)
Decrease/(increase) in assets held for sale	1	(1)	-	-
Changes in operating assets	3,421	3,962	(3,266)	925
(Decrease) in deposits by banks and customers	(3,114)	(4,753)	1,520	(696)
(Decrease) in debt securities in issue	(3,312)	(3,024)	(76)	(407)
(Decrease)/increase in other liabilities	(179)	(122)	(176)	(9)
(Decrease)/increase in derivative liabilities	(44)	(178)	(78)	133
Changes in operating liabilities	(6,649)	(8,077)	1,190	(979)
Cash contribution to defined benefit pension schemes	(75)	(75)	(39)	(29)
Total taxes received	182	102	137	73
Net cash (outflow)/inflow from operating activities	(3,264)	(3,652)	(1,911)	33

### 28. Interest received and paid

	Group		Bank	
	2011	2010	2011	2010
	£m	£m	£m	£m
Interest received	1,071	2,000	293	460
Interest paid	(599)	(529)	(156)	(135)
	472	1,471	137	325

# ULSTER BANK LIMITED

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

### 29. Analysis of changes in financing during the year

	Group					
	Share capital and share premium		Capital contribution reserve		Subordinated liabilities	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
At 1 January	2,412	2,412	5,918	2,211	1,215	1,243
Net cash inflows from financing	-	-	4,658	3,707	-	-
Currency translation and other adjustments	-	-	-	-	(32)	(28)
At 31 December	2,412	2,412	10,576	5,918	1,183	1,215

	Bank					
	Share capital and share premium		Capital contribution reserve		Subordinated liabilities	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
At 1 January	2,412	2,412	5,918	2,211	986	1,010
Net cash inflows from financing	-	-	4,658	3,707	-	-
Currency translation and other adjustments	-	-	-	-	(25)	(24)
At 31 December	2,412	2,412	10,576	5,918	961	986

### 30. Analysis of cash and cash equivalents

	Group	
	2011 £m	2010 £m
At 1 January		
Cash	854	860
Cash equivalents	3,326	2,945
	4,180	3,805
Net cash inflow	1,587	444
Effect of exchange rate changes on cash and cash equivalents	(70)	(69)
At 31 December	5,697	4,180
Comprising:		
Cash and balances at central banks	749	854
Loans and advances to banks & debt securities	4,948	3,326

	Bank	
	2011 £m	2010 £m
At 1 January		
Cash	613	599
Cash equivalents	3,563	3,241
	4,176	3,840
Net cash inflow	(1,213)	351
Effect of exchange rate changes on cash and cash equivalents	-	(15)
At 31 December	2,963	4,176
Comprising:		
Cash and balances at central banks	522	613
Loans and advances to banks & debt securities	2,441	3,563



# ULSTER BANK LIMITED

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

### 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 business services, 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.

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	337	91	428	(114)	(1)	(626)	(313)
Corporate Markets	321	113	434	(98)	(1)	(758)	(423)
Other	182	242	424	(398)	(28)	(2,334)	(2,336)
<b>Total</b>	<b>840</b>	<b>446</b>	<b>1,286</b>	<b>(610)</b>	<b>(30)</b>	<b>(3,718)</b>	<b>(3,072)</b>

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	378	87	465	(122)	-	(342)	1
Corporate Markets	395	126	521	(101)	(4)	(819)	(403)
Other	267	39	306	(392)	(63)	(2,682)	(2,831)
<b>Total</b>	<b>1,040</b>	<b>252</b>	<b>1,292</b>	<b>(615)</b>	<b>(67)</b>	<b>(3,843)</b>	<b>(3,233)</b>

# ULSTER BANK LIMITED

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

### 31. Segmental analysis (continued)

Class of Business	2011		2010	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Retail Markets	20,164	(20,164)	21,401	(21,401)
Corporate Markets	13,768	(13,768)	16,485	(16,485)
Other	15,013	(8,200)	16,261	(11,005)
Total	48,945	(42,132)	54,147	(48,891)

Geographical segments	2011			2010		
	United Kingdom £m	Republic of Ireland £m	Total £m	United Kingdom £m	Republic of Ireland £m	Total £m
Total Income	186	1,100	1,286	272	1,020	1,292
Operating loss before tax	(749)	(2,323)	(3,072)	(504)	(2,729)	(3,233)
Net Assets	(1,257)	8,070	6,813	(705)	5,961	5,256
Total Assets	11,849	37,096	48,945	11,150	42,997	54,147

### 32. Transactions with directors

At 31 December 2011, the amounts outstanding in relation to transactions, arrangements and agreements entered into by authorised institutions in the Group, as defined in UK legislation, were £1,082,168 (2010: £1,262,668) in respect of loans to any persons who were directors at any time during the financial period.

### 33. Related parties

The Company's immediate parent company is National Westminster Bank Plc, which is incorporated in Great Britain.

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 accounts 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 has as its parent company National Westminster Bank Plc, a company incorporated in Great Britain. Copies of the accounts for this subgroup can be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

### 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.

# ULSTER BANK LIMITED

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

### 33. Related parties (continued)

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

2011	Central Government (including the Bank of England) £m	Local Government £m	Banks, financial corporations and public corporations £m	Total £m
<b>Assets</b>				
Balances at central banks	284	-	-	284
Debt securities	-	-	12	12
Loans and advances to customers	-	1	3	4
	284	1	15	300
<b>Liabilities</b>				
Customer accounts	9	232	19	260

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

2010	Central Government (including the Bank of England) £m	Local Government £m	Banks, financial corporations and public corporations £m	Total £m
<b>Assets</b>				
Balances at central banks	299	-	-	299
Debt securities	-	-	7	7
Loans and advances to customers	-	-	4	4
	299	-	11	310
<b>Liabilities</b>				
Customer accounts	10	69	19	98

During the year the Group had the following transactions with related parties:

#### (a) 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 £
<b>Transactions during the year</b>				
Loans made during the year:				
– at a commercial rate	1	1	-	780,135
– at a preferential rate	-	-	-	-
Customer accounts:				
– Savings	-	-	-	-
<b>Balances outstanding at the end of the year</b>				
Loans:				
– at a preferential rate	4	5	1	495,980
– at a commercial rate	10	5	16	22,239,843
Customer accounts:				
– Savings	12	9	48	12,230,322

# ULSTER BANK LIMITED

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

### 33. Related parties (continued)

#### (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	2010	2011	2010
	£m	£m	£m	£m
<b>Assets</b>				
Loans and advances:				
Parent companies	5,253	2,796	6,320	2,401
Key management	2	2	1	2
Other related parties, including fellow subsidiaries	-	2	52	1,458
	<b>5,255</b>	<b>2,800</b>	<b>6,373</b>	<b>3,861</b>
Derivatives:				
Parent companies	628	567	83	143
<b>Total assets</b>	<b>5,883</b>	<b>3,367</b>	<b>6,456</b>	<b>4,004</b>
<b>Liabilities</b>				
Deposits:				
Parent companies	11,055	10,512	4,289	2,467
Key management	4	-	1	-
Other related parties, including fellow subsidiaries	333	645	24	242
	<b>11,392</b>	<b>11,157</b>	<b>4,314</b>	<b>2,709</b>
Subordinated loans:				
Parent companies	1,044	1,071	961	986
Other related parties, including fellow subsidiaries	139	144	-	-
	<b>1,183</b>	<b>1,215</b>	<b>961</b>	<b>986</b>
Derivatives:				
Parent companies	1,237	1,281	83	161
<b>Total liabilities</b>	<b>13,812</b>	<b>13,653</b>	<b>5,358</b>	<b>3,856</b>

#### (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	4,691,379	3,492,476
Termination benefit	584,265	-
Long term benefit	1,089,045	230,514
	<b>6,364,689</b>	<b>3,722,990</b>

### 34. Post balance sheet events

On 12 January the Group announced 950 proposed job losses resulting from a strategic review of its future operating model. 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 financial effect at this time.

### 35. Prior year reclassifications

The Group has reclassified amounts of £34m 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. This adjustment has no impact on total income.

# ULSTER BANK LIMITED

## DIRECTORS AND EXECUTIVES

### Chairman

#### **Sean Dorgan (60)**

was appointed deputy Chairman in July 2008 and subsequently Chairman in September 2008. He also serves on the governing board of Dublin Institute of Technology and CRANN Nanoscience Institute at Trinity College, Dublin. He is a board member of Short Bros plc, FBD Holdings plc and Fineos Corporation Limited. Previously he was Chairman of Tesco Ireland until 2011 and from, 1999 – 2007, he was Chief Executive of IDA Ireland, one of the world's leading inward investment agencies. He has also been Secretary General of the government departments responsible for industry, commerce, tourism and trade, and Chief Executive of the Institute of Chartered Accounts in Ireland.

### **EXECUTIVE DIRECTORS**

#### Group Chief Executive

#### **Jim Brown (51)**

was appointed Chief Executive Officer of Ulster Bank Group in April 2011. Prior to taking up his role in Ulster Bank, Jim was Chief Executive Officer for Retail and Commercial Markets in Asia and Middle East with responsibility for the RBS retail and commercial banking franchise in nine markets. He formerly worked in ABN AMRO holding a variety of senior positions including Head of Consumer Clients Asia and Country Manager for Taiwan. He also worked in Citibank holding various key positions in retail and consumer banking in Taiwan, Australia and New Zealand.

#### **Charles McManus (50)**

was appointed Chief Financial Officer in March 2011. He has most recently held the position of Chief Financial Officer at the Royal Bank of Canada Europe where he was responsible for financial, statutory, regulatory and tax reporting for Royal Bank of Canada Europe and a number of business divisions across Asia Pacific.

He has held a number of senior management roles at Royal Bank of Canada, including Chief Financial Officer Capital Markets USA in New York and Global Head of Product Control. He has also held a number of senior positions at Hambros plc including Finance Director and Group Financial Controller. With over 28 years experience in the Financial Services sector, Charles qualified as an Accountant with KPMG and holds a BA Honours in Accountancy from London Guildhall University.

### **NON-EXECUTIVE DIRECTORS**

#### **Trevor Bowen (62)**

joined the Bank Board in 2004. He had been a First Active director since 2003. A Chartered Accountant, he is a Partner in Principle Management and holds a number of other non-executive directorships including Ardmore Studios Limited, Amphitheatre Ireland Limited and Grand Canal Theatre Company Limited.

#### **Eileen Gleeson (51)**

joined the Bank Board in 2004. She joined First Active Board in 2003 and subsequently Ulster Bank Ireland Limited Board in 2009. A Chartered Director, she is an Assessor with the Institute of Directors Board Performance Evaluation Service. She is a non-executive director of the Coombe Woman and Infants University Hospital and the DCU Ryan Academy for Entrepreneurship. Formerly she was Chairman of communications company Weber Shandwick Ireland, and a non-executive director of Sustainable Energy Authority of Ireland. She was Special Adviser to the former President of Ireland, Mary McAleese.

#### **Christopher Mills (64)**

retired as Group Chief Executive Officer of Ulster Carpet Mills where he played a leadership role since 1988. He began his career with Esso Petroleum, spending 18 years in a variety of management positions. He has been President of the Northern Ireland Chamber of Commerce, Chairman of Business in the Community and President of the European Carpet Manufacturers Association.

#### **Dr Philip Nolan (58)**

was educated at Queen's University Belfast where he graduated with a PhD in Geology. Beginning his career as a Geology Lecturer, he joined British Petroleum as a Geologist in 1981. He spent 15 years with the company before joining British Gas (BG) in 1996 where he subsequently became Chief Executive of Lattice Group, which de-merged from BG in 1999. He was Chief Executive Officer at Eircom Group from 2002 to 2006 and Chairman of Infinis Limited and Sepura plc from 2007 to 2010. He currently is Chairman of the Irish Management Institute and John Laing plc. He is also a non-executive director of Providence Resources and senior advisor to Warburg Pincus Private Equity Group.

## **ULSTER BANK LIMITED**

### **DIRECTORS AND EXECUTIVES (continued)**

#### **NON-EXECUTIVE DIRECTORS (continued)**

##### **Ian Webb (64)**

is Chairman of John Hogg and Company, a privately owned family firm, which operates a range of businesses including textiles, travel, fuel oils and property. He joined the company in 1970. Mr Webb is Chairman of the Belfast Harbour Users Group and a Partner of Killylane Properties.

##### **Sir Nigel Hamilton (63)**

joined the Ulster Bank Board in April 2009, after retiring from his role as Head of the Northern Ireland Civil Service in July 2008. During his time as Head of the Northern Ireland Civil Service he was also Head of the Office of the First Minister and Deputy First Minister and Secretary to the Northern Ireland Executive. He is a non-executive director of Belfast City Airport, and Chairman of Bryson Charitable Group and the Northern Ireland Council of the Prince's Trust. He is also Vice Lord Lieutenant for the City and Borough of Belfast.

##### **Dr Andrew McLaughlin (43)**

is a member of the RBS Group's Management Committee holding the position of Director of Communications and Group Chief Economist. His overall experience as a senior RBS executive and his expertise in communications, reputation management and the economic field are particularly relevant to the Bank given the challenging banking and economic markets in which it operates. He is also leading the Bank's work in regards to the UK Independent Commission on Banking.

##### **Christopher (Chris) Campbell (53)**

joined RBS Group in August 2005 as Deputy General Counsel and Director, Group Legal and became Group General Counsel in May 2010. Prior to joining RBS Group, he was a partner for 18 years in Scotland's largest law firm, Dundas & Wilson, and was Managing Partner from 1996 until he joined RBS Group in 2005. In his role as Group General Counsel, Mr. Campbell has overall responsibility for advising the RBS Group Board and Executive Committee and for the provision of legal support to all of RBS's businesses globally. His responsibilities also include the Group Secretariat and Regulatory Affairs & Compliance functions. He is an Honorary Professor in Commercial Law at the University of Glasgow.

##### **Bridget Rosewell (60)**

Bridget Rosewell is an economist with degrees from Oxford University, where she also taught until 1984. She has founded two economics consultancies, and is Chair of Volterra Partners. She has advised the Chancellor of the Exchequer, Treasury Select Committee and the Mayor of London. She has been responsible for the economic analysis of major infrastructure projects and is currently a Non-Executive Director of Network Rail.

#### **GROUP AUDIT COMMITTEE**

Trevor Bowen, Chairman  
Chris Campbell  
Sir Nigel Hamilton  
Dr Philip Nolan  
Andrew McLaughlin  
Bridget Rosewell

#### **DIVISIONAL HEADS**

R Donnan	Retail Markets
D Thomas	Corporate Markets
S Daniels	Group Human Resources
C McManus	Business Operations
E Graham	Business Services
R Bergin	Communications & Corporate Affairs
J Molloy	Global Restructuring Group/Non-Core Ireland
C Pierce	Group Strategy

#### **COMPANY SECRETARIES**

R Bergin  
R Curran  
E Dignam

#### **HEAD OFFICE**

11-16 Donegall Square East, Belfast, BT1 5UB