

ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
February 23, 2012

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For February 23, 2012

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000
Edinburgh EH12 1HQ

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F X

Form 40-F ___

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): _____

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): _____

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ___

No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

The following information was issued as a Company announcement in London, England and is furnished pursuant to General Instruction B to the General Instructions to Form 6-K:

Risk and balance sheet management (continued)

Risk management: Credit risk

Credit risk is the risk of financial loss due to the failure of a customer to meet its obligation to settle outstanding amounts. The quantum and nature of credit risk assumed across the Group's different businesses vary considerably, while the overall credit risk outcome usually exhibits a high degree of correlation with the macroeconomic environment.

Loans and advances to customers by sector

In the table below loans and advances exclude disposal groups and repurchase agreements. Totals for disposal groups are also presented.

| | 31 December 2011 | | | 30 September 2011 | | | 31 December 2010 | | |
|--|------------------|------------------------|-------------|-------------------|------------------------|-------------|------------------|------------------------|-------------|
| | Core £m | Non- Core (1) £m | Total £m | Core £m | Non- Core (1) £m | Total £m | Core £m | Non- Core (1) £m | Total £m |
| Central and local government | 8,359 | 1,383 | 9,742 | 8,097 | 1,507 | 9,604 | 6,781 | 1,671 | 8,452 |
| Finance | 46,452 | 3,229 | 49,681 | 48,094 | 4,884 | 52,978 | 46,910 | 7,651 | 54,561 |
| Residential mortgages | 138,509 | 5,102 | 143,611 | 143,941 | 5,319 | 149,260 | 140,359 | 6,142 | 146,501 |
| Personal lending | 31,067 | 1,556 | 32,623 | 32,152 | 2,810 | 34,962 | 33,581 | 3,891 | 37,472 |
| Property | 38,704 | 38,064 | 76,768 | 44,072 | 40,628 | 84,700 | 42,455 | 47,651 | 90,106 |
| Construction | 6,781 | 2,672 | 9,453 | 7,992 | 3,062 | 11,054 | 8,680 | 3,352 | 12,032 |
| Manufacturing | 23,201 | 4,931 | 28,132 | 24,816 | 5,233 | 30,049 | 25,797 | 6,520 | 32,317 |
| Service industries and business activities | | | | | | | | | |
| - retail, wholesale and repairs | 21,314 | 2,339 | 23,653 | 22,207 | 2,427 | 24,634 | 21,974 | 3,191 | 25,165 |
| - transport and storage | 16,454 | 5,477 | 21,931 | 16,236 | 6,009 | 22,245 | 15,946 | 8,195 | 24,141 |
| - health, education and Recreation | 13,273 | 1,419 | 14,692 | 16,224 | 1,515 | 17,739 | 17,456 | 1,865 | 19,321 |
| - hotels and restaurants | 7,143 | 1,161 | 8,304 | 7,841 | 1,358 | 9,199 | 8,189 | 1,492 | 9,681 |
| - utilities | 6,543 | 1,849 | 8,392 | 8,212 | 1,725 | 9,937 | 7,098 | 2,110 | 9,208 |
| - other | 24,228 | 3,772 | 28,000 | 24,744 | 4,479 | 29,223 | 24,464 | 5,530 | 29,994 |
| Agriculture, forestry and fishing | 3,471 | 129 | 3,600 | 3,767 | 135 | 3,902 | 3,758 | 135 | 3,893 |
| Finance leases and instalment credit | 8,440 | 6,059 | 14,499 | 8,404 | 7,467 | 15,871 | 8,321 | 8,529 | 16,850 |
| Interest accruals | 675 | 116 | 791 | 661 | 152 | 813 | 831 | 278 | 1,109 |
| Gross loans | 394,614 | 79,258 | 473,872 | 417,460 | 88,710 | 506,170 | 412,600 | 108,203 | 520,803 |

| | | | | | | | | | |
|--|---------|----------|----------|---------|----------|----------|---------|----------|----------|
| Gross loans including disposal groups | 414,063 | 80,005 | 494,068 | 417,510 | 90,389 | 507,899 | 412,851 | 113,001 | 525,852 |
| Loan impairment provisions | (8,292) | (11,468) | (19,760) | (8,748) | (11,849) | (20,597) | (7,740) | (10,315) | (18,055) |
| Loan impairment provisions including disposal groups | (9,065) | (11,486) | (20,551) | (8,748) | (11,867) | (20,615) | (7,740) | (10,351) | (18,091) |
| Net loans | 386,322 | 67,790 | 454,112 | 408,712 | 76,861 | 485,573 | 404,860 | 97,888 | 502,748 |
| Net loans including disposal groups | 404,998 | 68,519 | 473,517 | 408,762 | 78,522 | 487,284 | 405,111 | 102,650 | 507,761 |

Note:

- (1) Non-Core includes amounts relating to RFS MI of £0.4 billion at 31 December 2011 (30 September 2011 - £0.6 billion; 31 December 2010 - £0.6 billion)

Key points

- Gross loans and advances including disposal groups decreased by £31.8 billion during 2011 and £13.8 billion in Q4 2011, predominantly in Non-Core.
- Non-Core disposal strategy led to gross loans decreasing by £33 billion (Q4 2011 - £10.4 billion). Property accounted for 40% of this decrease.

Risk and balance sheet management (continued)

Risk management: Credit risk: Risk elements in lending

The table below analyses the Group's risk elements in lending (REIL) without taking account of any security held which could reduce the eventual loss should it occur, nor of any provisions. REIL is split into UK and overseas, based on the location of the lending office.

| | 31 December 2011 | | | 30 September 2011 | | | 31 December 2010 | | |
|--------------------|------------------|--------------------|-------------|-------------------|--------------------|-------------|------------------|--------------------|-------------|
| | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m |
| Impaired loans (1) | | | | | | | | | |
| - UK | 8,291 | 7,284 | 15,575 | 9,222 | 7,471 | 16,693 | 8,575 | 7,835 | 16,410 |
| - Overseas | 7,015 | 16,157 | 23,172 | 6,695 | 16,274 | 22,969 | 4,936 | 14,355 | 19,291 |
| | 15,306 | 23,441 | 38,747 | 15,917 | 23,745 | 39,662 | 13,511 | 22,190 | 35,701 |

| | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Accruing loans past due 90 days or more (2) | | | | | | | | | |
| - UK | 1,192 | 508 | 1,700 | 1,648 | 580 | 2,228 | 1,434 | 939 | 2,373 |
| - Overseas | 364 | 34 | 398 | 580 | 256 | 836 | 262 | 262 | 524 |
| | 1,556 | 542 | 2,098 | 2,228 | 836 | 3,064 | 1,696 | 1,201 | 2,897 |
| Total REIL | 16,862 | 23,983 | 40,845 | 18,145 | 24,581 | 42,726 | 15,207 | 23,391 | 38,598 |
| REIL including disposal groups | | | 42,394 | | | 42,752 | | | 38,651 |
| REIL as a % of gross loans and advances (3) | 4.4% | 30.1% | 8.6% | 4.3% | 27.4% | 8.4% | 3.7% | 20.8% | 7.3% |
| Provisions as a % of REIL | 50% | 48% | 49% | 49% | 48% | 49% | 52% | 44% | 47% |

Notes:

- (1) All loans against which an impairment provision is held.
- (2) Loans where an impairment event has taken place but no impairment provision recognised. This category is used for fully collateralised non-revolving credit facilities.
- (3) Includes disposal groups and excludes reverse repos.

Key points

- REIL, including disposal groups, increased by £3.7 billion in the year.
- Ulster Bank Group's non-performing loans increased significantly by £3.5 billion (Core - £1.9 billion; Non-Core - £1.6 billion). This principally related to residential mortgages (£0.6 billion, 39% increase) and commercial real estate (£2.4 billion, 25% increase), reflecting the continued deteriorating conditions in property sectors in Ireland. The Non-Core REIL increase related to Ulster Bank was partially offset by run-off in other Non-Core donating divisions in the year.
- UK Corporate REIL increased by £1.0 billion, principally due to extended work-out periods associated with corporate loan restructuring arrangements.
- REIL declined marginally (£0.4 billion) during Q4 2011 principally reflecting Non-Core GBM write-offs.
- Disposal groups REIL at 31 December 2011 of £1.5 billion comprised impaired loans of £1.3 billion; and accruing loans of £0.2 billion in relation to the UK branch based businesses, of which £1 billion was in UK Corporate and £0.5 billion in UK Retail.

For sector, geography and divisional analysis of loans, REIL and impairments, refer to Appendix 3.

Risk and balance sheet management (continued)

Risk management: Credit risk: Loans, REIL and impairments by division

The following tables analyse loans and advances to banks and customers (excluding reverse repos) and related REIL, provisions, impairments, write-offs and coverage ratios by division.

| | Gross loans banks | Gross loans customers | REIL £m | Provisions £m | REIL as a % of gross customer loans | Provisions as a % of REIL | YTD Impairment charge £m | YTD Amounts written-off £m |
|------------------------------------|-------------------------|-----------------------------|------------|------------------|---|---------------------------------|-----------------------------------|-------------------------------------|
| 31 December 2011 | £m | £m | £m | £m | % | % | £m | £m |
| UK Retail | 628 | 103,377 | 4,087 | 2,344 | 4.0 | 57 | 788 | 823 |
| UK Corporate | 672 | 96,647 | 3,972 | 1,608 | 4.1 | 40 | 782 | 653 |
| Wealth | 2,422 | 16,913 | 211 | 81 | 1.2 | 38 | 25 | 11 |
| Global Transaction | | | | | | | | |
| Services | 3,464 | 15,767 | 218 | 234 | 1.4 | 107 | 166 | 79 |
| Ulster Bank | 2,079 | 34,052 | 5,523 | 2,749 | 16.2 | 50 | 1,384 | 124 |
| US Retail & Commercial | 208 | 51,436 | 1,006 | 451 | 2.0 | 45 | 247 | 371 |
| Retail & Commercial | 9,473 | 318,192 | 15,017 | 7,467 | 4.7 | 50 | 3,392 | 2,061 |
| Global Banking & Markets | 30,072 | 75,493 | 1,845 | 947 | 2.4 | 51 | 11 | 76 |
| RBS Insurance and other | 3,829 | 929 | - | - | - | - | - | - |
| Core | 43,374 | 394,614 | 16,862 | 8,414 | 4.3 | 50 | 3,403 | 2,137 |
| Non-Core | 619 | 79,258 | 23,983 | 11,469 | 30.3 | 48 | 3,838 | 2,390 |
| Group | 43,993 | 473,872 | 40,845 | 19,883 | 8.6 | 49 | 7,241 | 4,527 |
| Total including disposal groups | 44,080 | 494,068 | 42,394 | 20,674 | 8.6 | 49 | 7,241 | 4,527 |
| 30 September 2011 | | | | | | | | |
| UK Retail | 434 | 110,086 | 4,651 | 2,661 | 4.2 | 57 | 597 | 658 |
| UK Corporate | 70 | 109,977 | 4,904 | 1,961 | 4.5 | 40 | 549 | 498 |
| Wealth | 2,326 | 17,037 | 198 | 71 | 1.2 | 36 | 13 | 8 |
| Global Transaction | | | | | | | | |
| Services | 3,707 | 19,545 | 240 | 201 | 1.2 | 84 | 119 | 66 |
| Ulster Bank | 2,791 | 35,546 | 5,556 | 2,567 | 15.6 | 46 | 1,057 | 63 |
| US Retail & Commercial | 186 | 49,477 | 955 | 469 | 1.9 | 49 | 193 | 267 |
| Retail & Commercial | 9,514 | 341,668 | 16,504 | 7,930 | 4.8 | 48 | 2,528 | 1,560 |
| Global Banking & Markets | 35,900 | 73,921 | 1,641 | 943 | 2.2 | 57 | (49) | 51 |
| RBS Insurance and other | 6,604 | 1,871 | - | - | - | - | - | - |
| Core | 52,018 | 417,460 | 18,145 | 8,873 | 4.3 | 49 | 2,479 | 1,611 |

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| | | | | | | | | |
|---------------------------------|--------|---------|--------|--------|------|-----|-------|-------|
| Non-Core | 709 | 88,710 | 24,581 | 11,850 | 27.7 | 48 | 3,108 | 1,409 |
| Group | 52,727 | 506,170 | 42,726 | 20,723 | 8.4 | 49 | 5,587 | 3,020 |
| Total including disposal groups | 52,822 | 507,899 | 42,752 | 20,741 | 8.4 | 49 | 5,587 | 3,020 |
| 31 December 2010 | | | | | | | | |
| UK Retail | 408 | 108,405 | 4,620 | 2,741 | 4.3 | 59 | 1,160 | 1,135 |
| UK Corporate Wealth | 72 | 111,672 | 3,967 | 1,732 | 3.6 | 44 | 761 | 349 |
| Global Transaction Services | 2,220 | 16,130 | 223 | 66 | 1.4 | 30 | 18 | 9 |
| Ulster Bank | 3,047 | 14,437 | 146 | 147 | 1.0 | 101 | 8 | 49 |
| US Retail & Commercial | 2,928 | 36,858 | 3,619 | 1,633 | 9.8 | 45 | 1,161 | 48 |
| Retail & Commercial | 145 | 48,516 | 913 | 505 | 1.9 | 55 | 483 | 547 |
| Global Banking & Markets | 8,820 | 336,018 | 13,488 | 6,824 | 4.0 | 51 | 3,591 | 2,137 |
| RBS Insurance and other | 46,073 | 75,981 | 1,719 | 1,042 | 2.3 | 61 | 146 | 87 |
| Core | 2,140 | 601 | - | - | - | - | - | - |
| Non-Core | 57,033 | 412,600 | 15,207 | 7,866 | 3.7 | 52 | 3,737 | 2,224 |
| Group | 1,003 | 108,203 | 23,391 | 10,316 | 21.6 | 44 | 5,407 | 3,818 |
| Total including disposal groups | 58,036 | 520,803 | 38,598 | 18,182 | 7.4 | 47 | 9,144 | 6,042 |
| Total including disposal groups | 58,687 | 525,852 | 38,651 | 18,218 | 7.3 | 47 | 9,144 | 6,042 |

Risk and balance sheet management (continued)

Risk management: Credit risk: Risk elements in lending

The tables below details the movement in REIL for the year ended 31 December 2011.

| | Impaired loans | | | Other loans (1) | | | REIL | | |
|--|----------------|----------|---------|-----------------|----------|-------|---------|----------|---------|
| | Core | Non-Core | Total | Core | Non-Core | Total | Core | Non-Core | Total |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| At 1 January 2011 | 13,511 | 22,190 | 35,701 | 1,696 | 1,201 | 2,897 | 15,207 | 23,391 | 38,598 |
| Transfers to disposal groups | (1,287) | - | (1,287) | (238) | - | (238) | (1,525) | - | (1,525) |
| Intra-group transfers | 300 | (300) | - | 149 | (149) | - | 449 | (449) | - |
| Currency translation and other adjustments | (158) | (496) | (654) | (14) | - | (14) | (172) | (496) | (668) |
| Additions | 8,379 | 8,698 | 17,077 | 2,585 | 1,059 | 3,644 | 10,964 | 9,757 | 20,721 |

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| | | | | | | | | | |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|----------|
| Transfers | 645 | 381 | 1,026 | (362) | (352) | (714) | 283 | 29 | 312 |
| Disposals and restructurings | (407) | (1,470) | (1,877) | (9) | (97) | (106) | (416) | (1,567) | (1,983) |
| Repayments | (3,540) | (3,172) | (6,712) | (2,251) | (1,120) | (3,371) | (5,791) | (4,292) | (10,083) |
| Amounts written-off | (2,137) | (2,390) | (4,527) | - | - | - | (2,137) | (2,390) | (4,527) |

At 31 December

| | | | | | | | | | |
|------|--------|--------|--------|-------|-----|-------|--------|--------|--------|
| 2011 | 15,306 | 23,441 | 38,747 | 1,556 | 542 | 2,098 | 16,862 | 23,983 | 40,845 |
|------|--------|--------|--------|-------|-----|-------|--------|--------|--------|

| | Impaired loans | | | Other loans (1) | | | REIL | | |
|--|----------------|----------|---------|-----------------|----------|---------|---------|----------|---------|
| | Core | Non-Core | Total | Core | Non-Core | Total | Core | Non-Core | Total |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| At 1 January 2011 | 13,511 | 22,190 | 35,701 | 1,696 | 1,201 | 2,897 | 15,207 | 23,391 | 38,598 |
| Intra-group transfers | 300 | (300) | - | 81 | (81) | - | 381 | (381) | - |
| Currency translation and other adjustments | - | (167) | (167) | (5) | (3) | (8) | (5) | (170) | (175) |
| Additions | 6,261 | 6,910 | 13,171 | 2,143 | 827 | 2,970 | 8,404 | 7,737 | 16,141 |
| Transfers | 400 | 312 | 712 | (217) | (235) | (452) | 183 | 77 | 260 |
| Disposals and restructurings | (373) | (1,206) | (1,579) | (9) | (97) | (106) | (382) | (1,303) | (1,685) |
| Repayments | (2,571) | (2,585) | (5,156) | (1,461) | (776) | (2,237) | (4,032) | (3,361) | (7,393) |
| Amounts written-off | (1,611) | (1,409) | (3,020) | - | - | - | (1,611) | (1,409) | (3,020) |

At 30 September

| | | | | | | | | | |
|--|---------|--------|---------|-------|-------|---------|---------|--------|---------|
| 2011 | 15,917 | 23,745 | 39,662 | 2,228 | 836 | 3,064 | 18,145 | 24,581 | 42,726 |
| Transfers to disposal groups | (1,287) | - | (1,287) | (238) | - | (238) | (1,525) | - | (1,525) |
| Intra-group transfers | - | - | - | 68 | (68) | - | 68 | (68) | - |
| Currency translation and other adjustments | (158) | (329) | (487) | (9) | 3 | (6) | (167) | (326) | (493) |
| Additions | 2,118 | 1,788 | 3,906 | 442 | 232 | 674 | 2,560 | 2,020 | 4,580 |
| Transfers | 245 | 69 | 314 | (145) | (117) | (262) | 100 | (48) | 52 |
| Disposals and restructurings | (34) | (264) | (298) | | | | (34) | (264) | (298) |
| Repayments | (969) | (587) | (1,556) | (790) | (344) | (1,134) | (1,759) | (931) | (2,690) |
| Amounts written-off | (526) | (981) | (1,507) | - | - | - | (526) | (981) | (1,507) |

At 31 December

| | | | | | | | | | |
|------|--------|--------|--------|-------|-----|-------|--------|--------|--------|
| 2011 | 15,306 | 23,441 | 38,747 | 1,556 | 542 | 2,098 | 16,862 | 23,983 | 40,845 |
|------|--------|--------|--------|-------|-----|-------|--------|--------|--------|

Note:

(1) Accruing loans past due 90 days or more.

Risk and balance sheet management (continued)

Risk management: Credit risk: Impairment provisions

Movement in loan impairment provisions

The following tables show the movement in impairment provisions for loans and advances to banks and customers.

| | Year ended | | | | | | | |
|--|------------------|--------------------|-----------------|-------------|------------------|--------------------|-----------------|-------------|
| | 31 December 2011 | | | | 31 December 2010 | | | |
| | Core £m | Non- Core £m | RFS MI £m | Total £m | Core £m | Non- Core £m | RFS MI £m | Total £m |
| At beginning of period | 7,866 | 10,316 | - | 18,182 | 6,921 | 8,252 | 2,110 | 17,283 |
| Transfers to disposal groups | (773) | - | - | (773) | - | (72) | - | (72) |
| Intra-group transfers | 177 | (177) | - | - | (568) | 568 | - | - |
| Currency translation and other adjustments | (76) | (207) | - | (283) | (16) | 59 | - | 43 |
| Disposals | - | - | 8 | 8 | - | (20) | (2,152) | (2,172) |
| Amounts written-off | (2,137) | (2,390) | - | (4,527) | (2,224) | (3,818) | - | (6,042) |
| Recoveries of amounts previously written-off | 167 | 360 | - | 527 | 213 | 198 | - | 411 |
| Charge to income statement | | | | | | | | |
| - continued | 3,403 | 3,838 | - | 7,241 | 3,737 | 5,407 | - | 9,144 |
| - discontinued | - | - | (8) | (8) | - | - | 42 | 42 |
| Unwind of discount | (213) | (271) | - | (484) | (197) | (258) | - | (455) |
| At end of period | 8,414 | 11,469 | - | 19,883 | 7,866 | 10,316 | - | 18,182 |

| | Quarter ended | | | | | | | | | | | |
|--|------------------|--------------------|-----------------|-------------|-------------------|--------------------|-------------|------------------|--------------------|-----------------|-------------|--|
| | 31 December 2011 | | | | 30 September 2011 | | | 31 December 2010 | | | | |
| | Core £m | Non- Core £m | RFS MI £m | Total £m | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | RFS MI £m | Total £m | |
| At beginning of period | 8,873 | 11,850 | - | 20,723 | 8,752 | 12,007 | 20,759 | 7,791 | 9,879 | - | 17,670 | |
| Transfers to disposal groups | (773) | - | - | (773) | - | - | - | - | (5) | - | (5) | |
| Intra-group transfers | - | - | - | - | - | - | - | (217) | 217 | - | - | |
| Currency translation and other adjustments | (75) | (162) | - | (237) | (90) | (285) | (375) | 147 | (235) | - | (88) | |
| Disposals | - | - | (3) | (3) | - | - | - | - | (3) | (3) | (6) | |

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| | | | | | | | | | | | |
|--|-------|--------|---|---------|-------|--------|---------|-------|--------|---|---------|
| Amounts written-off | (526) | (981) | - | (1,507) | (593) | (497) | (1,090) | (745) | (771) | - | (1,516) |
| Recoveries of amounts previously written-off | 48 | 99 | - | 147 | 39 | 55 | 94 | 29 | 67 | - | 96 |
| Charge to income statement | | | | | | | | | | | |
| - continued | 924 | 730 | - | 1,654 | 817 | 635 | 1,452 | 912 | 1,243 | - | 2,155 |
| - discontinued | - | - | 3 | 3 | - | - | - | - | - | 3 | 3 |
| Unwind of discount | (57) | (67) | - | (124) | (52) | (65) | (117) | (51) | (76) | - | (127) |
| At end of period | 8,414 | 11,469 | - | 19,883 | 8,873 | 11,850 | 20,723 | 7,866 | 10,316 | - | 18,182 |

Key points

- Impairment provisions excluding £0.8 billion relating to disposal groups increased by £1.7 billion during 2011.
- Ulster Bank Group's provisions increased by £3.1 billion during the year (Core - £1.1 billion; Non-Core - £2.0 billion), with REIL coverage increasing to 53% (Core - 50%; Non-Core - 54%) from 44% at the end of 2010, predominantly reflecting the deterioration in value of the commercial real estate development portfolio.

Risk and balance sheet management (continued)

Risk management: Credit risk: Impairment provisions (continued)

Movement in loan impairment provisions (continued)

The following table analyses impairment provisions in respect of loans and advances to banks and customers.

| | 31 December 2011 | | | 30 September 2011 | | | 31 December 2010 | | |
|-----------------------|------------------|--------------------|-------------|-------------------|--------------------|-------------|------------------|--------------------|-------------|
| | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m |
| Latent loss | 1,339 | 647 | 1,986 | 1,516 | 751 | 2,267 | 1,653 | 997 | 2,650 |
| Collectively assessed | 4,279 | 861 | 5,140 | 4,675 | 1,114 | 5,789 | 4,139 | 1,157 | 5,296 |
| Individually assessed | 2,674 | 9,960 | 12,634 | 2,557 | 9,984 | 12,541 | 1,948 | 8,161 | 10,109 |
| Customer loans | 8,292 | 11,468 | 19,760 | 8,748 | 11,849 | 20,597 | 7,740 | 10,315 | 18,055 |
| Bank loans | 122 | 1 | 123 | 125 | 1 | 126 | 126 | 1 | 127 |
| Total provisions | 8,414 | 11,469 | 19,883 | 8,873 | 11,850 | 20,723 | 7,866 | 10,316 | 18,182 |
| % of loans (1) | 2.2% | 14.4% | 4.2% | 2.1% | 13.2% | 4.1% | 1.9% | 9.1% | 3.4% |

Note:

- (1) Customer provisions as a percentage of gross loans and advances to customers including assets of disposal groups and excluding reverse repos.

Impairment charge

The following table analyses the impairment charge for loans and securities.

| | 31 December 2011 | | | | Year ended | | | 31 December 2010 | | | |
|--|------------------|-------|----------|-------|------------|-------|-------|------------------|----|----------|-------|
| | Core | | Non-Core | | RFS | | Total | Core | | Non-Core | Total |
| | £m | £m | £m | £m | £m | £m | | £m | £m | £m | |
| Latent loss | (252) | (293) | - | (545) | (5) | (116) | (121) | | | | |
| Collectively assessed | 2,075 | 516 | - | 2,591 | 2,258 | 812 | 3,070 | | | | |
| Individually assessed | 1,580 | 3,615 | - | 5,195 | 1,489 | 4,719 | 6,208 | | | | |
| Customer loans | 3,403 | 3,838 | - | 7,241 | 3,742 | 5,415 | 9,157 | | | | |
| Bank loans | - | - | - | - | (5) | (8) | (13) | | | | |
| Securities - sovereign debt impairment and related interest rate hedge adjustments | 1,268 | - | - | 1,268 | - | - | - | | | | |
| Securities - other | 117 | 81 | 2 | 200 | 44 | 68 | 112 | | | | |
| Charge to income statement | 4,788 | 3,919 | 2 | 8,709 | 3,781 | 5,475 | 9,256 | | | | |
| Charge relating to customer loans as a % of gross customer loans (1) | 0.8% | 4.8% | - | 1.5% | 0.9% | 4.9% | 1.7% | | | | |

Risk and balance sheet management (continued)

Risk management: Credit risk: Impairment charge (continued)

| | 31 December 2011 | | | | Quarter ended | | | 31 December 2010 | | | |
|-----------------------|------------------|-------|----------|-------|---------------|------|-------|------------------|-------|----------|-------|
| | Core | | Non-Core | | RFS | | Total | Core | | Non-Core | Total |
| | £m | £m | £m | £m | £m | £m | | £m | £m | £m | |
| Latent loss | (87) | (103) | - | (190) | (33) | (27) | (60) | (68) | (48) | (116) | |
| Collectively assessed | 478 | 113 | - | 591 | 548 | 141 | 689 | 559 | 170 | 729 | |
| Individually assessed | 533 | 720 | - | 1,253 | 302 | 521 | 823 | 426 | 1,129 | 1,555 | |

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| | | | | | | | | | | |
|--|-------|------|---|-------|-------|------|-------|------|-------|-------|
| Customer loans | 924 | 730 | - | 1,654 | 817 | 635 | 1,452 | 917 | 1,251 | 2,168 |
| Bank loans | - | - | - | - | - | - | - | (5) | (8) | (13) |
| Securities - sovereign debt impairment and related interest rate hedge adjustments | 224 | - | - | 224 | 202 | - | 202 | - | - | - |
| Securities - other | 17 | 21 | 2 | 40 | 37 | 47 | 84 | 19 | (33) | (14) |
| Charge to income statement | 1,165 | 751 | 2 | 1,918 | 1,056 | 682 | 1,738 | 931 | 1,210 | 2,141 |
| Charge relating to customer loans as a % of gross customer loans (1) | 0.9% | 3.7% | - | 1.3% | 0.8% | 2.8% | 1.1% | 0.9% | 4.4% | 1.6% |

Note:

- (1) Customer loan impairment charge as a percentage of gross loans and advances to customers including assets of disposal groups and excluding reverse purchase agreements.

Key points

- The impairment charge, excluding securities, decreased by £1.9 billion or 21% compared with 2010, driven largely by a £1.6 billion reduction in Non-Core, despite continuing challenges in Ulster Bank and corporate real estate portfolios.
- The Group's customer loan impairment charge as a percentage of loans and advances was 1.5% compared with 1.7% for 2010.
- The securities impairment in 2011 primarily reflects an impairment charge of £1.3 billion in respect of the Group's holdings of Greek sovereign bonds and related interest rate hedges.

Risk and balance sheet management (continued)

Risk management: Restructuring and forbearance

Wholesale loan restructuring

The total amount of wholesale restructurings that achieved legal completion in 2011 was £8.6 billion. In addition, a further £14.7 billion was in the process of being completed at 31 December 2011. Restructured loans, related internal asset quality bands, sector breakdown and types of restructuring are set out below.

| | | |
|------------------|----------------|-------------------------------|
| 31 December 2011 | AQ1-AQ9 (1) | AQ10 AQ10 (2) (2)Provision |
|------------------|----------------|-------------------------------|

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| | £m | £m | coverage % |
|------------------------------------|-------|-------|---------------|
| Wholesale restructurings by sector | | | |
| Property | 1,980 | 2,600 | 18 |
| Transport | 686 | 694 | 11 |
| Non-bank financial institutions | 228 | 420 | 65 |
| Retail and leisure | 503 | 148 | 24 |
| Other | 1,078 | 251 | 28 |
| Total | 4,475 | 4,113 | 22 |

Notes:

- (1) Probability of default less than 100%.
- (2) Probability of default is 100%.

The incidence of the main types of restructuring is analysed below.

| | Loans by value % |
|--|------------------------|
| 31 December 2011 | |
| Wholesale restructurings by type of arrangement | |
| Variation in margin | 12 |
| Payment holidays and loan rescheduling | 87 |
| Forgiveness of all or part of the outstanding debt | 31 |
| Other | 8 |

Note:

- (1) The total above exceeds 100% as an individual case can involve more than one type of arrangement.

Risk and balance sheet management (continued)

Risk management: Credit risk: Restructuring and forbearance (continued)

Retail forbearance

Retail mortgage accounts in forbearance arrangements at 31 December 2011 totalled £6.6 billion. The mortgage arrears information for retail accounts in forbearance and related provision arrangements are shown in the table below.

| | No missed payments | | 1-3 months in arrears | | >3 months in arrears | | Total | | Accounts forborne |
|------------------|--------------------|-----------|-----------------------|-----------|----------------------|-----------|---------|-----------|-------------------|
| | Balance | Provision | Balance | Provision | Balance | Provision | Balance | Provision | |
| 31 December 2011 | £m | £m | £m | £m | £m | £m | £m | £m | % |

| | | | | | | | | | |
|-------------------------------------|-------|----|-----|----|-----|-----|-------|-----|-----|
| Arrears status and provisions | | | | | | | | | |
| UK Retail | | | | | | | | | |
| (1,2) | 3,677 | 16 | 351 | 13 | 407 | 59 | 4,435 | 88 | 4.7 |
| Ulster Bank | | | | | | | | | |
| (1,2) | 893 | 78 | 516 | 45 | 421 | 124 | 1,830 | 247 | 9.1 |
| Citizens | - | - | 91 | 10 | 89 | 10 | 180 | 20 | 0.8 |
| Wealth | 121 | - | - | - | 2 | - | 123 | - | 1.3 |
| Total | 4,691 | 94 | 958 | 68 | 919 | 193 | 6,568 | 355 | 4.4 |

Notes:

- (1) Includes all forbearance arrangements regardless of whether or not the customer is experiencing financial difficulty.
- (2) Comprises the current stock position of forbearance deals agreed since January 2008 for UK Retail and since July 2008 for Ulster Bank.
- (3) Refer to page 173 for details of the proportion of UK Retail and Citizens mortgage loans that have missed three or more payments, compared to the forbearance population above.

| | UK Retail (1) £m | Ulster Bank £m | Citizens £m | Wealth £m | Total (2) £m |
|--|------------------------|----------------------|----------------|--------------|-----------------|
| 31 December 2011 | | | | | |
| Forbearance arrangements | | | | | |
| Interest only conversions | 1,269 | 795 | - | 3 | 2,067 |
| Term extensions - capital repayment and interest only | 1,805 | 58 | - | 97 | 1,960 |
| Payment concessions/holidays | 198 | 876 | 180 | - | 1,254 |
| Capitalisation of arrears | 864 | 101 | - | - | 965 |
| Other | 517 | - | - | 23 | 540 |
| Total | 4,653 | 1,830 | 180 | 123 | 6,786 |

Notes:

- (1) For unsecured portfolios in UK Retail, 1.1% of the total unsecured population was subject to forbearance at 31 December 2011.
- (2) As an individual case can include more than one type of arrangement, the analysis in the table on forbearance arrangements exceeds the total forbearance.

Risk and balance sheet management (continued)

Risk management: Credit risk: Debt securities

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The table below analyses debt securities by issuer and measurement classification. The categorisation of debt securities has been revised to include asset-backed securities (ABS) by class of issuer. The main changes are to US central and local government which includes US federal agencies, and financial institutions which now includes US government sponsored agencies and securitisation entities. 2010 data are presented on the revised basis.

| | Central and local government | | | Banks £m | Other financial institutions £m | | Corporate £m | Total £m | Of which ABS £m |
|--------------------------------|------------------------------|----------|-------------|-------------|--|---------|-----------------|-------------|--------------------------|
| | UK £m | US £m | Other £m | | | | | | |
| 31 December 2011 | | | | | | | | | |
| Held-for-trading | 9,004 | 19,636 | 36,928 | 3,400 | 23,160 | 2,948 | 95,076 | 20,816 | |
| Designated as at fair value | 1 | - | 127 | 53 | 457 | 9 | 647 | 558 | |
| Available-for-sale | 13,436 | 20,848 | 25,552 | 13,175 | 31,752 | 2,535 | 107,298 | 40,735 | |
| Loans and receivables | 10 | - | 1 | 312 | 5,259 | 477 | 6,059 | 5,200 | |
| Long positions | 22,451 | 40,484 | 62,608 | 16,940 | 60,628 | 5,969 | 209,080 | 67,309 | |
| Of which US agencies | - | 4,896 | - | - | 25,924 | - | 30,820 | 28,558 | |
| Short positions (HFT) | (3,098) | (10,661) | (19,136) | (2,556) | (2,854) | (754) | (39,059) | (352) | |
| Available-for-sale | | | | | | | | | |
| Gross unrealised gains | 1,428 | 1,311 | 1,180 | 52 | 913 | 94 | 4,978 | 1,001 | |
| Gross unrealised losses | - | - | (171) | (838) | (2,386) | (13) | (3,408) | (3,158) | |
| 30 September 2011 | | | | | | | | | |
| Held-for-trading | 8,434 | 20,120 | 47,621 | 4,216 | 27,511 | 4,666 | 112,568 | 24,123 | |
| Designated as at fair value | 1 | - | 140 | 4 | 7 | 10 | 162 | 1 | |
| Available-for-sale | 13,328 | 20,032 | 28,976 | 17,268 | 28,463 | 2,334 | 110,401 | 41,091 | |
| Loans and receivables | 10 | - | - | 274 | 5,764 | 478 | 6,526 | 5,447 | |
| Long positions | 21,773 | 40,152 | 76,737 | 21,762 | 61,745 | 7,488 | 229,657 | 70,662 | |
| Of which US agencies | - | 5,311 | - | - | 27,931 | - | 33,242 | 30,272 | |
| Short positions (HFT) | (2,896) | (12,763) | (21,484) | (2,043) | (4,437) | (1,680) | (45,303) | (895) | |
| Available-for-sale | | | | | | | | | |

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| | | | | | | | | |
|-------------------------|-------|-------|-------|---------|---------|------|---------|---------|
| Gross unrealised gains | 1,090 | 1,240 | 1,331 | 310 | 1,117 | 81 | 5,169 | 1,242 |
| Gross unrealised losses | - | - | (124) | (1,039) | (2,371) | (24) | (3,558) | (3,114) |

Risk and balance sheet management (continued)

Risk management: Credit risk: Debt securities (continued)

| | Central and local government | | | Banks | Other financial institutions | | Corporate | Total | Of which ABS |
|-----------------------------|------------------------------|----------|----------|---------|------------------------------|---------|-----------|---------|--------------|
| | UK | US | Other | | £m | £m | | | |
| 31 December 2010 | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Held-for-trading | 5,097 | 15,648 | 42,828 | 5,486 | 23,711 | 6,099 | 98,869 | 21,988 | |
| Designated as at fair value | 1 | 117 | 262 | 4 | 8 | 10 | 402 | 119 | |
| Available-for-sale | 8,377 | 22,244 | 32,865 | 16,982 | 29,148 | 1,514 | 111,130 | 42,515 | |
| Loans and receivables | 11 | - | - | 1 | 6,686 | 381 | 7,079 | 6,203 | |
| Long positions | 13,486 | 38,009 | 75,955 | 22,473 | 59,553 | 8,004 | 217,480 | 70,825 | |
| Of which US agencies | - | 6,811 | - | - | 21,686 | - | 28,497 | 25,375 | |
| Short positions (HFT) | (4,200) | (10,943) | (18,913) | (1,844) | (3,356) | (1,761) | (41,017) | (1,335) | |
| Available-for-sale | | | | | | | | | |
| Gross unrealised gains | 349 | 525 | 700 | 143 | 827 | 51 | 2,595 | 1,057 | |
| Gross unrealised losses | (10) | (2) | (618) | (786) | (2,626) | (55) | (4,097) | (3,396) | |

Key points

- Held-for-trading debt securities decreased by £3.8 billion during the year due to a reduction in trading volumes. A managed reduction in sovereign exposures in the eurozone and other countries, in response to the current economic environment, was offset by an increase in UK and US government bonds.
- The Group's available-for-sale portfolio decreased by £3.8 billion. An increase in UK government bonds of £5.1 billion, principally in Group Treasury partially offset reductions in holdings of securities issued by other central and local governments and banks.

The table below analyses available-for-sale debt securities and related reserves, gross of tax.

| | 31 December 2011 | | | | 31 December 2010 | | | |
|----------------------|------------------|----------|-----------------|-------------|------------------|----------|-----------------|-------------|
| | US £m | UK £m | Other (1) £m | Total £m | US £m | UK £m | Other (1) £m | Total £m |
| Central and local | | | | | | | | |
| Government | 20,848 | 13,436 | 25,552 | 59,836 | 22,244 | 8,377 | 32,865 | 63,486 |
| Banks | 376 | 1,391 | 11,408 | 13,175 | 704 | 4,297 | 11,981 | 16,982 |
| Other financial | | | | | | | | |
| institutions | 17,453 | 3,100 | 11,199 | 31,752 | 15,973 | 1,662 | 11,513 | 29,148 |
| Corporate | 131 | 1,105 | 1,299 | 2,535 | 65 | 438 | 1,011 | 1,514 |
| Total | 38,808 | 19,032 | 49,458 | 107,298 | 38,986 | 14,774 | 57,370 | 111,130 |
| Of which ABS | 20,256 | 3,659 | 16,820 | 40,735 | 20,872 | 4,002 | 17,641 | 42,515 |
| AFS reserves (gross) | 486 | 845 | (1,815) | (484) | (304) | 158 | (2,559) | (2,705) |

Note:

(1) Includes eurozone countries that are detailed on pages 186 to 203.

Risk and balance sheet management (continued)

Risk management: Credit risk: Debt securities (continued)

The table below analyses debt securities by issuer and external ratings. Ratings are based on the lowest of S&P, Moody's and Fitch.

| | Central and local government | | | | Other financial | | | Total | % of total | Of which ABS |
|----------------------|------------------------------|--------|--------|--------|-----------------|-----------|---------|-------|------------|--------------|
| | UK | US | Other | Banks | institutions | Corporate | | | | |
| 31 December 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m | |
| AAA | 22,451 | 45 | 32,522 | 5,155 | 15,908 | 452 | 76,533 | 37 | 17,156 | |
| AA to AA+ | - | 40,435 | 2,000 | 2,497 | 30,403 | 639 | 75,974 | 36 | 33,615 | |
| A to AA- | - | 1 | 24,966 | 6,387 | 4,979 | 1,746 | 38,079 | 18 | 6,331 | |
| BBB- to A- | - | - | 2,194 | 2,287 | 2,916 | 1,446 | 8,843 | 4 | 4,480 | |
| Non-investment grade | - | - | 924 | 575 | 5,042 | 1,275 | 7,816 | 4 | 4,492 | |
| Unrated | - | 3 | 2 | 39 | 1,380 | 411 | 1,835 | 1 | 1,235 | |
| | 22,451 | 40,484 | 62,608 | 16,940 | 60,628 | 5,969 | 209,080 | 100 | 67,309 | |

30 September 2011

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| | | | | | | | | | |
|----------------------|--------|--------|--------|--------|--------|-------|---------|-----|--------|
| AAA | 21,773 | 27 | 43,712 | 9,363 | 14,120 | 553 | 89,548 | 39 | 18,771 |
| AA to AA+ | - | 40,094 | 4,247 | 4,279 | 31,785 | 661 | 81,066 | 35 | 35,954 |
| A to AA- | - | 9 | 25,043 | 5,087 | 4,783 | 1,894 | 36,816 | 16 | 5,670 |
| BBB- to A- | - | - | 2,460 | 2,032 | 3,873 | 2,104 | 10,469 | 5 | 4,431 |
| Non-investment grade | - | - | 1,242 | 709 | 5,242 | 1,778 | 8,971 | 4 | 4,619 |
| Unrated | - | 22 | 33 | 292 | 1,942 | 498 | 2,787 | 1 | 1,217 |
| | 21,773 | 40,152 | 76,737 | 21,762 | 61,745 | 7,488 | 229,657 | 100 | 70,662 |

31 December
2010

| | | | | | | | | | |
|----------------------|--------|--------|--------|--------|--------|-------|---------|-----|--------|
| AAA | 13,486 | 38,009 | 44,123 | 10,704 | 39,388 | 878 | 146,588 | 67 | 51,235 |
| AA to AA+ | - | - | 18,025 | 3,511 | 6,023 | 616 | 28,175 | 13 | 6,335 |
| A to AA- | - | - | 9,138 | 4,926 | 2,656 | 1,155 | 17,875 | 8 | 3,244 |
| BBB- to A- | - | - | 2,845 | 1,324 | 3,412 | 2,005 | 9,586 | 5 | 3,385 |
| Non-investment grade | - | - | 1,770 | 1,528 | 5,522 | 2,425 | 11,245 | 5 | 4,923 |
| Unrated | - | - | 54 | 480 | 2,552 | 925 | 4,011 | 2 | 1,703 |
| | 13,486 | 38,009 | 75,955 | 22,473 | 59,553 | 8,004 | 217,480 | 100 | 70,825 |

Key points

- The decrease in AAA rated debt securities relates to the downgrading of US government and agencies to AA+ by S&P during the year.
- The proportion of debt securities rated A to AA- increased to 18%, principally reflecting the Japanese government downgrade in 2011.
- Non-investment grade and unrated debt securities now account for 5% of the debt securities portfolio, down from 7% at the start of the year.

Risk and balance sheet management (continued)

Risk management: Credit risk: Asset-backed securities

| | RMBS (1) | | | | MBS | | | | ABS | | Total |
|------------------|-------------------------------------|-------|----------------|-----------|--------------|----------|----------|----------|---------------|-----------|--------|
| | Government sponsored or similar (2) | Prime | Non-conforming | Sub-prime | covered bond | CMBS (3) | CDOs (4) | CLOs (5) | covered bonds | ABS other | |
| 31 December 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| AAA | 4,169 | 3,599 | 1,488 | 105 | 2,595 | 647 | 135 | 2,171 | 625 | 1,622 | 17,156 |
| AA to AA+ | 29,252 | 669 | 106 | 60 | 379 | 710 | 35 | 1,533 | 321 | 550 | 33,615 |
| A to AA- | 131 | 506 | 110 | 104 | 2,567 | 1,230 | 161 | 697 | 100 | 725 | 6,331 |
| BBB- to A- | - | 39 | 288 | 93 | 1,979 | 333 | 86 | 341 | - | 1,321 | 4,480 |

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| | | | | | | | | | | | |
|----------------------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| Non-investment grade | 21 | 784 | 658 | 396 | - | 415 | 1,370 | 176 | - | 672 | 4,492 |
| Unrated | - | 148 | 29 | 146 | - | 56 | 170 | 423 | - | 263 | 1,235 |
| | 33,573 | 5,745 | 2,679 | 904 | 7,520 | 3,391 | 1,957 | 5,341 | 1,046 | 5,153 | 67,309 |
| Of which in Non-Core | - | 837 | 477 | 308 | - | 830 | 1,656 | 4,227 | - | 1,861 | 10,196 |
| 30 September 2011 | | | | | | | | | | | |
| AAA | 4,391 | 4,152 | 1,509 | 144 | 3,462 | 893 | 194 | 2,198 | 651 | 1,177 | 18,771 |
| AA to AA+ | 31,037 | 117 | 111 | 97 | 1,162 | 839 | 125 | 1,496 | 407 | 563 | 35,954 |
| A to AA- | 137 | 603 | 124 | 175 | 1,680 | 1,326 | 166 | 569 | 367 | 523 | 5,670 |
| BBB- to A- | - | 147 | 295 | 59 | 1,553 | 383 | 92 | 601 | - | 1,301 | 4,431 |
| Non-investment grade | - | 768 | 676 | 486 | - | 327 | 1,516 | 170 | - | 676 | 4,619 |
| Unrated | - | 146 | 47 | 213 | - | 67 | 134 | 331 | - | 279 | 1,217 |
| | 35,565 | 5,933 | 2,762 | 1,174 | 7,857 | 3,835 | 2,227 | 5,365 | 1,425 | 4,519 | 70,662 |
| Of which in Non-Core | - | 269 | 463 | 276 | - | 1,158 | 1,953 | 4,698 | - | 1,976 | 10,793 |

For the notes to this table refer to page 161.

Risk and balance sheet management (continued)

Risk management: Credit risk: Asset-backed securities (continued)

| | RMBS (1) | | | | MBS | | | ABS | | | Total |
|----------------------|-------------------------------------|-------|----------------|-----------|--------------|----------|----------|----------|---------------|-----------|--------|
| | Government sponsored or similar (2) | Prime | Non-conforming | Sub-prime | covered bond | CMBS (3) | CDOs (4) | CLOs (5) | covered bonds | ABS other | |
| 31 December 2010 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| AAA | 28,835 | 4,355 | 1,754 | 317 | 7,107 | 2,789 | 444 | 2,490 | 989 | 2,155 | 51,235 |
| AA to AA+ | 1,529 | 147 | 144 | 116 | 357 | 392 | 567 | 1,786 | 681 | 616 | 6,335 |
| A to AA- | - | 67 | 60 | 212 | 408 | 973 | 296 | 343 | 190 | 695 | 3,244 |
| BBB- to A- | - | 82 | 316 | 39 | - | 500 | 203 | 527 | - | 1,718 | 3,385 |
| Non-investment grade | - | 900 | 809 | 458 | - | 296 | 1,863 | 332 | - | 265 | 4,923 |
| Unrated | - | 196 | 52 | 76 | - | - | 85 | 596 | - | 698 | 1,703 |
| | 30,364 | 5,747 | 3,135 | 1,218 | 7,872 | 4,950 | 3,458 | 6,074 | 1,860 | 6,141 | 70,825 |
| Of which in Non-Core | - | 81 | 336 | 379 | - | 1,278 | 3,159 | 5,094 | - | 2,386 | 12,713 |

Notes:

- (1) Residential mortgage-backed securities.
- (2) Includes US agency and Dutch government guaranteed securities.
- (3) Commercial mortgage-backed securities.
- (4) Collateralised debt obligations.
- (5) Collateralised loan obligations.

For analyses of ABS by geography and measurement classification, refer to Appendix 3.

Key points

- Carrying value of total ABS decreased by £3.5 billion during 2011. US government sponsored RMBS of £3.6 billion, reflecting a move towards G10 government generally, partially off-set by decrease in European exposure. There were reductions across all other portfolios.
- The decrease in AAA rated debt securities mainly relates to the downgrading of US government and agencies to AA+ by S&P during the year.
- CDOs and CLOs decreased by £2.2 billion principally reflecting asset reductions in Non-Core.
- The decrease in CMBS of £1.6 billion, primarily reflecting restructuring of monoline exposures.
- The average mark on total ABS was 83%, broadly the same as 2010 and 2009.

Risk and balance sheet management (continued)

Risk management: Credit risk: Derivatives

The Group's derivative assets by internal grading scale and residual maturity are analysed below. Master netting arrangements in respect of mark-to-market (mtm) positions and collateral shown below do not result in a net presentation in the Group's balance sheet under IFRS.

| Asset quality | Probability of default range | 31 December 2011 | | | | | Total £m | 30 | 31 |
|---------------|------------------------------|---------------------|---------------------|----------------------|--------------------|-----------------------|-------------|----------------------------------|---------------------------------|
| | | 0-3 months £m | 3-6 months £m | 6-12 months £m | 1-5 years £m | Over 5 years £m | | September 2011 Total £m | December 2010 Total £m |
| AQ1 | 0% - 0.034% | 24,580 | 10,957 | 17,178 | 126,107 | 302,800 | 481,622 | 517,097 | 408,489 |
| AQ2 | 0.034% - 0.048% | 326 | 236 | 431 | 2,046 | 5,138 | 8,177 | 7,265 | 2,659 |
| AQ3 | 0.048% - 0.095% | 975 | 390 | 459 | 2,811 | 6,184 | 10,819 | 14,523 | 3,317 |
| AQ4 | 0.095% - 0.381% | 1,465 | 782 | 713 | 4,093 | 7,368 | 14,421 | 10,405 | 3,391 |
| AQ5 | 0.381% - 1.076% | 890 | 93 | 219 | 1,787 | 3,527 | 6,516 | 13,709 | 4,860 |
| AQ6 | 1.076% - 2.153% | 121 | 30 | 81 | 803 | 1,186 | 2,221 | 2,471 | 1,070 |
| AQ7 | 2.153% - 6.089% | 101 | 29 | 56 | 1,674 | 533 | 2,393 | 3,368 | 857 |
| AQ8 | 6.089% - 17.222% | 16 | 21 | 11 | 143 | 1,061 | 1,252 | 1,174 | 403 |
| AQ9 | 17.222% - 100% | 5 | 8 | 7 | 254 | 876 | 1,150 | 1,140 | 450 |
| AQ10 | 100% | 13 | 20 | 35 | 658 | 321 | 1,047 | 1,192 | 1,581 |

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| | | | | | | | | |
|---|--------|--------|--------|---------|---------|-----------|-----------|-----------|
| | 28,492 | 12,566 | 19,190 | 140,376 | 328,994 | 529,618 | 572,344 | 427,077 |
| Counterparty mtm netting | | | | | | (441,626) | (473,256) | (330,397) |
| Cash collateral held against derivative exposures | | | | | | (37,222) | (38,202) | (31,096) |
| Net exposure | | | | | | 50,770 | 60,886 | 65,584 |

At 31 December 2011, the Group also held collateral in the form of securities of £5.3 billion (30 September 2011 - £5.5 billion; 31 December 2010 - £2.9 billion) against derivative positions.

The table below analyses the fair value of the Group's derivatives by type of contract.

| Contract type | 31 December 2011 | | | 30 September 2011 | | | 31 December 2010 | | |
|----------------------|------------------|--------------|-------------------|-------------------|--------------|-------------------|------------------|--------------|-------------------|
| | Notional £bn | Assets £m | Liabilities £m | Notional £bn | Assets £m | Liabilities £m | Notional £bn | Assets £m | Liabilities £m |
| Interest rate | 38,722 | 422,156 | 406,709 | 42,732 | 424,130 | 407,814 | 39,760 | 311,731 | 299,209 |
| Exchange rate | 4,479 | 74,492 | 80,980 | 5,329 | 107,024 | 112,184 | 4,854 | 83,253 | 89,375 |
| Credit derivatives | 1,054 | 26,836 | 26,743 | 1,343 | 33,884 | 31,574 | 1,357 | 26,872 | 25,344 |
| Equity and commodity | 123 | 6,134 | 9,551 | 120 | 7,306 | 10,218 | 179 | 5,221 | 10,039 |
| | | 529,618 | 523,983 | | 572,344 | 561,790 | | 427,077 | 423,967 |

Risk and balance sheet management (continued)

Risk management: Credit risk: Derivatives (continued)

Key points

31 December 2011 compared with 31 December 2010

- Net exposure declined by 23%, despite an increase in derivative carrying values, primarily due to the increased use of netting arrangements.
- Interest rate contracts increased due to continued reductions in interest rate yields and the depreciation of sterling against the US dollar. This was partially offset by the appreciation of sterling against the euro.
- Exchange rate contracts decreased due to a reduction in trade volumes and the appreciation of sterling against the euro. This was partially offset by the depreciation of sterling against the US dollar.

Credit derivatives remained flat as the increase from the widening of credit spreads and the depreciation of sterling against the US dollar was offset by a reduction in trade volume.

31 December 2011 compared with 30 September 2011

- Net exposure, after taking account of position and collateral netting arrangements, decreased by 17% due to lower derivative fair values, primarily driven by market movements.
- Interest rate contract fair values remained flat reflecting the combined effect of exchange rate movements and movements in indices.
- Exchange rate contracts decreased due to a reduction in trade volumes and exchange rate volatilities. The appreciation of sterling against the euro was partially offset by the depreciation of sterling against the US dollar.
- Credit derivative fair values decreased due to a tightening of credit spreads, partially offset by the depreciation of sterling against the US dollar.

Risk and balance sheet management (continued)

Risk management: Credit risk: Derivatives (continued)

The Group's exposures to monolines and credit derivative product companies (CDPCs) by credit rating are summarised below: ratings are based on the lower of S&P and Moody's. All of these exposures are held within Non-Core.

Exposures to monoline insurers

| | Notional: protected assets £m | Fair value: reference protected assets £m | Gross exposure £m | Credit valuation adjustment (CVA) £m | Hedges £m | Net exposure £m |
|-------------------------|--|---|-------------------------|--|--------------|-----------------------|
| 31 December 2011 | | | | | | |
| A to AA- | 4,939 | 4,243 | 696 | 252 | - | 444 |
| Non-investment grade | 3,623 | 2,431 | 1,192 | 946 | 71 | 175 |
| | 8,562 | 6,674 | 1,888 | 1,198 | 71 | 619 |
| Of which: | | | | | | |
| CMBS | 946 | 674 | 272 | 247 | | |
| CDOs | 500 | 57 | 443 | 351 | | |
| CLOs | 4,616 | 4,166 | 450 | 177 | | |
| Other ABS | 1,998 | 1,455 | 543 | 334 | | |
| Other | 502 | 322 | 180 | 89 | | |

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| | | | | | | |
|-------------------------|--------|--------|-------|-------|----|-------|
| | 8,562 | 6,674 | 1,888 | 1,198 | | |
| 30 September 2011 | | | | | | |
| A to AA- | 5,411 | 4,735 | 676 | 259 | - | 417 |
| Non-investment grade | 7,098 | 3,684 | 3,414 | 2,568 | 70 | 776 |
| | 12,509 | 8,419 | 4,090 | 2,827 | 70 | 1,193 |
| Of which: | | | | | | |
| CMBS | 3,954 | 1,879 | 2,075 | 1,599 | | |
| CDOs | 988 | 156 | 832 | 619 | | |
| CLOs | 4,806 | 4,348 | 458 | 183 | | |
| Other ABS | 2,275 | 1,758 | 517 | 309 | | |
| Other | 486 | 278 | 208 | 117 | | |
| | 12,509 | 8,419 | 4,090 | 2,827 | | |
| 31 December 2010 | | | | | | |
| A to AA- | 6,336 | 5,503 | 833 | 272 | - | 561 |
| Non-investment grade | 8,555 | 5,365 | 3,190 | 2,171 | 71 | 948 |
| | 14,891 | 10,868 | 4,023 | 2,443 | 71 | 1,509 |
| Of which: | | | | | | |
| CMBS | 4,149 | 2,424 | 1,725 | 1,253 | | |
| CDOs | 1,133 | 256 | 877 | 593 | | |
| CLOs | 6,724 | 6,121 | 603 | 210 | | |
| Other ABS | 2,393 | 1,779 | 614 | 294 | | |
| Other | 492 | 288 | 204 | 93 | | |
| | 14,891 | 10,868 | 4,023 | 2,443 | | |

Risk and balance sheet management (continued)

Risk management: Credit risk: Derivatives: Exposures to monoline insurers (continued)

Key points

31 December 2011 compared with 31 December 2010

- The exposure to monolines declined, primarily due to the restructuring of some exposures, partially offset by lower prices of underlying reference instruments.
- The CVA decreased in line with the reduction in exposure partially offset by the impact of wider credit spreads.

31 December 2011 compared with 30 September 2011

- The exposure to monolines declined, primarily due to the restructuring of some exposures. The CVA decreased in line with the reduction in exposure.

Exposure to CDPCs

| | Notional: protected assets £m | Fair value: reference protected assets £m | Gross exposure £m | Credit valuation adjustment £m | Net exposure £m |
|----------------------|--|---|-------------------------|---|-----------------------|
| 31 December 2011 | | | | | |
| AAA | 213 | 212 | 1 | - | 1 |
| A to AA- | 646 | 632 | 14 | 3 | 11 |
| Non-investment grade | 19,671 | 18,151 | 1,520 | 788 | 732 |
| Unrated | 3,974 | 3,613 | 361 | 243 | 118 |
| | 24,504 | 22,608 | 1,896 | 1,034 | 862 |
| 30 September 2011 | | | | | |
| AAA | 211 | 209 | 2 | - | 2 |
| A to AA- | 640 | 614 | 26 | 15 | 11 |
| Non-investment grade | 19,294 | 17,507 | 1,787 | 902 | 885 |
| Unrated | 3,985 | 3,552 | 433 | 316 | 117 |
| | 24,130 | 21,882 | 2,248 | 1,233 | 1,015 |
| 31 December 2010 | | | | | |
| AAA | 213 | 212 | 1 | - | 1 |
| A to AA- | 644 | 629 | 15 | 4 | 11 |
| Non-investment grade | 20,066 | 19,050 | 1,016 | 401 | 615 |
| Unrated | 4,165 | 3,953 | 212 | 85 | 127 |
| | 25,088 | 23,844 | 1,244 | 490 | 754 |

Key points

31 December 2011 compared with 31 December 2010

- The exposure to CDPCs increased, primarily driven by wider credit spreads of the underlying reference loans and bonds.
- The CVA increased in line with the increase in exposure.

31 December 2011 compared with 30 September 2011

- The exposure to CDPCs decreased over the period, primarily driven by tighter credit spreads of the underlying reference loans and bonds, together with a decrease in the relative value of senior tranches, compared with the underlying reference portfolios.
- The CVA decreased in line with the decrease in exposure.

Risk and balance sheet management (continued)

Risk management: Credit risk: Commercial real estate

The commercial real estate lending portfolio totalled £74.8 billion at 31 December 2011, a 14% year-on-year decrease (31 December 2010 - £87.4 billion). The commercial real estate sector comprises exposure to entities involved in the development of or investment in commercial and residential properties (including homebuilders). The analysis below excludes rate risk management and contingent obligations.

| By division | 31 December 2011 | | | 31 December 2010 | | |
|-----------------------------|------------------|-------------------|-------------|------------------|-------------------|-------------|
| | Investment £m | Development £m | Total £m | Investment £m | Development £m | Total £m |
| Core | | | | | | |
| UK Corporate | 25,101 | 5,023 | 30,124 | 24,879 | 5,819 | 30,698 |
| Ulster Bank | 3,882 | 881 | 4,763 | 4,284 | 1,090 | 5,374 |
| US Retail & Commercial | 4,235 | 70 | 4,305 | 4,322 | 93 | 4,415 |
| Global Banking & Markets | 1,013 | 360 | 1,373 | 1,131 | 644 | 1,775 |
| | 34,231 | 6,334 | 40,565 | 34,616 | 7,646 | 42,262 |
| Non-Core | | | | | | |
| UK Corporate | 3,957 | 2,020 | 5,977 | 7,591 | 3,263 | 10,854 |
| Ulster Bank | 3,860 | 8,490 | 12,350 | 3,854 | 8,760 | 12,614 |
| US Retail & Commercial | 901 | 28 | 929 | 1,325 | 70 | 1,395 |
| Global Banking & Markets | 14,689 | 336 | 15,025 | 19,906 | 379 | 20,285 |
| | 23,407 | 10,874 | 34,281 | 32,676 | 12,472 | 45,148 |
| Total | 57,638 | 17,208 | 74,846 | 67,292 | 20,118 | 87,410 |

| By geography | Investment | | Development | | Total £m |
|------------------------|------------------|-------------------|------------------|-------------------|-------------|
| | Commercial £m | Residential £m | Commercial £m | Residential £m | |
| 31 December 2011 | | | | | |
| UK (excluding NI) (1) | 28,653 | 6,359 | 1,198 | 6,511 | 42,721 |
| Ireland (ROI & NI) (1) | 5,146 | 1,132 | 2,591 | 6,317 | 15,186 |
| Western Europe | 7,649 | 1,048 | 9 | 52 | 8,758 |
| US | 5,552 | 1,279 | 59 | 46 | 6,936 |
| RoW | 785 | 35 | 141 | 284 | 1,245 |
| | 47,785 | 9,853 | 3,998 | 13,210 | 74,846 |

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| 31 December 2010 | | | | | |
|------------------------|--------|--------|-------|--------|--------|
| UK (excluding NI) (1) | 32,334 | 7,255 | 1,520 | 8,288 | 49,397 |
| Ireland (ROI & NI) (1) | 5,056 | 1,148 | 2,785 | 6,578 | 15,567 |
| Western Europe | 10,568 | 643 | 25 | 42 | 11,278 |
| US | 7,345 | 1,296 | 69 | 175 | 8,885 |
| RoW | 1,622 | 25 | 138 | 498 | 2,283 |
| | 56,925 | 10,367 | 4,537 | 15,581 | 87,410 |

Note:

(1) ROI: Republic of Ireland; NI: Northern Ireland.

Risk and balance sheet management (continued)

Risk management: Credit risk: Commercial real estate (continued)

| By geography | Investment | | Development | | Total £m |
|--------------------|------------|----------------|-------------|----------------|-------------|
| | Core £m | Non-Core £m | Core £m | Non-Core £m | |
| 31 December 2011 | | | | | |
| UK (excluding NI) | 25,904 | 9,108 | 5,118 | 2,591 | 42,721 |
| Ireland (ROI & NI) | 3,157 | 3,121 | 793 | 8,115 | 15,186 |
| Western Europe | 422 | 8,275 | 20 | 41 | 8,758 |
| US | 4,521 | 2,310 | 71 | 34 | 6,936 |
| RoW | 227 | 593 | 332 | 93 | 1,245 |
| | 34,231 | 23,407 | 6,334 | 10,874 | 74,846 |

| | | | | | |
|--------------------|--------|--------|-------|--------|--------|
| 31 December 2010 | | | | | |
| UK (excluding NI) | 26,168 | 13,421 | 5,997 | 3,811 | 49,397 |
| Ireland (ROI & NI) | 3,159 | 3,044 | 963 | 8,401 | 15,567 |
| Western Europe | 409 | 10,802 | 25 | 42 | 11,278 |
| US | 4,636 | 4,005 | 173 | 71 | 8,885 |
| RoW | 244 | 1,404 | 488 | 147 | 2,283 |
| | 34,616 | 32,676 | 7,646 | 12,472 | 87,410 |

| By sub-sector | UK (excl NI) £m | Ireland (ROI & NI) £m | Western Europe £m | US £m | RoW £m | Total £m |
|------------------|-----------------------|--------------------------------|-------------------------|----------|-----------|-------------|
| 31 December 2011 | | | | | | |
| Residential | 12,871 | 7,449 | 1,096 | 1,325 | 319 | 23,060 |
| Office | 7,155 | 1,354 | 2,248 | 404 | 352 | 11,513 |

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| | | | | | | |
|-------------|--------|--------|-------|-------|-------|--------|
| Retail | 8,709 | 1,641 | 1,893 | 285 | 275 | 12,803 |
| Industrial | 4,317 | 507 | 520 | 24 | 105 | 5,473 |
| Mixed/other | 9,669 | 4,235 | 3,001 | 4,898 | 194 | 21,997 |
| | 42,721 | 15,186 | 8,758 | 6,936 | 1,245 | 74,846 |

31 December 2010

| | | | | | | |
|-------------|--------|--------|--------|-------|-------|--------|
| Residential | 15,543 | 7,726 | 685 | 1,471 | 523 | 25,948 |
| Office | 8,539 | 1,178 | 2,878 | 663 | 891 | 14,149 |
| Retail | 10,607 | 1,668 | 1,888 | 1,025 | 479 | 15,667 |
| Industrial | 4,912 | 515 | 711 | 80 | 106 | 6,324 |
| Mixed/other | 9,796 | 4,480 | 5,116 | 5,646 | 284 | 25,322 |
| | 49,397 | 15,567 | 11,278 | 8,885 | 2,283 | 87,410 |

Note:

- (1) Excludes commercial real estate lending in Wealth as these loans are generally supported by personal guarantees in addition to collateral. This portfolio, which totalled £1.3 billion at 31 December 2011 continues to perform in line with expectations and requires minimal provision.

Risk and balance sheet management (continued)

Risk management: Credit risk: Commercial real estate (continued)

Key points

- In line with the Group's strategy, exposure to commercial real estate was reduced during 2011, affecting mainly the UK and Western Europe given that these regions account for the majority of the portfolio. Overall this portfolio decreased circa 25% in the two years to 31 December 2011.
- Most of the decrease is in Non-Core due to run-off and asset sales. The Non-Core portfolio totalled £34.3 billion (46% of the portfolio) at 31 December 2011 (31 December 2010 - £45.1 billion, or 52% of the portfolio) and includes exposures in Ulster Bank as discussed on page 180.
- With the exception of exposure in Spain and in Ireland, the Group has minimal commercial real estate exposure to other eurozone periphery countries. Exposure in Spain is predominantly in the Non-Core portfolio and totals £2.3 billion, of which 36% is in AQ1-AQ9. The remainder of the Spanish portfolio has already been subject to material write-off and provision levels have been assessed based on re-appraised values. There are significant differences in values based on geographic location and asset type.
- The UK portfolio is focused on London and the South East (44%), with the remainder well spread across the UK regions.

- Short-term lending to property developers without sufficient pre-let revenue at origination to support investment financing after practical completion is classified as speculative. Speculative lending at origination represents approximately 1% of the portfolio. The Group's appetite for originating speculative commercial real estate lending is very limited and any such business requires senior management approval.
- The commercial real estate market is expected to remain challenging in key markets and new business will be accommodated from run-off of existing Core exposure. As liquidity in the market remains tight, the Group is focusing on re-financings and supporting its existing client base.

Risk management: Credit risk: Commercial real estate (continued)

| Maturity profile of portfolio | UK Corporate £m | Ulster Bank £m | US Retail & Commercial £m | Global Banking & Markets £m | Total £m |
|-------------------------------|--------------------|-------------------|------------------------------|--------------------------------|-------------|
| 31 December 2011 | | | | | |
| Core | | | | | |
| < 1 year (1) | 8,268 | 3,030 | 1,056 | 142 | 12,496 |
| 1-2 years | 5,187 | 391 | 638 | 278 | 6,494 |
| 2-3 years | 3,587 | 117 | 765 | 363 | 4,832 |
| > 3 years | 10,871 | 1,225 | 1,846 | 590 | 14,532 |
| Not classified (2) | 2,211 | - | - | - | 2,211 |
| Total | 30,124 | 4,763 | 4,305 | 1,373 | 40,565 |
| Non-Core | | | | | |
| < 1 year (1) | 3,224 | 11,089 | 293 | 7,093 | 21,699 |
| 1-2 years | 508 | 692 | 163 | 3,064 | 4,427 |
| 2-3 years | 312 | 177 | 152 | 1,738 | 2,379 |
| > 3 years | 1,636 | 392 | 321 | 3,126 | 5,475 |
| Not classified (2) | 297 | - | - | 4 | 301 |
| Total | 5,977 | 12,350 | 929 | 15,025 | 34,281 |
| 31 December 2010 | | | | | |
| Core | | | | | |
| < 1 year (1) | 7,563 | 2,719 | 1,303 | 890 | 12,475 |
| 1-2 years | 5,154 | 829 | 766 | 247 | 6,996 |
| 2-3 years | 4,698 | 541 | 751 | 221 | 6,211 |
| > 3 years | 10,361 | 1,285 | 1,595 | 417 | 13,658 |
| Not classified (2) | 2,922 | - | - | - | 2,922 |

| | | | | | |
|--------------------|--------|--------|-------|--------|--------|
| Total | 30,698 | 5,374 | 4,415 | 1,775 | 42,262 |
| Non-Core | | | | | |
| < 1 year (1) | 4,829 | 10,809 | 501 | 3,887 | 20,026 |
| 1-2 years | 1,727 | 983 | 109 | 6,178 | 8,997 |
| 2-3 years | 831 | 128 | 218 | 3,967 | 5,144 |
| > 3 years | 2,904 | 694 | 567 | 6,253 | 10,418 |
| Not classified (2) | 563 | - | - | - | 563 |
| Total | 10,854 | 12,614 | 1,395 | 20,285 | 45,148 |

Notes:

- (1) Includes on demand and past due assets.
- (2) Predominantly comprises multi-option facilities for which there is no single maturity date.

Key point

- The majority of Ulster Bank's commercial real estate portfolio is categorised as < 1 year including on demand assets, owing to the high level of non-performing assets in the portfolio. Ulster Bank places most restructured facilities on demand rather than extending the maturity date.

Risk and balance sheet management (continued)

Risk management: Credit risk: Commercial real estate (continued)

Breakdown of portfolio by AQ band

| 31 December | AQ1-AQ2 | AQ3-AQ4 | AQ5-AQ6 | AQ7-AQ8 | AQ9 | AQ10 | Total |
|-------------|---------|---------|---------|---------|-------|--------|--------|
| 2011 | £m | £m | £m | £m | £m | £m | £m |
| Core | 1,094 | 6,714 | 19,054 | 6,254 | 3,111 | 4,338 | 40,565 |
| Non-Core | 680 | 1,287 | 5,951 | 3,893 | 2,385 | 20,085 | 34,281 |
| Total | 1,774 | 8,001 | 25,005 | 10,147 | 5,496 | 24,423 | 74,846 |
| 31 December | | | | | | | |
| 2010 | | | | | | | |
| Core | 1,055 | 7,087 | 20,588 | 7,829 | 2,171 | 3,532 | 42,262 |
| Non-Core | 1,003 | 2,694 | 11,249 | 7,608 | 4,105 | 18,489 | 45,148 |
| Total | 2,058 | 9,781 | 31,837 | 15,437 | 6,276 | 22,021 | 87,410 |

Key points

- Approximately 13% of the commercial real estate exposure is within the AQ1-AQ4 bands. This includes unsecured lending to property companies and real estate investment trusts. The high proportion of the exposure in the AQ10 band is driven by Ulster Bank (Core and Non-Core) and GBM (Non-Core).
- Of the total portfolio of £74.8 billion at 31 December 2011, £34.7 billion (2010 - £45.1 billion) is managed within the Group's standard credit processes and £5.9 billion (2010 - £9.2 billion) is receiving varying degrees of heightened credit management under the Group Watchlist process (this includes all Watchlist Amber cases and Watchlist Red cases managed outside the Global Restructuring Group (GRG)). A further £34.3 billion (2010 - £33.1 billion) is managed within the GRG and includes both Watchlist and non-performing exposures. The increase in the portfolio managed by the GRG is driven by Ulster Bank (Core and Non-Core).

Risk and balance sheet management (continued)

Risk management: Credit risk: Commercial real estate (continued)

Breakdown of portfolio by AQ band (continued)

The table below analyses commercial real estate lending by loan-to-value (LTV). Due to market conditions in Ireland and to a lesser extent in the UK, there is a shortage of market based data. In the absence of external valuations, the Group deploys a range of alternative approaches including internal expert judgement and indexation.

| LTVs at 31 December 2011 | Ulster Bank | | Rest of the Group | | Group | |
|---------------------------------|-------------|--------|-------------------|--------|---------|--------|
| | AQ1-AQ9 | AQ10 | AQ1-AQ9 | AQ10 | AQ1-AQ9 | AQ10 |
| | £m | £m | £m | £m | £m | £m |
| <= 50% | 81 | 28 | 7,091 | 332 | 7,172 | 360 |
| > 50% and <= 70% | 642 | 121 | 14,105 | 984 | 14,747 | 1,105 |
| > 70% and <= 90% | 788 | 293 | 10,042 | 1,191 | 10,830 | 1,484 |
| > 90% and <= 100% | 541 | 483 | 2,616 | 1,679 | 3,157 | 2,162 |
| > 100% and <= 110% | 261 | 322 | 1,524 | 1,928 | 1,785 | 2,250 |
| > 110% and <= 130% | 893 | 1,143 | 698 | 1,039 | 1,591 | 2,182 |
| > 130% | 1,468 | 10,004 | 672 | 2,994 | 2,140 | 12,998 |
| Total with LTVs | 4,674 | 12,394 | 36,748 | 10,147 | 41,422 | 22,541 |
| Other (1) | 7 | 38 | 8,994 | 1,844 | 9,001 | 1,882 |
| Total | 4,681 | 12,432 | 45,742 | 11,991 | 50,423 | 24,423 |
| Total portfolio average LTV (2) | 140% | 259% | 69% | 129% | 77% | 201% |

Notes:

- (1) Other performing loans of £9.0 billion include unsecured lending to commercial real estate clients, such as major UK homebuilders. The credit quality of these exposures is consistent with that of the performing portfolio overall. Other non-performing loans of £1.9 billion are subject to the Group's standard

provisioning policies.

(2) Weighted average by exposure.

Key points

- Nearly 85% of the commercial real estate portfolio with LTV > 100% is within Ulster Bank (Core and Non-Core) and GBM (Non-Core). A majority of these portfolios are managed within the GRG and are subject to monthly reviews. Significant levels of provisions have been taken against these portfolios; provisions as a percentage of risk elements in lending for the Ulster Bank commercial real estate portfolio were 53% at 31 December 2011 (31 December 2010 - 44%). The reported LTV levels are based on gross loan values. The weighted average LTV for AQ10 excluding Ulster Bank is 129%.
- The average interest coverage (ICR) ratios for UK Corporate (Core and Non-Core) and GBM (Non-Core) investment properties are 2.37x and 1.25x respectively. The US Retail & Commercial portfolio is managed on the basis of debt service coverage, which includes scheduled principal amortisation. The average debt service interest coverage for this portfolio on this basis was 1.24x at 31 December 2011. There are a number of different approaches used within the Group and across the industry to calculate ICR ratios for different portfolio types, and organisations may not therefore be comparable.

Risk and balance sheet management (continued)

Risk management: Credit risk: Commercial real estate (continued)

Retail assets

The Group's retail lending portfolio includes mortgages, credit cards, unsecured loans, auto finance and overdrafts. The majority of personal lending exposures are in the UK, Ireland and the US. The analysis below includes both Core and Non-Core balances.

| | 31 December 2011 | 31 December 2010 |
|---------------------------------------|------------------------|------------------------|
| | £m | £m |
| Personal credit loans and receivables | | |
| UK Retail | | |
| - mortgages | 96,388 | 92,592 |
| - cards, loans and overdrafts | 16,004 | 18,072 |
| Ulster Bank | | |
| - mortgages | 20,020 | 21,162 |
| - other personal | 1,533 | 1,017 |
| Citizens | | |
| - mortgages | 23,829 | 24,575 |
| - auto and cards | 5,731 | 6,062 |
| - other (1) | 2,111 | 3,455 |
| Other (2) | 17,545 | 18,123 |
| | 183,161 | 185,058 |

Notes:

- (1) Mainly student loans and loans secured by recreational vehicles or marine vessels.
- (2) Personal exposures in other divisions.

Residential mortgages

The tables below detail the distribution of residential mortgages by indexed LTV. LTV averages are calculated by transaction volume and transaction value. Refer to the section on Ulster Bank Group on page 179 for analysis of Ulster Bank residential mortgages.

| | UK Retail | | Citizens | |
|---|-----------|--------|----------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| LTV distribution calculated on a volume basis | % | % | % | % |
| <= 70% | 62.1 | 61.6 | 43.5 | 43.4 |
| > 70% and <= 90% | 27.1 | 26.2 | 26.9 | 27.6 |
| > 90% and <= 110% | 9.4 | 10.4 | 16.7 | 17.2 |
| > 110% and <= 130% | 1.4 | 1.7 | 6.9 | 6.0 |
| > 130% | - | 0.1 | 6.0 | 5.8 |
| Total portfolio average LTV at 31 December | 57.8 | 58.2 | 73.8 | 75.3 |
| Average LTV on new originations during the year | 58.4 | 64.2 | 63.8 | 64.8 |
| LTV distribution calculated on a value basis | £m | £m | £m | £m |
| <= 70% | 47,811 | 44,522 | 9,669 | 10,375 |
| > 70% and <= 90% | 34,410 | 32,299 | 7,011 | 7,196 |
| > 90% and <= 110% | 11,800 | 12,660 | 3,947 | 4,080 |
| > 110% and <= 130% | 1,713 | 1,924 | 1,580 | 1,488 |
| > 130% | 74 | 73 | 1,263 | 1,252 |
| Total portfolio average LTV at 31 December | 67.2% | 68.1% | 75.9% | 75.4% |
| Average LTV on new originations during the year | 63.0% | 68.0% | 65.8% | 65.3% |

Risk and balance sheet management (continued)

Risk management: Credit risk: Residential mortgages (continued)

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

| | 31 | 31 |
|--|----------|----------|
| | December | December |
| | 2011 | 2010 |
| | % | % |

Residential mortgages which are three months or more in arrears
(by volume)

| | | |
|---------------|-----|-----|
| UK Retail (1) | 1.6 | 1.7 |
| Citizens | 2.0 | 1.4 |

Note:

- (1) The 'One Account' current account mortgage is excluded (£5.4 billion - 5.6% of assets) at 31 December 2011, 0.9% of these accounts were 90 days continually in excess of the limit (31 December 2010 - 0.8%). Consistent with the way the Council of Mortgage Lenders publishes member arrears information, the 3+ months arrears rate now excludes accounts in repossession and cases with shortfalls post property sale.

UK Retail
Key points

- The UK Retail mortgage portfolio totalled £96.4 billion (98.6% in Core) at 31 December 2011, an increase of 4.1% from 2010, due to continued strong sales growth and lower redemption rates from before the financial crisis.
- Of the total portfolio, 98.6% is designated as Core business, primarily comprising mortgages branded the Royal Bank of Scotland, NatWest, the One Account and First Active. Non-Core comprises Direct Line Mortgages.
- The assets are prime mortgages and include 7.2% (£6.9 billion) of exposure to residential buy-to-let. There is a small legacy self-certification book (0.3% of total assets). Self-certified mortgages were withdrawn from sale in 2004.
- Gross new mortgage lending in 2011 remained strong at £14.7 billion. The average LTV for new business during 2011 declined in comparison to 2010 and the maximum LTV available to new customers remained at 90%. Based on the Halifax House Price index at September 2011, the book average indexed LTV improved marginally when compared to December 2010, with the proportion of balances with an LTV over 100% also lower. Refer to the table on page 172, which details LTV information on a volume and value basis.
- The arrears rate (more than three payments in arrears, excluding repossessions and shortfalls post property sale) has remained broadly stable since late 2009 at 1.6%.
- The number of properties repossessed in 2011 was 1,671, up from 1,392 in 2010.
- The mortgage impairment charge was £187 million for 2011, an increase of 2% from 2010. A significant part of the mortgage impairment charge related to reduced expectations of cash recovery on already defaulted debt. It also included an additional provision charge for mortgage customers who received forbearance.
- Default and arrears rates remain sensitive to economic developments and are currently supported by the low interest rate environment and strong book growth, with recent business yet to fully mature.

Risk and balance sheet management (continued)

Risk management: Credit risk: Residential mortgages (continued)

Citizens

Key points

- Citizens' residential mortgage portfolio totalled £23.8 billion at 31 December 2011, a reduction of 3% from 2010 (£24.6 billion).
- The mortgage portfolio comprises £6.4 billion of residential mortgages (99% in first lien position: Core - £5.8 billion; Non-Core - £0.6 billion) and £17.4 billion of home equity loans and lines (41% in first lien position: Core - £14.9 billion; Non-Core - £2.5 billion). Home equity Core consists of 47% in first lien position.
- Citizens continues to focus on the 'footprint' states of New England, Mid Atlantic and Mid West, targeting low risk products and maintaining conservative risk policies. At 31 December 2011, the portfolio consisted of £19.5 billion (82% of the total portfolio) within footprint.
- Loan acceptance criteria were tightened during 2009 to address deteriorating economic and market conditions.
- Non-Core comprises 13% of the residential mortgage portfolio. Its largest component (74%) is the serviced by others (SBO) home equity portfolio. The SBO portfolio consists of purchased pools of home equity loans and lines, which resulted in an annualised charge-off rate of 8.7% in 2011. It is characterised by out-of-footprint geographies, high second lien concentration (95%) and high average LTV (113% at 31 December 2011). The SBO book has been closed to new purchases since the third quarter of 2007 and is in run-off, with exposure down from £2.8 billion at 31 December 2010, to £2.3 billion at 31 December 2011. The arrears rate of the SBO portfolio decreased from 3.0% at 31 December 2010, to 2.3% at 31 December 2011, as the legacy of poorer assets receded, and account servicing and collections became more effective following a servicer conversion in 2009.

Personal lending

The Group's personal lending portfolio includes credit cards, unsecured loans, auto finance and overdrafts. The majority of personal lending exposures exist in the UK and the US. Impairments as a proportion of average loans and receivables are shown in the following table.

| 31 December 2011 | | 31 December 2010 | |
|-------------------------------|----------------------------------|-------------------------------|----------------------------------|
| Impairment charge as a % | | Impairment charge as a % | |
| Average loans and receivables | of average loans and receivables | Average loans and receivables | of average loans and receivables |
| | | | |

| Personal lending | £m | % | £m | % |
|-------------------------|-------|-----|-------|-----|
| UK Retail cards (1) | 5,675 | 3.0 | 6,025 | 5.0 |
| UK Retail loans (1) | 7,755 | 2.8 | 9,863 | 4.8 |
| Citizens cards (2) | 936 | 5.1 | 1,005 | 9.9 |
| Citizens auto loans (2) | 4,856 | 0.2 | 5,256 | 0.6 |

Notes:

- (1) The ratio for UK Retail assets refers to the impairment charges for the year. This is the Core UK loans book and excludes the Non-Core direct loans book that was sold in late 2011.
- (2) The ratio for Citizens refers to the impairment charges in the year, net of recoveries realised in the year.

Risk and balance sheet management (continued)

Risk management: Credit risk: Personal lending (continued)

UK Retail

Key points

- The UK personal lending portfolio, of which 99.4% is in Core businesses, comprises credit cards, unsecured loans and overdrafts, and totalled £16.0 billion at 31 December 2011 (31 December 2010 - £18.1 billion).
- The decrease in portfolio size of 11.4% was driven by continued subdued loan recruitment activity and a continuing general market trend of customers repaying unsecured debt.
- The Non-Core portfolio consists of the direct finance loan portfolios (Direct Line, Lombard, Mint and Churchill) and totalled £0.1 billion at 31 December 2011 (2010 - £0.4 billion). In the last quarter of 2011, a portfolio of £170 million of balances was disposed of.
- Risk appetite continues to be actively managed across all products with investment in collection and recovery processes continuing, addressing both continued support for the Group's customers and the management of impairments.
- Support continues for customers experiencing financial difficulties through 'breathing space initiatives'. Refer to the disclosures on forbearance on page 156 for more information.
- The impairment charge on unsecured lending was £579 million for the year, down 42% on 2010, reflecting the effect of risk appetite tightening. The sale of the direct finance loan book gave rise to a one-off benefit of approximately £30 million.
- Impairments remain sensitive to the external environment, including unemployment levels and interest rates.

- Industry benchmarks for cards arrears remain stable, with the Group continuing to perform favourably.

Citizens

Key points

- Citizens' average credit card portfolio totalled £936 million during 2011, with Core assets comprising 90.2% of the portfolio. Citizens' cards business has traditionally adopted conservative risk strategies compared with the US market and given the economic climate, has introduced tighter lending criteria and lower credit limits. These actions have led to improving new business quality and a business performing better than industry benchmarks (provided by VISA). The latest available metrics show the 60+ days delinquency as a percentage of total outstandings at 2.15% at November 2011 (compared to an industry figure of 2.45%) and net contractual charge-offs as a percentage of total outstandings at 2.89% at November 2011 (compared to an industry figure of 3.69%).
- Citizens' average auto loan portfolio totalled £4.9 billion during 2011, of which 98% is considered Core. £101 million (2%) is Non-Core and anticipated to run off by 2013. Citizens' vehicle financing business lends to US consumers through a network of 4,200 auto dealers in 25 US states. Citizens' credit policy is considered conservative, targeting prime customers and has historically experienced credit losses below those of industry peers.
- The net write-off rate on the total auto portfolio fell to 0.18% at 31 December 2011, from 0.34% in 2010. The 30+ days past due delinquency rate fell to 1.04% at 31 December 2011, from 1.57% in 2010.

Risk and balance sheet management (continued)

Risk management: Credit risk: Ulster Bank Group (Core and Non-Core)

Overview

At 31 December 2011, Ulster Bank Group accounted for 10% of the Group's total gross customer loans (31 December 2010 - 10%) and 9% of the Group's Core gross customer loans (31 December 2010 - 9%). Ulster Bank's financial performance continues to be overshadowed by the challenging economic climate in Ireland, with impairments remaining elevated as high unemployment, coupled with higher taxation and limited liquidity in the economy, continues to depress the property market and domestic spending.

The impairment charge of £3,717 million for the year (31 December 2010 - £3,843 million) was driven by a combination of new defaulting customers and deteriorating security values. Provisions as a percentage of risk elements in lending increased from 44% at 31 December 2010 to 53% at 31 December 2011, predominantly as a result of the deterioration in the value of the Non-Core commercial real estate development portfolio.

Core

The impairment charge for the year of £1,384 million (31 December 2010 - £1,161 million) reflects the difficult economic climate in Ireland, with elevated default levels across both mortgage and other corporate portfolios. The mortgage sector accounted for £570 million (41%) of the total 2011 impairment charge.

Non-Core

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The impairment charge for the year was £2,333 million (31 December 2010 - £2,682 million), with the commercial real estate sector accounting for £2,160 million (93%) of the total 2011 charge.

Risk and balance sheet management (continued)

Risk management: Credit risk: Ulster Bank Group (Core and Non-Core) (continued)

Loans, risk elements in lending (REIL) and impairments by sector

| 31 December 2011 | Gross loans £m | REIL £m | Provisions £m | REIL as a % of Provisions | | Provisions as a % of gross loans | | Impairment charge £m | Amounts written-off £m |
|-----------------------------------|----------------------|------------|------------------|---------------------------------|------------------------|--|-------|----------------------------|------------------------------|
| | | | | gross loans % | as a % of REIL % | gross loans % | | | |
| Core | | | | | | | | | |
| Mortgages | 20,020 | 2,184 | 945 | 10.9 | 43 | 4.7 | 570 | 11 | |
| Personal unsecured | 1,533 | 201 | 184 | 13.1 | 92 | 12.0 | 56 | 25 | |
| Commercial real estate | | | | | | | | | |
| - investment | 3,882 | 1,014 | 413 | 26.1 | 41 | 10.6 | 225 | - | |
| - development | 881 | 290 | 145 | 32.9 | 50 | 16.5 | 99 | 16 | |
| Other corporate | 7,736 | 1,834 | 1,062 | 23.7 | 58 | 13.7 | 434 | 72 | |
| | 34,052 | 5,523 | 2,749 | 16.2 | 50 | 8.1 | 1,384 | 124 | |
| Non-Core | | | | | | | | | |
| Commercial real estate | | | | | | | | | |
| - investment | 3,860 | 2,916 | 1,364 | 75.5 | 47 | 35.3 | 609 | 1 | |
| - development | 8,490 | 7,536 | 4,295 | 88.8 | 57 | 50.6 | 1,551 | 32 | |
| Other corporate | 1,630 | 1,159 | 642 | 71.1 | 55 | 39.4 | 173 | 16 | |
| | 13,980 | 11,611 | 6,301 | 83.1 | 54 | 45.1 | 2,333 | 49 | |
| Ulster Bank Group | | | | | | | | | |
| Mortgages | 20,020 | 2,184 | 945 | 10.9 | 43 | 4.7 | 570 | 11 | |
| Personal unsecured | 1,533 | 201 | 184 | 13.1 | 92 | 12.0 | 56 | 25 | |
| Commercial real estate | | | | | | | | | |
| - investment | 7,742 | 3,930 | 1,777 | 50.8 | 45 | 23.0 | 834 | 1 | |
| - development | 9,371 | 7,826 | 4,440 | 83.5 | 57 | 47.4 | 1,650 | 48 | |
| Other corporate | 9,366 | 2,993 | 1,704 | 32.0 | 57 | 18.2 | 607 | 88 | |

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48,032 17,134 9,050 35.7 53 18.8 3,717 173

Risk and balance sheet management (continued)

Risk management: Credit risk: Ulster Bank Group (Core and Non-Core) (continued)

Loans, REIL and impairments by sector (continued)

| | Gross loans | REIL | Provisions | REIL | | Provisions | | Impairment charge | Amounts written-off |
|------------------------------|----------------|--------|------------|-----------------------------|-------------------|-----------------------------|-----------------------------|----------------------|------------------------|
| | | | | as a % of gross loans | as a % of REIL | as a % of gross loans | as a % of gross loans | | |
| 31 December 2010 | £m | £m | £m | % | % | % | £m | £m | |
| Core | | | | | | | | | |
| Mortgages | 21,162 | 1,566 | 439 | 7.4 | 28 | 2.1 | 294 | 7 | |
| Personal unsecured | 1,282 | 185 | 158 | 14.4 | 85 | 12.3 | 48 | 30 | |
| Commercial real estate | | | | | | | | | |
| - investment | 4,284 | 598 | 332 | 14.0 | 56 | 7.7 | 259 | - | |
| - development | 1,090 | 65 | 37 | 6.0 | 57 | 3.4 | 116 | - | |
| Other corporate | 9,039 | 1,205 | 667 | 13.3 | 55 | 7.4 | 444 | 11 | |
| | 36,857 | 3,619 | 1,633 | 9.8 | 45 | 4.4 | 1,161 | 48 | |
| Non-Core | | | | | | | | | |
| Mortgages | - | - | - | - | - | - | 42 | - | |
| Commercial real estate | | | | | | | | | |
| - investment | 3,854 | 2,391 | 1,000 | 62.0 | 42 | 25.9 | 630 | - | |
| - development | 8,760 | 6,341 | 2,783 | 72.4 | 44 | 31.8 | 1,759 | - | |
| Other corporate | 1,970 | 1,310 | 561 | 66.5 | 43 | 28.5 | 251 | - | |
| | 14,584 | 10,042 | 4,344 | 68.9 | 43 | 29.8 | 2,682 | - | |
| Ulster Bank Group | | | | | | | | | |
| Mortgages | 21,162 | 1,566 | 439 | 7.4 | 28 | 2.1 | 336 | 7 | |
| Personal unsecured | 1,282 | 185 | 158 | 14.4 | 85 | 12.3 | 48 | 30 | |
| Commercial real estate | | | | | | | | | |
| - investment | 8,138 | 2,989 | 1,332 | 36.7 | 45 | 16.4 | 889 | - | |
| - development | 9,850 | 6,406 | 2,820 | 65.0 | 44 | 28.6 | 1,875 | - | |
| Other corporate | 11,009 | 2,515 | 1,228 | 22.8 | 49 | 11.2 | 695 | 11 | |

51,441 13,661 5,977 26.6 44 11.6 3,843 48

Key points

- REIL increased by £3.5 billion during the year, which reflects continuing difficult conditions in both the commercial and residential sectors in Ireland. Growth moderated in the last two quarters of 2011 as default trends for corporate portfolios declined.
- At 31 December 2011, 68% of REIL was in Non-Core (2010 - 74%). The majority of the Non-Core commercial real estate development portfolio (89%) is REIL with a 57% provision coverage.

Risk and balance sheet management (continued)

Risk management: Credit risk: Ulster Bank Group (Core and Non-Core) (continued)

Residential mortgages

The tables below show how the continued decrease in property values has affected the distribution of residential mortgages by indexed LTV. LTV is based upon gross loan amounts and whilst including defaulted loans, does not take account of provisions made.

| | 2011 | 2010 |
|---|-------|-------|
| LTV distribution calculated on a volume basis | % | % |
| <= 70% | 45.0 | 50.3 |
| > 70% and <= 90% | 11.4 | 13.0 |
| > 90% and <= 110% | 12.0 | 14.5 |
| > 110% and <= 130% | 10.9 | 13.5 |
| > 130% | 20.7 | 8.7 |
| Total portfolio average LTV at 31 December | 81.0 | 71.2 |
| Average LTV on new originations during the year | 67.0 | 75.9 |
| LTV distribution calculated on a value basis | £m | £m |
| <= 70% | 4,526 | 5,928 |
| > 70% and <= 90% | 2,501 | 3,291 |
| > 90% and <= 110% | 3,086 | 4,256 |
| > 110% and <= 130% | 3,072 | 4,391 |
| > 130% | 6,517 | 2,958 |
| Total portfolio average LTV at 31 December | 106.1 | 91.7 |
| Average LTV on new originations during the year | 73.9 | 78.9 |

Key points

- The residential mortgage portfolio across Ulster Bank 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 decreased by 4% from 2010, as a result of natural amortisation and limited growth due to low market demand.
- The mortgage REIL continued to increase as a result of 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% in 2010. The impairment charge for 2011 was £570 million compared with £336 million for 2010. Repossession levels were higher than in 2010, with a total of 161 properties repossessed during 2011 (compared with 76 during 2010). 76% of repossessions during 2011 were through voluntary surrender or abandonment of the property.
- Ulster Bank Group is assisting customers in this difficult environment. Mortgage forbearance policies which are deployed through the 'Flex' initiative are aimed at assisting customers in financial difficulty. At 31 December 2011, 9.1% (by value) of the mortgage book (£1.8 billion) was on a forbearance arrangement compared with 5.8% (£1.2 billion) at 31 December 2010. The majority of these forbearance arrangements are in the performing book (77%) and not 90 days past due, refer to page 156 for further details.

Risk and balance sheet management (continued)

Risk management: Credit risk: Ulster Bank Group (Core and Non-Core) (continued)

Commercial real estate

The commercial real estate lending portfolio for Ulster Bank Group totalled £17.1 billion at 31 December, of which £12.3 billion or 72% is Non-Core. The geographic split of the total Ulster Bank Group commercial real estate portfolio remained similar to 2010, with 26% in Northern Ireland, 63% in the Republic of Ireland and 11% in the UK.

| Exposure by geography | Development | | Investment | | Total £m |
|-----------------------|------------------|-------------------|------------------|-------------------|-------------|
| | Commercial £m | Residential £m | Commercial £m | Residential £m | |
| 31 December 2011 | | | | | |
| Ireland (ROI & NI) | 2,591 | 6,317 | 5,097 | 1,132 | 15,137 |
| UK (excluding NI) | 95 | 336 | 1,371 | 111 | 1,913 |
| RoW | - | 32 | 27 | 4 | 63 |
| | 2,686 | 6,685 | 6,495 | 1,247 | 17,113 |
| 31 December 2010 | | | | | |
| Ireland (ROI & NI) | 2,785 | 6,578 | 5,032 | 1,098 | 15,493 |
| UK (excluding NI) | 110 | 359 | 1,869 | 115 | 2,453 |
| RoW | - | 18 | 23 | 1 | 42 |

| | | | | |
|-------|-------|-------|-------|--------|
| 2,895 | 6,955 | 6,924 | 1,214 | 17,988 |
|-------|-------|-------|-------|--------|

Key points

- Commercial real estate remains the primary driver of the increase in the defaulted loan book for Ulster Bank Group. The outlook remains challenging, with limited liquidity in the marketplace to support sales or refinancing. The decrease in asset valuations has placed pressure on the portfolio.
- Within its early problem management framework, Ulster Bank may agree various remedial measures with customers whose loans are performing but who are experiencing temporary financial difficulties. During 2011, commercial real estate loans amounting to £0.8 billion (exposures greater than £10 million) benefited from such measures.
- During 2011, impaired commercial real estate loans amounting to £1 billion (exposures greater than £10 million) were restructured and remain in the non-performing book.

Risk and balance sheet management (continued)

Risk management: Country risk

Country risk is the risk of material losses arising from significant country-specific events such as sovereign events (default or restructuring); economic events (contagion of sovereign default to other parts of the economy, cyclical economic shock); political events (transfer or convertibility restrictions and expropriation or nationalisation); and natural disaster or conflict. Such events have the potential to affect elements of the Group's credit portfolio that are directly or indirectly linked to the country in question and can also give rise to market, liquidity, operational and franchise risk related losses.

For a discussion of the Group's approach to country risk management and the external risk environment, refer to the 2011 Annual Report and Accounts: Business review: Risk and balance sheet management: Country risk.

The following tables show the Group's exposure by country of incorporation of the counterparty at 31 December 2011. Countries shown are those where the Group's balance sheet exposure to counterparties incorporated in the country exceeded £1 billion and the country had an external rating of A+ or below from S&P, Moody's or Fitch at 31 December 2011, as well as selected eurozone countries. The numbers are stated before taking into account the impact of mitigating actions, such as collateral, insurance or guarantees, that may have been taken to reduce or eliminate exposure to country risk events. Exposures relating to ocean-going vessels are not included due to their multinational nature.

For definitions of headings in the following tables, refer to page 204.

'Other eurozone' comprises Austria, Cyprus, Estonia, Finland, Malta, Slovakia and Slovenia.

References to Non-Core in the following pages relate to Non-Core lending disclosures in the summary tables on pages 182-183.

Risk and balance sheet management (continued)

Risk management: Country risk: Summary

| | 31 December 2011 | | | | | | | | | | | |
|-------------------|--|------------------------|----------------------|--|-----------------|----------------|---------|------------------------|----------------------------|--------------------------|--|-----------------------|
| | Lending | | | | | | | Total lending £m | Of which Non-Core £m | Debt securities £m | Derivatives (gross of collateral) and repos £m | Balan sh exposu |
| | Central and local government £m | Central banks £m | Other banks £m | Other financial institutions £m | Corporate £m | Personal £m | | | | | | |
| Eurozone | | | | | | | | | | | | |
| Ireland | 45 | 1,467 | 136 | 336 | 18,994 | 18,858 | 39,836 | 10,156 | 886 | 2,824 | 43,300 | |
| Spain | 9 | 3 | 206 | 154 | 5,775 | 362 | 6,509 | 3,735 | 6,155 | 2,393 | 15,000 | |
| Italy | - | 73 | 233 | 299 | 2,444 | 23 | 3,072 | 1,155 | 1,258 | 2,314 | 6,000 | |
| Greece | 7 | 6 | - | 31 | 427 | 14 | 485 | 94 | 409 | 355 | 1,000 | |
| Portugal | - | - | 10 | - | 495 | 5 | 510 | 341 | 113 | 519 | 1,000 | |
| Germany | - | 18,068 | 653 | 305 | 6,608 | 155 | 25,789 | 5,402 | 15,767 | 16,037 | 57,000 | |
| Netherlands | 2,567 | 7,654 | 623 | 1,575 | 4,827 | 20 | 17,266 | 2,498 | 9,893 | 10,285 | 37,000 | |
| France | 481 | 3 | 1,273 | 437 | 3,761 | 79 | 6,034 | 2,317 | 7,794 | 9,058 | 22,000 | |
| Luxembourg | - | - | 101 | 1,779 | 2,228 | 2 | 4,110 | 1,497 | 130 | 3,689 | 7,000 | |
| Belgium | 213 | 8 | 287 | 354 | 588 | 20 | 1,470 | 480 | 652 | 3,010 | 5,000 | |
| Other eurozone | 121 | - | 28 | 115 | 1,375 | 26 | 1,665 | 324 | 710 | 1,971 | 4,000 | |
| Total eurozone | 3,443 | 27,282 | 3,550 | 5,385 | 47,522 | 19,564 | 106,746 | 27,999 | 43,767 | 52,455 | 202,000 | |
| Other countries | | | | | | | | | | | | |
| India | - | 275 | 610 | 35 | 2,949 | 127 | 3,996 | 350 | 1,530 | 218 | 5,000 | |
| China | 74 | 178 | 1,237 | 17 | 654 | 30 | 2,190 | 50 | 597 | 413 | 3,000 | |
| South Korea | - | 5 | 812 | 3 | 576 | 1 | 1,397 | 3 | 845 | 404 | 2,000 | |
| Turkey | 215 | 193 | 253 | 66 | 1,072 | 16 | 1,815 | 423 | 361 | 94 | 2,000 | |
| Russia | - | 36 | 970 | 8 | 659 | 62 | 1,735 | 76 | 186 | 66 | 1,000 | |
| Brazil | - | - | 936 | - | 227 | 4 | 1,167 | 70 | 790 | 24 | 1,000 | |
| Romania | 66 | 145 | 30 | 8 | 413 | 392 | 1,054 | 1,054 | 220 | 6 | 1,000 | |
| Mexico | - | 7 | 233 | - | 683 | 1 | 924 | 39 | 83 | 131 | 1,000 | |
| Poland | 35 | 208 | 3 | 9 | 624 | 6 | 885 | 45 | 116 | 56 | 1,000 | |

Risk and balance sheet management (continued)

Risk management: Country risk: Summary (continued)

31 December 2010

| | Lending | | | | | | Total lending £m | Of which Non-Core £m | Debt securities £m | Derivatives (gross of collateral) and repos £m | Balan- ce sheet exposu- re £m |
|-------------------|--|------------------------|----------------------|--|-----------------|----------------|------------------------|----------------------------|--------------------------|--|---|
| | Central and local government £m | Central banks £m | Other banks £m | Other financial institutions £m | Corporate £m | Personal £m | | | | | |
| Eurozone | | | | | | | | | | | |
| Ireland | 61 | 2,119 | 87 | 813 | 19,886 | 20,228 | 43,194 | 10,758 | 1,323 | 2,940 | 47,4 |
| Spain | 19 | 5 | 166 | 92 | 6,991 | 407 | 7,680 | 4,538 | 7,107 | 2,047 | 16,6 |
| Italy | 45 | 78 | 668 | 418 | 2,483 | 27 | 3,719 | 1,901 | 3,836 | 2,032 | 9,3 |
| Greece | 14 | 36 | 18 | 31 | 191 | 16 | 306 | 130 | 974 | 227 | 1,3 |
| Portugal | 86 | - | 63 | - | 611 | 6 | 766 | 316 | 242 | 394 | 1,4 |
| Germany | - | 10,894 | 1,060 | 422 | 7,519 | 162 | 20,057 | 6,471 | 14,747 | 15,266 | 50,0 |
| Netherlands | 914 | 6,484 | 554 | 1,801 | 6,170 | 81 | 16,004 | 3,205 | 12,523 | 9,058 | 37,5 |
| France | 511 | 3 | 1,095 | 470 | 4,376 | 102 | 6,557 | 2,787 | 14,041 | 8,607 | 29,1 |
| Luxembourg | - | 25 | 26 | 734 | 2,503 | 3 | 3,291 | 1,517 | 378 | 2,545 | 6,3 |
| Belgium | 102 | 14 | 441 | 32 | 893 | 327 | 1,809 | 501 | 803 | 2,238 | 4,3 |
| Other eurozone | 124 | 1 | 142 | 119 | 1,505 | 24 | 1,915 | 332 | 535 | 1,370 | 3,1 |
| Total eurozone | 1,876 | 19,659 | 4,320 | 4,932 | 53,128 | 21,383 | 105,298 | 32,456 | 56,509 | 46,724 | 208,3 |
| Other countries | | | | | | | | | | | |
| India | - | - | 1,307 | 307 | 2,665 | 273 | 4,552 | 653 | 1,686 | 178 | 6,3 |
| China | 17 | 298 | 1,223 | 16 | 753 | 64 | 2,371 | 236 | 573 | 252 | 3,1 |
| South Korea | - | 276 | 1,033 | 5 | 558 | 2 | 1,874 | 53 | 1,353 | 493 | 3,1 |
| Turkey | 282 | 68 | 448 | 37 | 1,386 | 12 | 2,233 | 692 | 550 | 111 | 2,9 |
| Russia | - | 110 | 244 | 7 | 1,181 | 58 | 1,600 | 125 | 124 | 51 | 1,7 |
| Brazil | - | - | 825 | - | 315 | 5 | 1,145 | 120 | 687 | 15 | 1,8 |
| Romania | 36 | 178 | 21 | 21 | 426 | 446 | 1,128 | 1,123 | 310 | 8 | 1,4 |
| Mexico | - | 8 | 149 | - | 999 | 1 | 1,157 | 303 | 144 | 122 | 1,4 |
| Poland | - | 168 | 7 | 7 | 655 | 6 | 843 | 108 | 271 | 69 | 1,1 |

Risk and balance sheet management (continued)

Risk management: Country risk (continued)

Key points

Reported exposures are affected by currency movements. Over the year, sterling fell 0.3% against the US dollar and rose 3.1% against the euro. In the fourth quarter, sterling fell 0.9% against the US dollar and rose 2.9% against the euro.

- Exposure to most countries shown in the table declined over 2011 as the Group maintained a cautious stance and many bank clients reduced debt levels. Decreases

were seen in balance sheet and off-balance sheet exposures in many countries. Increases in derivatives and repos were in line with the Group's strategy, driven partly by customer demand for hedging solutions and partly by market movements; risks are generally mitigated by active collateralisation.

- India - strong economic growth in 2011 resulted in increased exposure across most product types until the fourth quarter, when a decline took place, driven by a Global Transaction Services (GTS) exercise in the region to manage down risk-weighted assets, natural run-offs/maturities and a sharp rupee depreciation. Year-on-year increases in lending to corporate clients (£0.3 billion) and the central bank (£0.3 billion) were offset by reductions in lending to banks (£0.7 billion) and other financial institutions (£0.3 billion).
- China - lending to Chinese banks increased in the first three quarters of the year, supporting trade finance activities and on-shore regulatory needs, but by the end of 2011 exposure had decreased close to December 2010 levels. The Group reduced lending in the interbank money markets over the final quarter. This reduction in lending was offset by significant growth in repo trading with Chinese financial institutions helping to support the Group's funding requirements, with highly liquid US Treasuries being the main underlying security. A reduction in off-balance sheet exposures, including guarantees and undrawn commitments, was in part due to the run-off of performance bonds in respect of shipping deliveries and also due to reduced appetite for trade finance assets.
- South Korea - exposure decreased by £1.6 billion during 2011. This was largely due to a reduction in debt securities as the Group managed its wrong-way risk exposure. The Group maintained a cautious stance given the current global economic downturn.
- Turkey - exposures were managed down in most categories, with the non-strategic (mid-market) portfolio significantly reduced in 2011. Nonetheless, Turkey continues to be one of the Group's key emerging markets. The strategy remains client-centric, with the product offering tailored to selected client segments across large Turkish international corporate clients and financial institutions as well as Turkish subsidiaries of global clients.

Risk and balance sheet management (continued)

Risk management: Country risk (continued)

Key points (continued)

- Mexico - asset sales and a number of early repayments in the corporate portfolio led to exposure falling £0.8 billion in the year. This decline also reflects the Group's cautious approach to new business during the fourth quarter following its decision to close its onshore operation in Mexico.
- Eurozone periphery (Ireland, Spain, Italy, Greece and Portugal) - exposure decreased across most of the periphery, with derivatives (gross of collateral) and repos being the only component that still saw some increases year on year (partly an effect of market movements on existing positions). Most of the Group's country risk

exposure to the eurozone periphery countries arises from the activities of GBM and Ulster Bank (with respect to Ireland). The Group has some large holdings of Spanish bank and financial institution MBS bonds and smaller quantities of Italian bonds and Greek sovereign debt. GTS provides trade finance facilities to clients across Europe including the eurozone periphery.

The Group primarily transacts CDS contracts with investment-grade global financial institutions that are active participants in the CDS market. These transactions are subject to regular margining. For European peripheral sovereigns, credit protection has been purchased from a number of major European banks, predominantly outside the country of the reference entity. In a few cases where protection was bought from banks in the country of the reference entity, giving rise to wrong-way risk, this risk is mitigated through specific collateralisation. Due to their bespoke nature, exposures relating to CDPCs and related hedges have not been included, as they cannot be meaningfully attributed to a particular country or a reference entity. Exposures to CDPCs are disclosed on page 164.

The Group used CDS contracts throughout 2011 to manage both eurozone country and counterparty exposures. As shown in the individual country tables, this resulted in increases in both gross notional bought and sold eurozone CDS contracts, mainly on Italy, France and the Netherlands. The magnitude of the fair value of bought and sold CDS contracts increased over 2011 in line with the widening of eurozone CDS spreads.

For more specific commentary on the Group's exposure to each of the eurozone periphery countries, refer to pages 188 to 196. For commentary on the Group's exposure to other eurozone countries, see page 203.

Risk and balance sheet management (continued)

Risk management: Country risk: Eurozone

| | Lending | REIL | Provisions | AFS and LAR debt securities | AFS reserves | HFT debt securities | | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS Notion Bought |
|------------------------------------|---------|------|------------|--------------------------------------|-----------------|------------------------|--------|--------------------------|--|-------------------------------|-------------------------|
| 31 December 2011 | £m | £m | £m | £m | £m | Long | Short | £m | £m | £m | £m |
| Central and local | | | | | | | | | | | |
| government | 3,443 | - | - | 18,406 | 81 | 19,597 | 15,049 | 22,954 | 1,925 | 28,322 | 37,080 |
| Central banks | 27,282 | - | - | 20 | - | 6 | - | 26 | 5,770 | 33,078 | - |
| Other banks | 3,550 | - | - | 8,423 | (752) | 1,272 | 1,502 | 8,193 | 29,685 | 41,428 | 19,736 |
| Other financial institutions | 5,385 | - | - | 10,494 | (1,129) | 1,138 | 471 | 11,161 | 10,956 | 27,502 | 17,949 |

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| | | | | | | | | | | | |
|--|---------|--------|-------|--------|---------|--------|--------|--------|--------|---------|---------|
| Corporate | 47,522 | 14,152 | 7,267 | 964 | 23 | 528 | 59 | 1,433 | 4,118 | 53,073 | 76,966 |
| Personal | 19,564 | 2,280 | 1,069 | - | - | - | - | - | 1 | 19,565 | - |
| | 106,746 | 16,432 | 8,336 | 38,307 | (1,777) | 22,541 | 17,081 | 43,767 | 52,455 | 202,968 | 151,731 |
| 31 December 2010 Central and local | | | | | | | | | | | |
| government Central banks | 1,876 | - | - | 23,201 | (893) | 25,041 | 14,256 | 33,986 | 1,537 | 37,399 | 28,825 |
| Other banks | 19,659 | - | - | - | - | 7 | - | 7 | 6,382 | 26,048 | - |
| Other financial institutions | 4,320 | - | - | 9,192 | (916) | 1,719 | 1,187 | 9,724 | 25,639 | 39,683 | 16,616 |
| Corporate | 4,932 | - | - | 10,583 | (737) | 908 | 83 | 11,408 | 9,025 | 25,365 | 12,921 |
| Personal | 53,128 | 12,404 | 5,393 | 813 | 45 | 831 | 260 | 1,384 | 4,141 | 58,653 | 70,354 |
| | 21,383 | 1,642 | 537 | - | - | - | - | - | - | 21,383 | - |
| | 105,298 | 14,046 | 5,930 | 43,789 | (2,501) | 28,506 | 15,786 | 56,509 | 46,724 | 208,531 | 128,716 |

CDS bought protection: counterparty analysis by internal asset quality band

| | AQ1 | | AQ2-AQ3 | | AQ4-AQ9 | | AQ10 | | Total | |
|---------------------------------|----------|------------|----------|------------|----------|------------|----------|------------|----------|------------|
| | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| 31 December 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Banks | 67,624 | 5,585 | 1,085 | 131 | 198 | 23 | - | - | 68,907 | 5,739 |
| Other financial Institutions | 79,824 | 5,605 | 759 | 89 | 2,094 | 278 | 147 | 14 | 82,824 | 5,986 |
| Total | 147,448 | 11,190 | 1,844 | 220 | 2,292 | 301 | 147 | 14 | 151,731 | 11,725 |

Risk and balance sheet management (continued)

Risk management: Country risk: Ireland

| 31 December 2011 | Lending | REIL | Provisions | AFS and LAR debt securities | | HFT debt securities | | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS by ref | |
|------------------------|---------|------|------------|-----------------------------|----------------|---------------------|-------|-----------------------|---|-------------------------|------------|------|
| | | | | AFS reserves | AFS securities | Long | Short | | | | Bought | Sold |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |

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Central and local

| | | | | | | | | | | | | |
|------------------------------|--------|--------|-------|-----|------|-----|----|-----|-------|--------|-------|-------|
| government Central banks | 45 | - | - | 102 | (46) | 20 | 19 | 103 | 92 | 240 | 2,145 | 2,223 |
| Other banks | 1,467 | - | - | - | - | - | - | - | - | 1,467 | - | - |
| Other financial institutions | 136 | - | - | 177 | (39) | 195 | 14 | 358 | 1,459 | 1,953 | 110 | 107 |
| Corporate Personal | 336 | - | - | 61 | - | 116 | 35 | 142 | 855 | 1,333 | 523 | 630 |
| | 18,994 | 10,269 | 5,689 | 148 | 3 | 135 | - | 283 | 417 | 19,694 | 425 | 322 |
| | 18,858 | 2,258 | 1,048 | - | - | - | - | - | 1 | 18,859 | - | - |
| | 39,836 | 12,527 | 6,737 | 488 | (82) | 466 | 68 | 886 | 2,824 | 43,546 | 3,203 | 3,282 |

31 December 2010
Central and local

| | | | | | | | | | | | | |
|------------------------------|--------|-------|-------|-----|------|-----|-----|-------|-------|--------|-------|-------|
| government Central banks | 61 | - | - | 104 | (45) | 93 | 88 | 109 | 20 | 190 | 1,872 | 2,014 |
| Other banks | 2,119 | - | - | - | - | 7 | - | 7 | 126 | 2,252 | - | - |
| Other financial institutions | 87 | - | - | 435 | (51) | 96 | 45 | 486 | 1,523 | 2,096 | 317 | 312 |
| Corporate Personal | 813 | - | - | 291 | (1) | 205 | - | 496 | 837 | 2,146 | 566 | 597 |
| | 19,886 | 8,291 | 4,072 | 91 | (2) | 140 | 6 | 225 | 434 | 20,545 | 483 | 344 |
| | 20,228 | 1,638 | 534 | - | - | - | - | - | - | 20,228 | - | - |
| | 43,194 | 9,929 | 4,606 | 921 | (99) | 541 | 139 | 1,323 | 2,940 | 47,457 | 3,238 | 3,267 |

CDS bought protection: counterparty analysis by internal asset quality band

| | AQ1 | | AQ2-AQ3 | | AQ4-AQ9 | | AQ10 | | Total | |
|------------------------------|----------|------------|----------|------------|----------|------------|----------|------------|----------|------------|
| | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| 31 December 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Banks | 1,586 | 300 | 2 | - | - | - | - | - | 1,588 | 300 |
| Other financial Institutions | 1,325 | 232 | 161 | 1 | 129 | 7 | - | - | 1,615 | 240 |
| Total | 2,911 | 532 | 163 | 1 | 129 | 7 | - | - | 3,203 | 540 |

Risk and balance sheet management (continued)

Risk management: Country risk: Ireland (continued)

Key points

The Group's exposure to Ireland is driven by Ulster Bank Group (87% of the Group's Irish exposure at 31 December 2011). The portfolio is predominantly personal lending of £18.9 billion (largely mortgages) and corporate lending of £19.0 billion (largely loans to the property sector). In addition, the Group has lending and derivatives exposure to the Central Bank of Ireland, financial institutions and large international clients with funding units based in Ireland.

Group exposure declined in all categories, with notable reductions in lending of £3.4 billion and in off-balance sheet items of £1.4 billion over the year, as a result of currency movements and de-risking in the portfolio.

Central and local government and central bank

Exposure to the central bank fluctuates, driven by regulatory requirements and by deposits of excess liquidity as part of the Group's assets and liabilities management. Exposures fell by £0.7 billion over the year, with most of the decline occurring in the fourth quarter.

Financial institutions

GBM and Ulster Bank account for the majority of the Group's exposure to financial institutions. Exposure to the financial sector fell by £1.1 billion during the year, caused by a £0.4 billion reduction in lending, a £0.5 billion reduction in debt securities and smaller reductions in derivatives and repos and in off-balance sheet exposure. The largest category is derivatives and repos where exposure is affected predominantly by market movements and transactions are typically collateralised.

Corporate

Corporate lending exposure fell approximately £0.9 billion over the year, driven by a combination of exchange rate movements and write-offs. At the end of 2011, lending exposure was highest in the property sector (£11.6 billion), which is also the sector that experienced the largest year-on-year reduction (£0.4 billion). REIL and impairment provisions rose by £2.0 billion and £1.6 billion respectively over the year.

Personal

The Ulster Bank retail portfolio mainly consists of mortgages (approximately 95% of Ulster Bank personal lending at 31 December 2011), with the remainder comprising credit card and other personal lending. Overall personal lending exposure fell approximately £1.4 billion over the year as a result of exchange rate fluctuations, amortisation, a small amount of write-offs and a lack of demand in the market.

Non-Core (included above)

Refer to table on pages 182 and 183 for details.

Ireland Non-Core lending exposure was £10.2 billion at 31 December 2011, down by £0.6 billion or 6% since December 2010. The remaining lending portfolio largely consists of exposures to real estate (79%), retail (7%) and leisure (4%).

Risk and balance sheet management (continued)

Risk management: Country risk: Spain

| | Lending | REIL | Provisions | AFS and LAR debt securities | AFS reserves | HFT debt securities | | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS by re | |
|------------------------------------|---------|-------|------------|--------------------------------------|-----------------|---------------------------|-------|--------------------------|--|-------------------------------|--------------------|--------|
| | | | | | | Long | Short | | | | Notional Bought | Sold |
| 31 December 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Central and local | | | | | | | | | | | | |
| government Central | 9 | - | - | 33 | (15) | 360 | 751 | (358) | 35 | (314) | 5,151 | 5,151 |
| banks | 3 | - | - | - | - | - | - | - | - | 3 | - | - |
| Other banks | 206 | - | - | 4,892 | (867) | 162 | 214 | 4,840 | 1,622 | 6,668 | 1,965 | 1,931 |
| Other financial institutions | 154 | - | - | 1,580 | (639) | 65 | 8 | 1,637 | 282 | 2,073 | 2,417 | 2,204 |
| Corporate | 5,775 | 1,190 | 442 | 9 | - | 27 | - | 36 | 454 | 6,265 | 4,831 | 3,951 |
| Personal | 362 | - | - | - | - | - | - | - | - | 362 | - | - |
| | 6,509 | 1,190 | 442 | 6,514 | (1,521) | 614 | 973 | 6,155 | 2,393 | 15,057 | 14,364 | 13,222 |
| 31 December 2010 | | | | | | | | | | | | |
| Central and local | | | | | | | | | | | | |
| government Central | 19 | - | - | 88 | (7) | 1,172 | 1,248 | 12 | 53 | 84 | 3,820 | 3,921 |
| banks | 5 | - | - | - | - | - | - | - | - | 5 | - | - |
| Other banks | 166 | - | - | 5,264 | (834) | 147 | 118 | 5,293 | 1,482 | 6,941 | 2,087 | 2,151 |
| Other financial institutions | 92 | - | - | 1,724 | (474) | 34 | 7 | 1,751 | 22 | 1,865 | 1,648 | 1,381 |
| Corporate | 6,991 | 1,871 | 572 | 9 | 38 | 50 | 8 | 51 | 490 | 7,532 | 5,192 | 4,221 |
| Personal | 407 | 1 | - | - | - | - | - | - | - | 407 | - | - |

7,680 1,872 572 7,085 (1,277) 1,403 1,381 7,107 2,047 16,834 12,747 11,699

CDS bought protection: counterparty analysis by internal asset quality band

| | AQ1 | | AQ2-AQ3 | | AQ4-AQ9 | | AQ10 | | Total | |
|------------------------------|----------|------------|----------|------------|----------|------------|----------|------------|----------|------------|
| | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| 31 December 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Banks | 6,595 | 499 | 68 | 5 | 32 | 4 | - | - | 6,695 | 508 |
| Other financial Institutions | 7,238 | 736 | 162 | 3 | 269 | 50 | - | - | 7,669 | 789 |
| Total | 13,833 | 1,235 | 230 | 8 | 301 | 54 | - | - | 14,364 | 1,297 |

Risk and balance sheet management (continued)

Risk management: Country risk: Spain (continued)

Key points

The Group maintains strong relationships with Spanish government entities, banks, other financial institutions and large corporate clients. The exposure to Spain is driven by corporate lending and a large MBS covered bond portfolio.

Exposure fell in most categories in 2011, particularly in corporate lending, as a result of steps to de-risk the portfolio.

Central and local government and central bank

The Group's exposure to the government was negative at 31 December 2011, reflecting net short held-for-trading debt securities.

Financial institutions

A sizeable covered bond portfolio of £6.5 billion is the Group's largest exposure to the Spanish financial sector. The portfolio continued to perform satisfactorily in 2011. Stress analysis conducted to date on these available-for-sale debt securities indicated that this exposure is unlikely to suffer material credit losses. However, the Group continues to monitor the situation closely.

A further £1.9 billion of the Group's exposure to financial institutions consists of derivatives exposure to Spanish international banks and a few of the large regional banks, the majority of which is collateralised. This increased £0.4 billion in 2011, due partly to market movements.

Lending to banks consists mainly of short-term uncommitted credit lines with the top two international Spanish banks.

Corporate

Exposure to corporate clients declined during 2011, with reductions in lending of £1.2 billion and in off-balance sheet items of £0.4 billion, driven by reductions in exposure to property, transport and technology, media and telecommunications sectors. The majority of REIL relates to commercial real estate lending and decreased over the year, reflecting disposals and restructurings.

Non-Core (included above)

Refer to table on pages 182 and 183 for details.

At 31 December 2011, Non-Core had lending exposure of £3.7 billion to Spain, a reduction of £0.8 billion or 18% since December 2010. The real estate (66%), construction (11%), electricity (7%) and land transport (3%) sectors account for the majority of this lending exposure.

Risk and balance sheet management (continued)

Risk management: Country risk: Italy

| | Lending | | REIL Provisions | AFS and LAR debt securities | AFS reserves | HFT debt securities | | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS by re | |
|------------------------------|---------|-----|-----------------|-----------------------------|--------------|---------------------|-------|-----------------------|---|-------------------------|-----------------|--------|
| | £m | £m | | | | Long | Short | | | | Notional Bought | Sold |
| 31 December 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Central and local | | | | | | | | | | | | |
| government Central | - | - | - | 704 | (220) | 4,336 | 4,725 | 315 | 90 | 405 | 12,125 | 12,210 |
| banks | 73 | - | - | - | - | - | - | - | - | 73 | - | - |
| Other banks | 233 | - | - | 119 | (14) | 67 | 88 | 98 | 1,064 | 1,395 | 6,078 | 5,930 |
| Other financial institutions | 299 | - | - | 685 | (15) | 40 | 13 | 712 | 686 | 1,697 | 872 | 760 |
| Corporate | 2,444 | 361 | 113 | 75 | - | 58 | - | 133 | 474 | 3,051 | 4,742 | 4,290 |
| Personal | 23 | - | - | - | - | - | - | - | - | 23 | - | - |
| | 3,072 | 361 | 113 | 1,583 | (249) | 4,501 | 4,826 | 1,258 | 2,314 | 6,644 | 23,817 | 23,210 |
| 31 December 2010 | | | | | | | | | | | | |
| Central and local | 45 | - | - | 906 | (99) | 5,113 | 3,175 | 2,844 | 71 | 2,960 | 8,998 | 8,510 |

government

Central

banks

Other banks

Other

financial

institutions

Corporate

Personal

| | | | | | | | | | | | | |
|-------|-----|-----|-------|-------|-------|-------|-------|-------|-------|--------|-------|---|
| 78 | - | - | - | - | - | - | - | - | - | 78 | - | - |
| 668 | - | - | 198 | (11) | 67 | 16 | 249 | 782 | 1,699 | 4,417 | 4,45 | - |
| 418 | - | - | 646 | (5) | 49 | - | 695 | 759 | 1,872 | 723 | 69 | - |
| 2,483 | 314 | 141 | 20 | - | 36 | 8 | 48 | 420 | 2,951 | 4,506 | 3,96 | - |
| 27 | - | - | - | - | - | - | - | - | 27 | - | - | - |
| 3,719 | 314 | 141 | 1,770 | (115) | 5,265 | 3,199 | 3,836 | 2,032 | 9,587 | 18,644 | 17,64 | - |

CDS bought protection: counterparty analysis by internal asset quality band

| | AQ1 | | AQ2-AQ3 | | AQ4-AQ9 | | AQ10 | | Total | |
|------------------------------|----------|------------|----------|------------|----------|------------|----------|------------|----------|------------|
| | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| 31 December 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Banks | 12,904 | 1,676 | 487 | 94 | 61 | 10 | - | - | 13,452 | 1,780 |
| Other financial Institutions | 10,138 | 1,550 | 8 | 2 | 219 | 43 | - | - | 10,365 | 1,595 |
| Total | 23,042 | 3,226 | 495 | 96 | 280 | 53 | - | - | 23,817 | 3,375 |

Risk and balance sheet management (continued)

Risk management: Country risk: Italy (continued)

Key points

The Group maintains strong relationships with Italian government entities, banks, other financial institutions and large corporate clients. Since the start of 2011, the Group has taken steps to reduce its risks through strategic exits where appropriate, or to mitigate these risks through increased collateral requirements, in line with its evolving appetite for Italian risk. As a result, the Group reduced lending exposure to Italian counterparties by £0.6 billion over 2011 to £3.1 billion.

Central and local government and central bank

The Group is an active market-maker in Italian government bonds, resulting in large gross long and short positions in held-for-trading securities. Given this role, the Group left itself in a relatively modest long position at 31 December 2011 to avoid being temporarily over exposed as a result of its expected participation in the purchase of new government bonds being issued in January 2012.

Over 2011, the total government debt securities position declined by £2.5 billion to £0.3 billion, reflecting a rebalancing of the trading portfolio.

Financial institutions

The majority of the Group's exposure to Italian financial institutions relates to the top five banks. The Group's product offering consists largely of collateralised trading products and, to a lesser extent, short-term uncommitted lending lines for liquidity purposes. During the fourth quarter of the year, gross mtm derivatives exposure increased due to market movements but the risk was mitigated since most facilities are fully collateralised.

Corporate

Lending exposure fell slightly during 2011, with reductions in lending to the property industry offset by increased lending to manufacturing companies, particularly in the fourth quarter.

Non-Core (included above)

Refer to table on pages 182 and 183 for details.

Non-Core lending exposure was £1.2 billion at 31 December 2011, a £0.7 billion (39%) reduction since December 2010. The remaining lending exposure comprises mainly commercial real estate finance (22%), leisure (20%), unleveraged funds (16%), electricity (15%) and industrials (10%).

Risk and balance sheet management (continued)

Risk management: Country risk: Greece

| | Lending | REIL | Provisions | AFS and LAR debt securities | AFS reserves | HFT debt securities | | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS by ref | |
|------------------------------------|---------|------|------------|--------------------------------------|-----------------|---------------------------|-------|--------------------------|--|-------------------------------|--------------------|-------|
| | | | | | | Long | Short | | | | Notional Bought | Sold |
| 31 December 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Central and local | | | | | | | | | | | | |
| government Central | 7 | - | - | 312 | - | 102 | 5 | 409 | - | 416 | 3,158 | 3,165 |
| banks | 6 | - | - | - | - | - | - | - | - | 6 | - | - |
| Other banks | - | - | - | - | - | - | - | - | 290 | 290 | 22 | 22 |
| Other financial institutions | 31 | - | - | - | - | - | - | - | 2 | 33 | 34 | 34 |
| Corporate | 427 | 256 | 256 | - | - | - | - | - | 63 | 490 | 434 | 428 |
| Personal | 14 | - | - | - | - | - | - | - | - | 14 | - | - |

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| | | | | | | | | | | | | |
|--|-----|-----|-----|-----|-------|-----|----|-----|-----|-------|-------|-------|
| | 485 | 256 | 256 | 312 | - | 102 | 5 | 409 | 355 | 1,249 | 3,648 | 3,649 |
| 31 December 2010 Central and local | | | | | | | | | | | | |
| government Central banks | 14 | - | - | 895 | (694) | 118 | 39 | 974 | 7 | 995 | 2,960 | 3,061 |
| Other banks | 36 | - | - | - | - | - | - | - | - | 36 | - | - |
| Other financial institutions | 18 | - | - | - | - | - | - | - | 167 | 185 | 21 | 19 |
| Corporate | 31 | - | - | - | - | - | - | - | 3 | 34 | 35 | 35 |
| Personal | 191 | 48 | 48 | - | - | - | - | - | 50 | 241 | 511 | 616 |
| | 16 | - | - | - | - | - | - | - | - | 16 | - | - |
| | 306 | 48 | 48 | 895 | (694) | 118 | 39 | 974 | 227 | 1,507 | 3,527 | 3,731 |

CDS bought protection: counterparty analysis by internal asset quality band

| | AQ1 | | AQ2-AQ3 | | AQ4-AQ9 | | AQ10 | | Total | |
|---------------------------------|----------------|---------------------|----------------|---------------------|----------------|---------------------|----------------|---------------------|----------------|---------------------|
| | Notional £m | Fair value £m | Notional £m | Fair value £m | Notional £m | Fair value £m | Notional £m | Fair value £m | Notional £m | Fair value £m |
| 31 December 2011 | | | | | | | | | | |
| Banks | 2,001 | 1,345 | 1 | 1 | - | - | - | - | 2,002 | 1,346 |
| Other financial Institutions | 1,507 | 945 | 63 | 45 | 76 | 47 | - | - | 1,646 | 1,037 |
| Total | 3,508 | 2,290 | 64 | 46 | 76 | 47 | - | - | 3,648 | 2,383 |

Risk and balance sheet management (continued)

Risk management: Country risk: Greece (continued)

Key points

The Group has reduced its effective exposure to Greece and continues to actively manage its exposure to the country, in line with the de-risking strategy that has been in place since early 2010. Much of the remaining exposure is collateralised or guaranteed.

Central and local government and central bank

As a result of the continued deterioration in Greece's fiscal position, coupled with the potential for the restructuring of Greek sovereign debt, the Group recognised an impairment charge in respect of available-for-sale Greek government bonds.

Financial institutions

Activity with Greek financial companies is under close scrutiny; exposure is minimal.

Due to market movements, the gross derivatives exposure to banks increased by £0.1 billion during the year. The portfolio is largely collateralised.

Corporate

At the start of 2011, the Group reclassified the domicile of exposures to a number of defaulted clients, resulting in an increase in reported exposure to Greek corporate clients as well as increases in REIL and impairment provisions.

The Group's focus is now on short-term trade facilities to the domestic subsidiaries of international clients, increasingly supported by parental guarantees.

Non-Core (included above)

Refer to table on pages 182 and 183 for details.

The Non-Core division's lending exposure to Greece was £0.1 billion at 31 December 2011, a reduction of 28% since December 2010. The remaining lending portfolio primarily consists of the following sectors: financial intermediaries (33%), construction (20%), other services (16%) and electricity (14%).

Risk and balance sheet management (continued)

Risk management: Country risk: Portugal

| | Lending | REIL | Provisions | AFS and LAR debt securities | AFS reserves | HFT debt securities | | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS by ref | |
|------------------------------------|---------|------|------------|--------------------------------------|-----------------|---------------------------|-------|--------------------------|--|-------------------------------|--------------------|-------|
| | | | | | | Long | Short | | | | Notional Bought | Sold |
| 31 December 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Central and local | | | | | | | | | | | | |
| government | - | - | - | 56 | (58) | 36 | 152 | (60) | 19 | (41) | 3,304 | 3,413 |
| Other banks | 10 | - | - | 91 | (36) | 12 | 2 | 101 | 389 | 500 | 1,197 | 1,155 |
| Other financial institutions | - | - | - | 5 | - | 7 | - | 12 | 30 | 42 | 8 | 5 |
| Corporate | 495 | 27 | 27 | 42 | - | 18 | - | 60 | 81 | 636 | 366 | 321 |
| Personal | 5 | - | - | - | - | - | - | - | - | 5 | - | - |

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| | | | | | | | | | | | | |
|--|-----|----|----|-----|------|-----|-----|-----|-----|-------|-------|-------|
| | 510 | 27 | 27 | 194 | (94) | 73 | 154 | 113 | 519 | 1,142 | 4,875 | 4,894 |
| 31 December 2010 Central and local | | | | | | | | | | | | |
| government | 86 | - | - | 92 | (26) | 68 | 122 | 38 | 29 | 153 | 2,844 | 2,923 |
| Other banks | 63 | - | - | 106 | (24) | 46 | 2 | 150 | 307 | 520 | 1,085 | 1,107 |
| Other financial institutions | - | - | - | 47 | - | 7 | - | 54 | 7 | 61 | 9 | 6 |
| Corporate | 611 | 27 | 21 | - | 1 | - | - | - | 51 | 662 | 581 | 507 |
| Personal | 6 | - | - | - | - | - | - | - | - | 6 | - | - |
| | 766 | 27 | 21 | 245 | (49) | 121 | 124 | 242 | 394 | 1,402 | 4,519 | 4,543 |

CDS bought protection: counterparty analysis by internal asset quality band

| | AQ1 | | AQ2-AQ3 | | AQ4-AQ9 | | AQ10 | | Total | |
|---------------------------------|----------|------------|----------|------------|----------|------------|----------|------------|----------|------------|
| | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| 31 December 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Banks | 2,922 | 786 | 46 | 12 | - | - | - | - | 2,968 | 798 |
| Other financial Institutions | 1,874 | 517 | - | - | 33 | 15 | - | - | 1,907 | 532 |
| Total | 4,796 | 1,303 | 46 | 12 | 33 | 15 | - | - | 4,875 | 1,330 |

Risk and balance sheet management (continued)

Risk management: Country risk: Portugal (continued)

Key points

In early 2011, RBS closed its local operations in Portugal, leaving the Group with modest overall exposure of £1.4 billion by year-end. The portfolio, now managed out of Spain, is focused on corporate lending and derivatives trading with the largest local banks. Medium-term activity has ceased with the exception of that carried out under a Credit Support Annex.

Central and local government and central bank

During 2011, the Group's exposure to the Portuguese government was reduced to a very small derivatives position, the result of decreases in contingent and lending exposures to public sector entities by way of facility maturities. The Group's

exposure to the government was negative at 31 December 2011, reflecting net short held-for-trading debt securities.

Financial institutions

A major proportion of the remaining exposures is focused on the top four systemically important financial groups. Exposures generally consist of collateralised trading products.

Corporate

The largest non-financial corporate exposure is to the energy and transport sectors. The Group's exposure is concentrated on a few large, highly creditworthy clients.

Non-Core (included above)

Refer to table on pages 182 and 183 for details.

The Non-Core division's lending exposure to Portugal was £0.3 billion at 31 December 2011, an increase of 8% in the portfolio since December 2010, due to an infrastructure project drawing committed facilities. The portfolio comprises lending exposure to the land transport and logistics (52%), electricity (30%) and commercial real estate (14%) sectors. There is no exposure to central or local government.

Risk and balance sheet management (continued)

Risk management: Country risk: Germany

| 31 December 2011 | Lending £m | REIL £m | Provisions £m | AFS and LAR debt securities £m | AFS reserves £m | HFT debt securities | | Total debt securities £m | Derivatives (gross of collateral) and repos £m | Balance sheet exposures £m | CDS by ref | |
|------------------------------------|---------------|------------|------------------|--|-----------------------|---------------------------|-------|--------------------------------|--|-------------------------------------|--------------------------|------------|
| | | | | | | Long | Short | | | | Notional Bought £m | Sold £m |
| Central and local | | | | | | | | | | | | |
| government | - | - | - | 12,035 | 523 | 4,136 | 2,084 | 14,087 | 423 | 14,510 | 2,631 | 2,640 |
| Central banks | 18,068 | - | - | - | - | - | - | - | 5,704 | 23,772 | - | - |
| Other banks | 653 | - | - | 1,376 | 5 | 294 | 761 | 909 | 6,003 | 7,565 | 4,765 | 4,694 |
| Other financial institutions | 305 | - | - | 563 | (33) | 187 | 95 | 655 | 3,321 | 4,281 | 3,653 | 3,402 |
| Corporate | 6,608 | 191 | 80 | 109 | 9 | 14 | 7 | 116 | 586 | 7,310 | 20,433 | 18,311 |
| Personal | 155 | 19 | 19 | - | - | - | - | - | - | 155 | - | - |
| | 25,789 | 210 | 99 | 14,083 | 504 | 4,631 | 2,947 | 15,767 | 16,037 | 57,593 | 31,482 | 29,042 |

31
December
2010
Central and
local

| | | | | | | | | | | | | |
|------------------------------------|--------|-----|----|--------|------|-------|-------|--------|--------|--------|--------|--------|
| government | - | - | - | 10,648 | 1 | 5,964 | 4,124 | 12,488 | 160 | 12,648 | 2,056 | 2,173 |
| Central banks | 10,894 | - | - | - | - | - | - | - | 6,233 | 17,127 | - | - |
| Other banks | 1,060 | - | - | 1,291 | 3 | 567 | 481 | 1,377 | 6,289 | 8,726 | 3,848 | 3,933 |
| Other financial institutions | 422 | - | - | 494 | (47) | 195 | 17 | 672 | 1,951 | 3,045 | 2,712 | 2,633 |
| Corporate | 7,519 | 163 | 44 | 219 | 4 | 44 | 53 | 210 | 633 | 8,362 | 20,731 | 19,070 |
| Personal | 162 | - | - | - | - | - | - | - | - | 162 | - | - |
| | 20,057 | 163 | 44 | 12,652 | (39) | 6,770 | 4,675 | 14,747 | 15,266 | 50,070 | 29,347 | 27,813 |

CDS bought protection: counterparty analysis by internal asset quality band

| | AQ1 | | AQ2-AQ3 | | AQ4-AQ9 | | AQ10 | | Total | |
|---------------------------------|----------|------------|----------|------------|----------|------------|----------|------------|----------|------------|
| | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| 31 December 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Banks | 14,644 | 171 | 163 | 4 | 8 | - | - | - | 14,815 | 175 |
| Other financial Institutions | 16,315 | 357 | 18 | - | 334 | 6 | - | - | 16,667 | 363 |
| Total | 30,959 | 528 | 181 | 4 | 342 | 6 | - | - | 31,482 | 538 |

Risk and balance sheet management (continued)

Risk management: Country risk: Netherlands

| 31 December 2011 | Lending | REIL | Provisions | AFS and LAR debt | | HFT debt | | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS by ref | |
|------------------------|---------|------|------------|------------------|----------|----------|-------|-----------------------|---|-------------------------|-----------------|-------|
| | | | | securities | reserves | Long | Short | | | | Notional Bought | Sold |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Central and local | | | | | | | | | | | | |
| government | 2,567 | - | - | 1,447 | 74 | 849 | 591 | 1,705 | 41 | 4,313 | 1,206 | 1,189 |

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| | | | | | | | | | | | | |
|------------------------------|--------|-----|-----|-------|-------|-------|-----|-------|--------|--------|--------|--------|
| Central banks | 7,654 | - | - | - | - | 6 | - | 6 | 7 | 7,667 | - | - |
| Other banks | 623 | - | - | 802 | 217 | 365 | 278 | 889 | 7,574 | 9,086 | 965 | 995 |
| Other financial institutions | 1,575 | - | - | 6,804 | (386) | 290 | 108 | 6,986 | 1,914 | 10,475 | 5,772 | 5,541 |
| Corporate | 4,827 | 621 | 209 | 199 | 6 | 113 | 5 | 307 | 749 | 5,883 | 15,416 | 14,238 |
| Personal | 20 | 3 | 2 | - | - | - | - | - | - | 20 | - | - |
| | 17,266 | 624 | 211 | 9,252 | (89) | 1,623 | 982 | 9,893 | 10,285 | 37,444 | 23,359 | 21,963 |

31
December
2010
Central and
local

| | | | | | | | | | | | | |
|------------------------------|--------|-----|-----|--------|-------|-------|-----|--------|-------|--------|--------|--------|
| government | 914 | - | - | 3,469 | 16 | 1,426 | 607 | 4,288 | 46 | 5,248 | 1,195 | 999 |
| Central banks | 6,484 | - | - | - | - | - | - | - | - | 6,484 | - | - |
| Other banks | 554 | - | - | 984 | 2 | 223 | 275 | 932 | 5,021 | 6,507 | 784 | 789 |
| Other financial institutions | 1,801 | - | - | 6,612 | (185) | 344 | 12 | 6,944 | 3,116 | 11,861 | 4,210 | 3,985 |
| Corporate | 6,170 | 388 | 149 | 264 | 3 | 152 | 57 | 359 | 875 | 7,404 | 12,330 | 11,113 |
| Personal | 81 | 3 | 3 | - | - | - | - | - | - | 81 | - | - |
| | 16,004 | 391 | 152 | 11,329 | (164) | 2,145 | 951 | 12,523 | 9,058 | 37,585 | 18,519 | 16,886 |

CDS bought protection: counterparty analysis by internal asset quality band

| | AQ1 | | AQ2-AQ3 | | AQ4-AQ9 | | AQ10 | | Total | |
|------------------------------|----------|------------|----------|------------|----------|------------|----------|------------|----------|------------|
| | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| 31 December 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Banks | 7,605 | 107 | 88 | 1 | 6 | - | - | - | 7,699 | 108 |
| Other financial Institutions | 14,529 | 231 | 308 | 37 | 676 | 81 | 147 | 14 | 15,660 | 363 |
| Total | 22,134 | 338 | 396 | 38 | 682 | 81 | 147 | 14 | 23,359 | 471 |

Risk and balance sheet management (continued)

Risk management: Country risk: France

| | | | | | | | |
|-------------------------|---------|--------------|-----|-----------------------|-----------------------|---------------|-----------------|
| Lending REIL Provisions | AFS and | AFS reserves | HFT | Total debt securities | Derivatives (gross of | Balance sheet | CDS by Notional |
|-------------------------|---------|--------------|-----|-----------------------|-----------------------|---------------|-----------------|

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| | | | LAR | | debt | | collateral) | | exposures | | Bought | Sold |
|------------------------------|-------|-----|-----|-------|------|-------|-------------|-------|-----------|--------|--------|--------|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | | |
| 31 December 2011 | | | | | | | | | | | | |
| Central and local | | | | | | | | | | | | |
| government Central banks | 481 | - | - | 2,648 | (14) | 8,705 | 5,669 | 5,684 | 357 | 6,522 | 3,467 | 2,900 |
| Other banks | 3 | - | - | 20 | - | - | - | 20 | 12 | 35 | - | - |
| Other financial institutions | 1,273 | - | - | 889 | (17) | 157 | 75 | 971 | 7,271 | 9,515 | 4,232 | 3,900 |
| Corporate Personal | 437 | - | - | 642 | (40) | 325 | 126 | 841 | 675 | 1,953 | 2,590 | 2,000 |
| | 3,761 | 128 | 74 | 240 | 9 | 72 | 34 | 278 | 743 | 4,782 | 23,224 | 21,500 |
| | 79 | - | - | - | - | - | - | - | - | 79 | - | - |
| | 6,034 | 128 | 74 | 4,439 | (62) | 9,259 | 5,904 | 7,794 | 9,058 | 22,886 | 33,513 | 30,500 |

| | | | | | | | | | | | | |
|------------------------------|-------|-----|----|-------|------|--------|-------|--------|-------|--------|--------|--------|
| 31 December 2010 | | | | | | | | | | | | |
| Central and local | | | | | | | | | | | | |
| government Central banks | 511 | - | - | 5,912 | 40 | 10,266 | 3,968 | 12,210 | 362 | 13,083 | 2,225 | 2,200 |
| Other banks | 3 | - | - | - | - | - | - | - | 15 | 18 | - | - |
| Other financial institutions | 1,095 | - | - | 774 | - | 410 | 204 | 980 | 7,183 | 9,258 | 3,631 | 3,000 |
| Corporate Personal | 470 | - | - | 666 | (22) | 42 | 23 | 685 | 375 | 1,530 | 1,722 | 1,600 |
| | 4,376 | 230 | 46 | 71 | 1 | 185 | 90 | 166 | 672 | 5,214 | 19,771 | 18,400 |
| | 102 | - | - | - | - | - | - | - | - | 102 | - | - |
| | 6,557 | 230 | 46 | 7,423 | 19 | 10,903 | 4,285 | 14,041 | 8,607 | 29,205 | 27,349 | 25,400 |

CDS bought protection: counterparty analysis by internal asset quality band

| | AQ1 | | AQ2-AQ3 | | AQ4-AQ9 | | AQ10 | | Total | |
|------------------------------|----------|------------|----------|------------|----------|------------|----------|------------|----------|------------|
| | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| 31 December 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Banks | 13,353 | 453 | 162 | 13 | 79 | 8 | - | - | 13,594 | 474 |
| Other financial Institutions | 19,641 | 758 | 24 | 1 | 254 | 22 | - | - | 19,919 | 781 |

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| | | | | | | | | | | |
|-------|--------|-------|-----|----|-----|----|---|---|--------|-------|
| Total | 32,994 | 1,211 | 186 | 14 | 333 | 30 | - | - | 33,513 | 1,255 |
|-------|--------|-------|-----|----|-----|----|---|---|--------|-------|

Risk and balance sheet management (continued)

Risk management: Country risk: Luxembourg

| | Lending | REIL | Provisions | AFS and LAR debt securities | | HFT debt securities | | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS by reference | |
|------------------------------|---------|------|------------|-----------------------------|------|---------------------|-------|-----------------------|---|-------------------------|------------------|-------|
| | | | | reserves | debt | Long | Short | | | | Bought | Sold |
| 31 December 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Other banks | 101 | - | - | 10 | - | 7 | - | 17 | 546 | 664 | - | - |
| Other financial institutions | 1,779 | - | - | 54 | (7) | 82 | 80 | 56 | 2,963 | 4,798 | 2,080 | 1,976 |
| Corporate | 2,228 | 897 | 301 | 5 | - | 58 | 6 | 57 | 180 | 2,465 | 2,478 | 2,138 |
| Personal | 2 | - | - | - | - | - | - | - | - | 2 | - | - |
| | 4,110 | 897 | 301 | 69 | (7) | 147 | 86 | 130 | 3,689 | 7,929 | 4,558 | 4,114 |
| 31 December 2010 | | | | | | | | | | | | |
| Central and local government | - | - | - | - | - | 24 | - | 24 | - | 24 | - | - |
| Central banks | 25 | - | - | - | - | - | - | - | - | 25 | - | - |
| Other banks | 26 | - | - | 30 | (1) | 45 | - | 75 | 499 | 600 | - | - |
| Other financial institutions | 734 | - | - | 99 | (3) | 32 | 19 | 112 | 1,800 | 2,646 | 1,296 | 1,220 |
| Corporate | 2,503 | 807 | 206 | 5 | 1 | 183 | 21 | 167 | 246 | 2,916 | 2,367 | 1,918 |
| Personal | 3 | - | - | - | - | - | - | - | - | 3 | - | - |
| | 3,291 | 807 | 206 | 134 | (3) | 284 | 40 | 378 | 2,545 | 6,214 | 3,663 | 3,138 |

CDS bought protection: counterparty analysis by internal asset quality band

| | AQ1 | | AQ2-AQ3 | | AQ4-AQ9 | | AQ10 | | Total | |
|--|----------|------------|----------|------------|----------|------------|----------|------------|----------|------------|
| | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |

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| | | | | | | | | | | | |
|------------------------------|-------|-----|----|---|----|---|---|---|-------|-----|--|
| 31 December 2011 | | | | | | | | | | | |
| Banks | 1,535 | 93 | 16 | - | - | - | - | - | 1,551 | 93 | |
| Other financial Institutions | 2,927 | 164 | 10 | - | 70 | 7 | - | - | 3,007 | 171 | |
| Total | 4,462 | 257 | 26 | - | 70 | 7 | - | - | 4,558 | 264 | |

Risk and balance sheet management (continued)

Risk management: Country risk: Belgium

| 31 December 2011 | Lending | REIL | Provisions | AFS and LAR debt securities | AFS reserves | HFT debt securities | | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS by reference | |
|------------------------------|---------|------|------------|-----------------------------|--------------|---------------------|-------|-----------------------|---|-------------------------|------------------|---------------|
| | | | | | | Long | Short | | | | Notional Bought | Notional Sold |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Central and local | | | | | | | | | | | | |
| government Central banks | 213 | - | - | 742 | (116) | 608 | 722 | 628 | 89 | 930 | 1,612 | 1,505 |
| Other banks | 8 | - | - | - | - | - | - | - | 3 | 11 | - | - |
| Other financial institutions | 287 | - | - | 4 | - | - | - | 4 | 2,450 | 2,741 | 312 | 302 |
| Corporate | 354 | - | - | - | - | 1 | 4 | (3) | 191 | 542 | - | - |
| Personal | 588 | 31 | 21 | 3 | - | 20 | - | 23 | 277 | 888 | 563 | 570 |
| | 20 | - | - | - | - | - | - | - | - | 20 | - | - |
| | 1,470 | 31 | 21 | 749 | (116) | 629 | 726 | 652 | 3,010 | 5,132 | 2,487 | 2,377 |
| 31 December 2010 | | | | | | | | | | | | |
| Central and local | | | | | | | | | | | | |
| government Central banks | 102 | - | - | 763 | (54) | 529 | 602 | 690 | 92 | 884 | 880 | 986 |
| Other banks | 14 | - | - | - | - | - | - | - | 7 | 21 | - | - |
| Other financial institutions | 441 | - | - | 39 | 1 | 66 | 2 | 103 | 1,822 | 2,366 | 278 | 266 |
| Corporate | 32 | - | - | - | - | - | - | - | 126 | 158 | - | - |
| | 893 | 27 | 27 | 1 | - | 11 | 2 | 10 | 191 | 1,094 | 628 | 594 |

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| | | | | | | | | | | | | |
|----------|-------|----|----|-----|------|-----|-----|-----|-------|-------|-------|-------|
| Personal | 327 | - | - | - | - | - | - | - | - | 327 | - | - |
| | 1,809 | 27 | 27 | 803 | (53) | 606 | 606 | 803 | 2,238 | 4,850 | 1,786 | 1,846 |

CDS bought protection: counterparty analysis by internal asset quality band

| | AQ1 | | AQ2-AQ3 | | AQ4-AQ9 | | AQ10 | | Total | | | |
|------------------------------|----------|------------|----------|------------|----------|------------|----------|------------|----------|------------|--|--|
| | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value | | |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | | |
| 31 December 2011 | | | | | | | | | | | | |
| Banks | 1,602 | 97 | 2 | - | 12 | 1 | - | - | 1,616 | 98 | | |
| Other financial Institutions | 866 | 48 | 1 | - | 4 | - | - | - | 871 | 48 | | |
| Total | 2,468 | 145 | 3 | - | 16 | 1 | - | - | 2,487 | 146 | | |

Risk and balance sheet management (continued)

Risk management: Country risk: Rest of eurozone (1)

| | Lending | REIL | Provisions | AFS and LAR debt securities | | HFT debt securities | | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS by reference | |
|------------------------------|---------|------|------------|-----------------------------|------|---------------------|-------|-----------------------|---|-------------------------|------------------|---------------|
| | | | | reserves | debt | Long | Short | | | | Notional Bought | Notional Sold |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| 31 December 2011 | | | | | | | | | | | | |
| Central and local | | | | | | | | | | | | |
| government | 121 | - | - | 327 | (47) | 445 | 331 | 441 | 779 | 1,341 | 2,281 | 2,350 |
| Central banks | - | - | - | - | - | - | - | - | 44 | 44 | - | - |
| Other banks | 28 | - | - | 63 | (1) | 13 | 70 | 6 | 1,017 | 1,051 | 90 | 87 |
| Other financial institutions | 115 | - | - | 100 | (9) | 25 | 2 | 123 | 37 | 275 | - | - |
| Corporate | 1,375 | 181 | 55 | 134 | (4) | 13 | 7 | 140 | 94 | 1,609 | 4,054 | 3,944 |
| Personal | 26 | - | - | - | - | - | - | - | - | 26 | - | - |
| | 1,665 | 181 | 55 | 624 | (61) | 496 | 410 | 710 | 1,971 | 4,346 | 6,425 | 6,381 |
| 31 December 2010 | | | | | | | | | | | | |
| | 124 | - | - | 324 | (25) | 268 | 283 | 309 | 697 | 1,130 | 1,975 | 2,190 |

Central and
local

government
Central

| | | | | | | | | | | | | |
|------------------------------------|-------|-----|----|-----|------|-----|-----|-----|-------|-------|-------|-------|
| banks | 1 | - | - | - | - | - | - | - | 1 | 2 | - | - |
| Other banks | 142 | - | - | 71 | (1) | 52 | 44 | 79 | 564 | 785 | 148 | 142 |
| Other financial institutions | 119 | - | - | 4 | - | - | 5 | (1) | 29 | 147 | - | - |
| Corporate | 1,505 | 238 | 67 | 133 | (1) | 30 | 15 | 148 | 79 | 1,732 | 3,254 | 2,966 |
| Personal | 24 | - | - | - | - | - | - | - | - | 24 | - | - |
| | 1,915 | 238 | 67 | 532 | (27) | 350 | 347 | 535 | 1,370 | 3,820 | 5,377 | 5,298 |

CDS bought protection: counterparty analysis by internal asset quality band

| | AQ1 | | AQ2-AQ3 | | AQ4-AQ9 | | AQ10 | | Total | |
|---------------------------------|----------|------------|----------|------------|----------|------------|----------|------------|----------|------------|
| | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| 31 December 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Banks | 2,877 | 58 | 50 | 1 | - | - | - | - | 2,927 | 59 |
| Other financial Institutions | 3,464 | 67 | 4 | - | 30 | - | - | - | 3,498 | 67 |
| Total | 6,341 | 125 | 54 | 1 | 30 | - | - | - | 6,425 | 126 |

Note: (1) Comprises Austria, Cyprus, Estonia, Finland, Malta, Slovakia and Slovenia.

Risk and balance sheet management (continued)

Risk management: Country risk: Eurozone non-periphery

Key points

Due to credit risk and capital considerations, the Group increased exposure to central banks (particularly in Germany and the Netherlands) by depositing with them higher levels of surplus liquidity on a short-term basis, given the limited alternative investment opportunities.

During 2011, in anticipation of widening credit spreads and for reasons of general risk management, the Group reduced its holdings in French and Dutch AFS sovereign bonds. The Group concurrently increased its holdings of German AFS sovereign debt in line with internal liquidity and risk management strategies.

Financial institutions

France - approximately half of the lending to banks is to the top three banks.

Luxembourg - lending to non-bank financial institutions increased by £1.0 billion during 2011, reflecting collateral relating to derivatives and repos.

Corporate

Netherlands - corporate lending fell £1.3 billion over 2011, driven by the manufacturing, natural resources and services sectors. The relatively large contingent liabilities and commitments declined £7.9 billion.

Non-Core (included above)

Refer to table on pages 182 and 183 for details.

Non-Core lending exposure has been generally reduced in line with the Group's strategic plan. Lending exposure in France was £2.3 billion at 31 December 2011, having declined £0.5 billion during 2011. The lending portfolio mainly comprises property (45%) and sovereign and quasi-sovereign (20%) exposures.

Non-Core lending exposure in Germany was £5.4 billion at 31 December 2011, down £1.1 billion since December 2010. The lending portfolio is mostly in the property (44%) and transport (35%) sectors.

Non-Core lending exposure in the Netherlands was £2.5 billion at 31 December 2011, down £0.7 billion year on year. The portfolio mainly comprises exposures to the property (66%) and technology, media and telecommunications (19%) sectors.

Risk and balance sheet management (continued)

Risk management: Country risk

Notes to tables on page 182 to 202.

Lending comprises gross loans and advances to: central and local governments; central banks, including cash balances; other banks and financial institutions, incorporating overdraft and other short-term facilities; corporations, in large part loans and leases; and individuals, comprising mortgages, personal loans and credit card balances. Lending includes impaired loans and loans where an impairment event has taken place but no impairment provision is recognised.

Debt securities comprise securities classified as available-for-sale (AFS), loans and receivables (LAR), held-for-trading (HFT) and designated as at fair value through profit or loss (DFV). All debt securities other than LAR securities are carried at fair value. LAR debt securities are carried at amortised cost less impairment. HFT debt securities are presented as gross long positions (including DFV securities) and short positions per country. Impairment losses and exchange differences relating to AFS debt securities, together with interest are recognised in the income statement; other changes in the fair value of AFS securities are reported within AFS reserves, which are presented gross of tax.

Derivatives comprise the mark-to-market (mtm) value of such contracts after the effect of enforceable netting agreements, but gross of collateral. Reverse repurchase agreements (repos) comprise the mtm value of counterparty exposure arising from repo transactions net of collateral.

Balance sheet exposures comprise lending exposures, debt securities and derivatives and repo exposures.

Contingent liabilities and commitments comprise contingent liabilities, including guarantees, and committed undrawn facilities.

Asset Quality (AQ) - for the probability of default range relating to each internal asset quality band, refer to page 163.

Credit default swap (CDS) under CDS contract, the credit risk on the reference entity is transferred from the buyer to the seller. The fair value, or mtm, represents the balance sheet carrying value. The mtm value of CDSs is included within derivatives against the counterparty of the trade, as opposed to the reference entity. The notional is the par amount of the credit protection bought or sold and is included against the reference entity of the CDS contract.

The column CDS notional less fair value represents the notional less fair value amounts arising from sold positions netted against those arising from bought positions, and represents the net change in exposure for a given reference entity should the CDS contract be triggered by a credit event, assuming there is zero recovery rate. However, in most cases, the Group expects the recovery rate to be greater than zero and the change in exposure to be less than this amount.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: 23 February 2012

THE ROYAL BANK OF
SCOTLAND GROUP plc
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill
Title: Deputy Secretary