

# Ulster Bank Ireland DAC

## Compliance with the Capital Requirements Directive (CRD IV)

Article 96 of the fourth Capital Requirements Directive (CRD IV) requires institutions to set out a statement, on the institution's website, on how it complies with the requirements of Articles 88 to 95 of the Directive. CRD IV has been implemented in the Republic of Ireland by way of SI158 European Union (Capital Requirements) Regulations 2014.

Ulster Bank Ireland DAC (UBIDAC) is a member of The Royal Bank of Scotland Group plc (RBSG).

In line with Regulation 84 of SI158, this document explains how UBIDAC complies with Regulations 76 – 83 of SI158.

Regulation 81 (Institutions that benefit from government intervention) does not apply to UBIDAC.

### 1. Governance

#### The management body (the Board)

*Regulation 76 and 79 of SI158 sets out the requirements for the management body including its role, its Chairman, its members, induction and training of members and the number of directorships an individual director may hold.*

The Board is the main decision-making forum for UBIDAC. It has overall responsibility for management of the business and affairs of the company, the strategy and the allocation and raising of capital, and is accountable to its shareholders for financial and operational performance. The Board considers strategic issues and ensures the company manages risk effectively through approving and monitoring the company's risk appetite, considering stress scenarios and agreed mitigants and identifying longer term strategic threats to business operations.

The Board are responsible for ensuring the integrity of financial information and reporting, to maintain a robust accounting function, financial reporting framework and policies, to ensure the maintenance of adequate accounting and other records and systems of planning and internal control.

Members of the Board are committed to observing high standards of corporate governance, integrity and professionalism. The Board is collectively responsible for the long-term success of UBIDAC and delivery of sustainable value to shareholders. The Board provides leadership of UBIDAC within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board's terms of reference includes key aspects of the company's affairs reserved for the Board's decision and are reviewed at least annually.

There are a number of instances where the Board has delegated responsibility for certain matters to management. With the exception of matters reserved for the Board, day to day responsibility for the operation of the Bank is delegated to the CEO and the UBID Executive Committee (or "ExCo") in accordance with the ExCo Terms of Reference and the CEO's Role Profile. ExCo is required to update the Board at regular intervals and / or at the request of the Board on all operational and day to day activities. Decision-making authority regarding Wholesale and Retail Credit are delegated to the Director of Risk. Notwithstanding these delegated authorities the Board acknowledges that it remains accountable for all delegated functions

The roles of Chairman and Chief Executive are distinct and separate, with a clear division of responsibilities.

- The Chairman leads the Board and ensures the effective engagement and contribution of all executive and independent non-executive directors. The Chairman ensures that the performance of individual directors and of the Board as a whole is evaluated regularly and also ensures that UBIDAC maintains effective communication with shareholders and other stakeholders.
- The Chief Executive has responsibility for the businesses and acts in accordance with authority delegated by the Board. Responsibilities of the Chief Executive include leading the senior management team, developing and delivering the strategy approved by the Board and acting as a champion of the culture and values of RBSG creating an environment where employees are engaged and committed to good customer outcomes.

The independent non-executive directors combine broad business and commercial experience with independent and objective judgement and they provide independent challenge to the executive directors and the leadership team.

The Board is structured to ensure that the directors provide UBIDAC with the appropriate balance of skills,

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experience and knowledge as well as independence. The balance between independent non-executive and executive directors enables the Board to provide clear and effective leadership across UBIDAC's business activities. UBIDAC also has a comprehensive formal induction programme for new directors that includes visits to the major divisions and meetings with directors and senior management. The Board ensure adequate induction training is provided for new appointees, on-going training is given to existing Board members and training is updated as necessary.

On appointment, each director is provided with guidelines for referring conflicts of interest to the Board. UBIDAC has procedures in place to ensure that the Board's management of conflicts of interest and its powers for authorising certain conflicts are operating effectively.

Independent non-executive directors must confirm they are able to allocate sufficient time to meet the expectations of the role as part of their appointment with UBIDAC. Directors have been briefed on the limits on the number of other directorships that they can hold under the requirements of the Central Bank of Ireland Corporate Governance Requirements for Credit Institutions 2015 and of CRD IV. Each director is required to seek the agreement of the Chairman and approval of the UBIDAC Nominations and Governance Committee before accepting additional commitments that might impact the time the director is able to devote to his or her role as an independent non-executive director of UBIDAC. The Board monitors the other commitments of the Chairman and directors and is satisfied that they are able to allocate sufficient time to enable them to discharge their duties and responsibilities effectively.

The Board are responsible for ensuring sufficient oversight of the process of communicating with external stakeholders and competent authorities including circulars and press releases. The Board consider and, as appropriate, approve material regulatory submissions.

#### Role of the UBIDAC Nominations & Governance Committee (UBIDAC NomCo)

*Regulation 76 and 79 of SI158 sets out the Governance arrangements of its management body including the requirement for a nominations committee including its membership, resources, need for appropriate funding and activities.*

The UBIDAC NomCo comprises a number of non-executive directors and the Chairman and operates as a Committee of the UBIDAC Board.

The UBIDAC NomCo is responsible for:

- Recommending suitable individuals to the UBIDAC Board in respect of appointments to the UBIDAC Board, Board Committees, Executive Committee and Senior Management (including Material Risk Takers and Pre-Approved Control Functions).
- Reviewing the structure, size and composition of the Board and making recommendations to the Board on any necessary changes, having regard to the overall balance of skills, knowledge, experience and diversity on the Board;
- Considering and making recommendations in respect of appointments and membership of Board Committees and succession planning;
- Reviewing and approving requests from the Board Directors to take up additional external directorships.
- Preparing a description of the role, responsibilities and capabilities required for UBIDAC Board appointments, following an evaluation of the balance of skills, knowledge, time required and experience, objectives of the Boardroom Inclusion Policy and taking into consideration the Board Appointment process including suitability, diversity, Board composition and membership, succession planning, role profiles, letters of appointment and regulatory approvals required; and
- Ensuring that the Board is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interests of UBIDAC, when considering the roles and responsibilities of Board Directors, Board Committee Members and Senior Management.

The Nominations Committee engages with external consultants, considers potential candidates and recommends appointments of new directors to the Board.

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UBIDAC understands the importance of diversity and being an inclusive organisation and, as part of this, recognises the importance of having a greater representation of women at key decision making points in organisations. The search for candidates for the Board will continue to be conducted, and nominations/appointments made, with due regard to the benefits of diversity on the Board, however, all appointments are ultimately based on merit, measured against objective criteria, and the skills and experience the individual can bring to the Board.

The Board has a target of 33% female balance and meets the target set by the Hampton-Alexander Review of FTSE 100 Women Leaders. The Boardroom Inclusion Policy can be accessed [here](#).

The balance of skills, experience, independence, knowledge and diversity on the Board, and how the Board operates together as a unit is reviewed annually as part of the Board evaluation.

### 2. Remuneration

*Regulations 80 and 82-83 of SI158 requires firms to explain on their website how they comply with the Remuneration Code*

#### Remuneration policy

As a fully owned subsidiary of RBSG, the UBIDAC remuneration policy is in line with the RBSG's Group-wide Remuneration Policy Principles ("the remuneration policy"). These are aligned to regulatory requirements and comply with the remuneration rules which are applicable based on the size, nature, scope and complexity of our activities. The requirements are applied at group, parent undertaking and subsidiary undertaking levels, including UBIDAC. The RBSG Performance and Remuneration Committee ("Group RemCo") reviews and approves the remuneration policy on an annual basis. The UBIDAC Performance and Remuneration Committee (UBIDAC RemCo) reviews and provides input in advance of Group RemCo and formally adopts the remuneration policy following approval by Group RemCo. An assessment of the implementation of the remuneration policy also takes place on an annual basis.

The remuneration policy is consistent with and promotes sound and effective risk management. It is aligned to the business strategy, objectives, values and long-term interests of the organisation as evidenced by our remuneration arrangements, our chosen performance metrics and effective risk management in line with the UBIDAC's risk appetite.

There is a Group-wide conflicts of interest policy which requires the RBSG and UBIDAC, to maintain and operate effective organisational and administrative arrangements which identify and manage conflicts of interest.

There are systems for capturing performance management goals, performance discussions and decisions. The performance management policy and process are documented on our internal website for all employees to access and training, support calls and documentation are provided throughout the year.

#### Remuneration structure

UBIDAC's approach to remuneration and remuneration policies promotes effective risk management through a clear distinction between fixed remuneration (base salary, allowances, benefits and employer pension contributions) which reflects the role undertaken by an individual; and variable remuneration (bonus and long-term incentive awards) which is reflective of performance and can be risk-adjusted.

Fixed pay must primarily reflect an employee's professional experience, organisational and role responsibilities, and geographic location. It is set at an appropriate level which is sufficient that the employee should not be reliant on variable pay and therefore is not incentivised to take excessive risks.

Variable pay must be linked to UBIDAC, business unit and individual performance. It is measured across a balanced scorecard including risk and control and other financial and non financial objectives (customer and people) in order to promote effective risk management. Performance is assessed against a combination of short-term and long-term targets. The variable remuneration component is designed to reflect sustainable and risk-adjusted performance against financial and strategic measures.

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Depending on the amount of the variable remuneration and the role of the recipient, deferral is applied over a three to seven year period during which time unvested awards remain at risk of forfeiture through malus adjustment. Clawback provisions also apply to vested awards in line with regulatory requirements. An accountability review process is operated which allows UBIDAC to respond where new information would change variable pay decisions and the range of circumstances under which malus and clawback will be considered are described in the internal malus and clawback policy.

At least 50% of any variable remuneration for Material Risk Takers is delivered in shares with the shares subject to an appropriate retention period after vesting. The payment of variable remuneration does not limit our ability to maintain or strengthen our capital base. Variable pay proposals are reviewed against our capital adequacy framework to ensure that regulatory requirements are met. No variable remuneration is provided to non-executive directors so that they can maintain appropriate independence. Guaranteed awards are only used in exceptional circumstances to compensate new hires for awards forfeited from their previous employer, and are limited to the first year of service. Such awards are subject to RBSG wide policies on deferral, retention, malus and clawback. The policy for buy-out awards and early termination payments is in line with regulatory requirements. UBIDAC does not actively provide discretionary pension benefits outside legacy Defined Benefit pension plans and does not allow variable pay that would have otherwise been subject to deferral to be taken in pension form.

The Personal Account Dealing policy prohibits the use of any personal hedging strategies or remuneration-related or liability-related contracts of insurance, designed to lessen the impact of a reduction in value of variable pay awards. This condition is confirmed in participant award documentation and any breach may result in the award being cancelled. Material Risk Takers must expressly accept this term as a condition of grant. UBIDAC does not pay variable remuneration through vehicles or methods that facilitate the non-compliance with the requirements of Article 94(1)(q) of CRD IV or EU Regulation no.575/2013.

UBIDAC recognises that remuneration structures from 2014 onwards need to comply with the remuneration requirements of CRD IV, including the cap which limits the maximum ratio of variable to fixed remuneration. UBIDAC, consistent with the approach by RBSG, applies a 1:1 ratio (of variable to fixed remuneration) for Material Risk Takers. To date neither UBIDAC nor RBSG has not sought approval from shareholders for the possible higher ratio of 2:1 (of variable to fixed remuneration). The level of variable remuneration can be calculated in line with EBA guidelines, including any available discount for long-term deferral. The remuneration policy includes the flexibility to pay no variable remuneration if this is not supported by the achievement of individual and business performance measures.

#### UBIDAC Performance and Remuneration Committee (UBIDAC RemCo)

The UBIDAC RemCo was established in October 2014 in accordance with Article 95 of Directive 2013/36/EU (CRD IV) as implemented in the Republic of Ireland by way of Statutory Instrument 158, paragraph 83. The Chair and members of the UBIDAC RemCo are all independent non-executive directors of UBIDAC.

A summary of the main responsibilities of the UBIDAC RemCo are to:

- Ensure the incentive structure created by the remuneration arrangements promotes good performance, conveys acceptable risk-taking behaviour and reinforces UBIDAC's operating and risk culture consistent with UBIDAC's risk appetite taking into account the long-term interests of shareholders (including those of RBSG as the parent company), investors and other stakeholders in the institution and the public interest;
- Oversee the establishment and management's implementation of the remuneration policy, which is designed to support the long term business strategy and values of UBIDAC as well as promote effective risk management and comply with applicable legal and regulatory requirements;
- Review and adopt the remuneration policy for the UBIDAC business on an annual basis, reviewing the policy and ensuring it meets regulatory requirements applicable to UBIDAC;
- Consider business strategy, objectives, values, liquidity, capital levels, the incentive structure created and the long-term interests of UBIDAC, as well as the need to promote effective risk management, avoid conflicts of interest and adhere to best practice. In particular, the Committee will seek to ensure the remuneration policy and practices do not promote excessive risk taking;
- Review and recommend, or where appropriate ratify, performance measures, performance assessment and the remuneration arrangements of senior officers in the risk management and

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compliance functions, the Executive Directors and ExCo members as well as any other employees deemed to be senior management or PCFs within UBIDAC. As part of the review, UBIDAC RemCo will determine whether an appropriate level of risk management and performance adjustment has been applied through consultation and receipt of advice from the senior Board Committees of RBSG and UBIDAC; and the UBIDAC and RBSG Control Functions, as it considers necessary or appropriate;

- Review and recommend remuneration arrangements for UBIDAC high earners;
- Oversee the remuneration framework for other Material Risk Takers within UBIDAC;
- Review the annual bonus pool proposals for UBIDAC, to ensure that they are appropriately performance and risk adjusted, are congruent with UBIDAC's financial performance and meet UBIDAC's capital adequacy and liquidity requirements;
- Ensure that for employees in control functions, remuneration should be determined independently and performance measures should be based on the achievement of their own objectives so as not to compromise their independence;
- Retain oversight of pay considerations across the broader UBIDAC employee population; and
- Review any UBIDAC compensation disclosures and any submissions to regulators in relation to compensation.

### 3. Reporting

#### Country-by-country reporting

*Regulation 77 of SI158 (Article 89 of the Directive) relates to country-by-country reporting.*

UBIDAC meets its requirements under this article for the reporting period ended 31 December 2019. The list of subsidiaries and the income/profit/tax/subsidies/headcount by country disclosure is available via <https://digital.ulsterbank.ie/globals/about-us/corporate-information/financial-results.html>

#### Public disclosure of return on assets

*Regulation 78 of SI158 (Article 90 of the Directive) requires disclosure in a firm's annual report and accounts of its return on assets.*

Details of return on average total assets for UBIDAC can be found on page 4 of the 2019 UBIDAC statutory accounts within the Director's Report <https://digital.ulsterbank.ie/globals/about-us/corporate-information/financial-results.html>