

ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
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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 May 4, 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

Balance sheet management

Capital

The Group aims to maintain an appropriate level of capital to meet its business needs and regulatory requirements. Capital adequacy and risk management are closely aligned. The Group's risk-weighted assets and risk asset ratios, calculated in accordance with Financial Services Authority (FSA) definitions, are set out below.

| | 31 March 2012 | 31 December 2011 |
|--------------------------------------|------------------|------------------------|
| | £bn | £bn |
| Risk-weighted assets (RWAs) by risk | | |
| Credit risk | 332.9 | 344.3 |
| Counterparty risk | 56.8 | 61.9 |
| Market risk | 61.0 | 64.0 |
| Operational risk | 45.8 | 37.9 |
| | 496.5 | 508.1 |
| Asset Protection Scheme (APS) relief | (62.2) | (69.1) |
| | 434.3 | 439.0 |
| Risk asset ratios | % | % |
| Core Tier 1 | 10.8 | 10.6 |
| Tier 1 | 13.2 | 13.0 |
| Total | 14.0 | 13.8 |

Key points

- RWAs excluding the effect of APS relief fell by £11.6 billion, largely reflecting the impact of large corporate portfolio deleveraging on credit risk RWAs in UK Corporate and International Banking and continued risk reduction in Non-Core.
- The decreases in counterparty risk (£5.1 billion) and market risk (£3.0 billion) RWAs were primarily in the Markets portfolios in Core and Non-Core.
- Operational risk RWAs, which are based on Group income for the three prior years, increased by £7.9 billion as 2008, when the Group recorded a substantial reduction in income, dropped out of the calculation.

- APS RWA relief declined by £6.9 billion, principally reflecting the £11.0 billion decrease in covered assets to £120.8 billion at 31 March 2012, mainly due to maturities, repayments and run-off.
- The Core Tier 1 APS benefit declined marginally from 90bp to 85bp at 31 March 2012.

Risk and balance sheet management (continued)

Balance sheet management: Capital (continued)

The Group's regulatory capital resources in accordance with FSA definitions were as follows:

| | 31 March 2012 £m | 31 December 2011 £m |
|--|---------------------------|------------------------------|
| Shareholders' equity (excluding non-controlling interests) | | |
| Shareholders' equity per balance sheet | 73,416 | 74,819 |
| Preference shares - equity | (4,313) | (4,313) |
| Other equity instruments | (431) | (431) |
| | 68,672 | 70,075 |
| Non-controlling interests | | |
| Non-controlling interests per balance sheet | 1,215 | 1,234 |
| Non-controlling preference shares | (548) | (548) |
| Other adjustments to non-controlling interests for regulatory purposes | (259) | (259) |
| | 408 | 427 |
| Regulatory adjustments and deductions | | |
| Own credit | (845) | (2,634) |
| Unrealised losses on AFS debt securities | 547 | 1,065 |
| Unrealised gains on AFS equity shares | (108) | (108) |
| Cash flow hedging reserve | (921) | (879) |
| Other adjustments for regulatory purposes | 630 | 571 |
| Goodwill and other intangible assets | (14,771) | (14,858) |
| 50% excess of expected losses over impairment provisions (net of tax) | (2,791) | (2,536) |
| 50% of securitisation positions | (1,530) | (2,019) |
| 50% of APS first loss | (2,489) | (2,763) |
| | (22,278) | (24,161) |
| Core Tier 1 capital | 46,802 | 46,341 |

| | | |
|---|--------|--------|
| Other Tier 1 capital | | |
| Preference shares - equity | 4,313 | 4,313 |
| Preference shares - debt | 1,064 | 1,094 |
| Innovative/hybrid Tier 1 securities | 4,557 | 4,667 |
| | 9,934 | 10,074 |
| Tier 1 deductions | | |
| 50% of material holdings | (300) | (340) |
| Tax on excess of expected losses over impairment provisions | 906 | 915 |
| | 606 | 575 |
| Total Tier 1 capital | 57,342 | 56,990 |

Risk and balance sheet management (continued)

Balance sheet management: Capital (continued)

| | 31 March 2012 £m | 31 December 2011 £m |
|--|------------------------|------------------------------|
| Qualifying Tier 2 capital | | |
| Undated subordinated debt | 1,817 | 1,838 |
| Dated subordinated debt - net of amortisation | 13,561 | 14,527 |
| Unrealised gains on AFS equity shares | 108 | 108 |
| Collectively assessed impairment provisions | 571 | 635 |
| Non-controlling Tier 2 capital | 11 | 11 |
| | 16,068 | 17,119 |
| Tier 2 deductions | | |
| 50% of securitisation positions | (1,530) | (2,019) |
| 50% excess of expected losses over impairment provisions | (3,697) | (3,451) |
| 50% of material holdings | (300) | (340) |
| 50% of APS first loss | (2,489) | (2,763) |
| | (8,016) | (8,573) |
| Total Tier 2 capital | 8,052 | 8,546 |
| Supervisory deductions | | |
| Unconsolidated investments | | |
| - Direct Line Group | (4,130) | (4,354) |
| - Other investments | (248) | (239) |
| Other deductions | (212) | (235) |
| | (4,590) | (4,828) |
| Total regulatory capital | 60,804 | 60,708 |

| | 31 March 2012 £m |
|--|------------------------|
| Movement in Core Tier 1 capital | |
| At beginning of the quarter | 46,341 |
| Attributable profit net of movements in fair value of own debt | 265 |
| Foreign currency reserves | (548) |
| Decrease in non-controlling interests | (19) |
| Decrease in capital deductions including APS first loss | 508 |
| Decrease in goodwill and other intangible assets | 87 |
| Other movements | 168 |
| At end of the quarter | 46,802 |

Risk and balance sheet management (continued)

Balance sheet management: Capital: Risk-weighted assets by division
Risk-weighted assets by risk category and division are set out below.

| 31 March 2012 | Credit risk £bn | Counterparty risk £bn | Market risk £bn | Operational risk £bn | Gross RWAs £bn |
|---------------------------------|-----------------------|-----------------------------|-----------------------|----------------------------|----------------------|
| UK Retail | 40.4 | - | - | 7.8 | 48.2 |
| UK Corporate Wealth | 68.3 | - | - | 8.6 | 76.9 |
| International Banking | 10.9 | - | 0.1 | 1.9 | 12.9 |
| Ulster Bank | 37.0 | - | - | 4.8 | 41.8 |
| US Retail & Commercial | 35.9 | 0.7 | 0.1 | 1.7 | 38.4 |
| | 52.8 | 0.9 | - | 4.9 | 58.6 |
| Retail & Commercial | 245.3 | 1.6 | 0.2 | 29.7 | 276.8 |
| Markets | 15.0 | 36.5 | 48.4 | 15.7 | 115.6 |
| Other | 9.0 | 0.2 | - | 1.8 | 11.0 |
| Core | 269.3 | 38.3 | 48.6 | 47.2 | 403.4 |
| Non-Core | 60.6 | 18.5 | 12.4 | (1.6) | 89.9 |
| Group before RFS Holdings MI | 329.9 | 56.8 | 61.0 | 45.6 | 493.3 |
| RFS Holdings MI | 3.0 | - | - | 0.2 | 3.2 |
| Group APS relief | 332.9 (53.9) | 56.8 (8.3) | 61.0 - | 45.8 - | 496.5 (62.2) |
| Net RWAs | 279.0 | 48.5 | 61.0 | 45.8 | 434.3 |

31 December 2011

| | | | | | |
|------------------------|--------|-------|------|-------|--------|
| UK Retail | 41.1 | - | - | 7.3 | 48.4 |
| UK Corporate | 71.2 | - | - | 8.1 | 79.3 |
| Wealth | 10.9 | - | 0.1 | 1.9 | 12.9 |
| International Banking | 38.9 | - | - | 4.3 | 43.2 |
| Ulster Bank | 33.6 | 0.6 | 0.3 | 1.8 | 36.3 |
| US Retail & Commercial | 53.6 | 1.0 | - | 4.7 | 59.3 |
| Retail & Commercial | 249.3 | 1.6 | 0.4 | 28.1 | 279.4 |
| Markets | 16.7 | 39.9 | 50.6 | 13.1 | 120.3 |
| Other | 9.8 | 0.2 | - | 2.0 | 12.0 |
| Core | 275.8 | 41.7 | 51.0 | 43.2 | 411.7 |
| Non-Core | 65.6 | 20.2 | 13.0 | (5.5) | 93.3 |
| Group before RFS | | | | | |
| Holdings MI | 341.4 | 61.9 | 64.0 | 37.7 | 505.0 |
| RFS Holdings MI | 2.9 | - | - | 0.2 | 3.1 |
| Group | 344.3 | 61.9 | 64.0 | 37.9 | 508.1 |
| APS relief | (59.6) | (9.5) | - | - | (69.1) |
| Net RWAs | 284.7 | 52.4 | 64.0 | 37.9 | 439.0 |

Risk and balance sheet management (continued)

Balance sheet management: Liquidity and funding risk

Summary

The Group continued to strengthen and de-risk its balance sheet, the benefits of which are reflected in improvements in its strong liquidity and funding metrics.

- Short-term wholesale funding excluding derivative collateral declined by £22.7 billion to £79.7 billion, 8% of the funded balance sheet, meeting the Group's medium-term target of less than 10%.
- In light of continued economic uncertainty, the Group has taken a prudent view and maintained a liquidity portfolio of £152.7 billion which is nearly twice short-term wholesale funding. This includes £69.5 billion of central bank cash balances, more than 2.5 times the Group's outstanding commercial paper and certificates of deposit.
- UK Retail deposits, both current and savings accounts, grew strongly, up 2% in Q1 2012. This growth was offset by a seasonal drop-off in deposits across other divisions. As a result, Group customer deposits decreased by 1%.

- The Group loan:deposit ratio improved due to deleveraging and stood at 106% at 31 March 2012 compared with 108% at 31 December 2011 and 116% at 31 March 2011.

Funding sources

The table below shows the Group's primary funding sources including deposits in disposal groups and excluding repurchase agreements.

| | 31 March 2012 | | 31 December 2011 | |
|--|---------------|-------|------------------|-------|
| | £m | % | £m | % |
| Deposits by banks | | | | |
| - derivative cash collateral | 29,390 | 4.4 | 31,807 | 4.6 |
| - other deposits | 36,428 | 5.5 | 37,307 | 5.3 |
| | 65,818 | 9.9 | 69,114 | 9.9 |
| Debt securities in issue | | | | |
| - conduit asset backed commercial paper (ABCP) | 9,354 | 1.4 | 11,164 | 1.6 |
| - other commercial paper (CP) | 3,253 | 0.5 | 5,310 | 0.8 |
| - certificates of deposit (CDs) | 14,575 | 2.2 | 16,367 | 2.4 |
| - medium-term notes (MTNs) | 90,674 | 13.6 | 105,709 | 15.2 |
| - covered bonds | 10,107 | 1.5 | 9,107 | 1.3 |
| - securitisations | 14,980 | 2.2 | 14,964 | 2.1 |
| | 142,943 | 21.4 | 162,621 | 23.4 |
| Subordinated liabilities | 25,513 | 3.9 | 26,319 | 3.8 |
| Notes issued | 168,456 | 25.3 | 188,940 | 27.2 |
| Wholesale funding | 234,274 | 35.2 | 258,054 | 37.1 |
| Customer deposits | | | | |
| - cash collateral | 8,829 | 1.3 | 9,242 | 1.4 |
| - other deposits | 423,659 | 63.5 | 427,511 | 61.5 |
| Total customer deposits | 432,488 | 64.8 | 436,753 | 62.9 |
| Total funding | 666,762 | 100.0 | 694,807 | 100.0 |
| Disposal group deposits included above | | | | |
| - banks | 83 | | 1 | |
| - customers | 22,281 | | 22,610 | |
| | 22,364 | | 22,611 | |

Risk and balance sheet management (continued)

Balance sheet management: Liquidity and funding risk: Funding sources (continued)

| | 31 | |
|---|----------|----------|
| | 31 March | December |
| | 2012 | 2011 |
| | £bn | £bn |
| Short-term wholesale funding (STWF) (1) | | |
| Bank deposits | 32.7 | 32.9 |
| Notes issued (2) | 47.0 | 69.5 |
| STWF excluding derivative collateral | 79.7 | 102.4 |
| Derivative collateral | 29.4 | 31.8 |
| STWF including derivative collateral | 109.1 | 134.2 |
| Interbank funding excluding derivative collateral (3) | | |
| - bank deposits | 36.4 | 37.3 |
| - bank loans | (19.7) | (24.3) |
| Net interbank funding | 16.7 | 13.0 |

Notes:

- (1) Short-term balances denote those with a residual maturity of less than one year and includes longer-term instruments that mature within twelve months of the reporting date.
- (2) See page 97 for details.
- (3) Deposits and loans include all maturities.

Key points

- Short-term wholesale funding excluding derivative collateral declined by £22.7 billion from £102.4 billion to £79.7 billion, primarily due to the maturity of £15.6 billion of notes issued under the UK Government Credit Guarantee Scheme (CGS). The remaining CGS notes of £5.7 billion will be repaid by May 2012.
- Commercial paper and certificates of deposit declined by £5.7 billion in the quarter and this trend is expected to continue in light of the Group's funding strategy.
- The Group continues to actively diversify its wholesale funding sources through access to both the secured and unsecured wholesale debt markets. During the quarter, the Group raised £2.3 billion of net term wholesale funding. It is not anticipated that there will be any further need to access the public debt markets for term wholesale funding during the remainder of 2012 due to the continuing deleveraging of the Group's balance sheet, growth in deposit balances and robust liquidity and funding position. The Group will continue to monitor market conditions and may selectively take advantage of opportunities in order to bring forward any future term wholesale funding refinancing needs where such issuance would improve the Group's overall wholesale funding costs.

- To further diversify its funding sources, the Group issued its first sterling denominated covered bond of £1 billion with a 12 year maturity and a US\$1.2 billion credit card securitisation.
- The Group accessed €10 billion from the European Central Bank's long-term refinancing operation facility to extend the term of the facilities funding euro denominated assets.

Risk and balance sheet management (continued)

Balance sheet management: Liquidity and funding risk: Funding sources (continued)

The table below shows the Group's debt securities in issue and subordinated liabilities by remaining maturity.

| | Debt securities in issue | | | | | | Subordinated liabilities | Total notes issued | Total notes issued |
|-------------------|--------------------------|------------------|--------------|---------------|-----------------|---------|--------------------------|--------------------|--------------------|
| | Conduit ABCP | Other CP and CDs | Covered MTNs | Covered bonds | Securitisations | Total | | | |
| | £m | £m | £m | £m | £m | £m | £m | £m | % |
| 31 March 2012 | | | | | | | | | |
| Less than 1 year | 9,354 | 17,532 | 19,686 | - | 22 | 46,594 | 454 | 47,048 | 28 |
| 1-3 years | - | 290 | 30,795 | 2,787 | 1,231 | 35,103 | 4,693 | 39,796 | 24 |
| 3-5 years | - | 1 | 16,416 | 3,666 | - | 20,083 | 4,998 | 25,081 | 15 |
| More than 5 years | - | 5 | 23,777 | 3,654 | 13,727 | 41,163 | 15,368 | 56,531 | 33 |
| | 9,354 | 17,828 | 90,674 | 10,107 | 14,980 | 142,943 | 25,513 | 168,456 | 100 |
| 31 December 2011 | | | | | | | | | |
| Less than 1 year | 11,164 | 21,396 | 36,302 | - | 27 | 68,889 | 624 | 69,513 | 37 |
| 1-3 years | - | 278 | 26,595 | 2,760 | 479 | 30,112 | 3,338 | 33,450 | 18 |
| 3-5 years | - | 2 | 16,627 | 3,673 | - | 20,302 | 7,232 | 27,534 | 14 |
| More than 5 years | - | 1 | 26,185 | 2,674 | 14,458 | 43,318 | 15,125 | 58,443 | 31 |
| | 11,164 | 21,677 | 105,709 | 9,107 | 14,964 | 162,621 | 26,319 | 188,940 | 100 |

Term debt issuances

The table below shows debt securities with an original maturity of one year or more issued by the Group during the last two quarters.

Quarter ended
31 March

| | 2012 | 31 |
|----------------|---------|----------|
| | | December |
| | | 2011 |
| | £m | £m |
| Public | | |
| - secured | 1,784 | 3,223 |
| Private | | |
| - unsecured | 1,676 | 911 |
| - secured | - | 500 |
| Gross issuance | 3,460 | 4,634 |
| Buybacks | (1,129) | (1,270) |
| Net issuance | 2,331 | 3,364 |

In addition, the Group issued £2.8 billion of new ten year lower tier 2 securities as part of a liability management exercise.

Risk and balance sheet management (continued)

Balance sheet management: Liquidity and funding risk (continued)

Liquidity portfolio

The table below shows the composition of the Group's liquidity portfolio (at estimated liquidity value). All assets within the liquidity portfolio are unencumbered.

| | 31 March 2012 | | 31 December 2011 | |
|---|-------------------|------------|-------------------|------------|
| | Quarterly average | Period end | Quarterly average | Period end |
| | £m | £m | £m | £m |
| Cash and balances at central banks | 91,287 | 69,489 | 89,377 | 69,932 |
| Treasury bills | - | - | 444 | - |
| Central and local government bonds (1) | | | | |
| - AAA rated governments and US agencies | 19,085 | 29,639 | 30,421 | 29,632 |
| - AA- to AA+ rated governments (2) | 8,924 | 14,903 | 5,056 | 14,102 |
| - governments rated below AA | 797 | 544 | 1,011 | 955 |
| - local government | 3,980 | 2,933 | 4,517 | 4,302 |
| | 32,786 | 48,019 | 41,005 | 48,991 |
| Other assets (3) | | | | |
| - AAA rated | 26,435 | 24,243 | 25,083 | 25,202 |
| - below AAA rated and other high quality assets | 9,194 | 10,972 | 11,400 | 11,205 |
| | 35,629 | 35,215 | 36,483 | 36,407 |

| | | | | |
|---------------------------|---------|---------|---------|---------|
| Total liquidity portfolio | 159,702 | 152,723 | 167,309 | 155,330 |
|---------------------------|---------|---------|---------|---------|

Notes:

- (1) Includes FSA eligible government bonds of £30.5 billion at 31 March 2012 (31 December 2011 - £36.7 billion).
- (2) Includes AAA rated US government guaranteed and US government sponsored agencies.
- (3) Includes assets eligible for discounting at central banks.

Key points

- The liquidity portfolio has consistently covered STWF by a wide margin. The £152.7 billion liquidity portfolio equates to 16% of the funded balance sheet and covers STWF by 1.9 times.
- The cash and balances at central banks of £69.5 billion are more than 2.5 times the amount of commercial paper and certificates of deposit outstanding at 31 March 2012.

Risk and balance sheet management (continued)

Balance sheet management: Liquidity and funding risk (continued)

Loan:deposit ratio and customer funding gap

The table below shows the quarterly trends in the Group's loan:deposit ratio and customer funding gap, including disposal groups.

| | Loan:deposit ratio | | Customer funding gap |
|-------------------|--------------------|------|-------------------------|
| | Group | Core | Group |
| | % | % | £bn |
| 31 March 2012 | 106 | 93 | 27 |
| 31 December 2011 | 108 | 94 | 37 |
| 30 September 2011 | 112 | 95 | 52 |
| 30 June 2011 | 114 | 96 | 60 |
| 31 March 2011 | 116 | 96 | 67 |

Note:

- (1) Loans are net of provisions and exclude repurchase agreements.

Key points

- The Group's loan:deposit ratio improved by 2% to 106% in the first quarter, driven by the continuing run-off of Non-Core and accelerated deleveraging in International Banking. It improved 10 percentage points from 116% in Q1 2011.
- The Core loan:deposit ratio improved 100 basis points to 93%.

Risk and balance sheet management (continued)

Balance sheet management: Liquidity and funding risk (continued)

Net stable funding ratio

The table below shows the Group's net stable funding ratio (NSFR), estimated by applying the Basel III guidance issued in December 2010.

| | 31 March 2012 | | 31 December 2011 | | Weighting % |
|--------------------------------------|---------------|----------------|------------------|----------------|----------------|
| | £bn | ASF (1) £bn | £bn | ASF (1) £bn | |
| Equity | 75 | 75 | 76 | 76 | 100 |
| Wholesale funding > 1 year | 125 | 125 | 124 | 124 | 100 |
| Wholesale funding < 1 year | 109 | - | 134 | - | - |
| Derivatives | 447 | - | 524 | - | - |
| Repurchase agreements | 129 | - | 129 | - | - |
| Deposits | | | | | |
| - Retail and SME - more stable | 230 | 207 | 227 | 204 | 90 |
| - Retail and SME - less stable | 30 | 24 | 31 | 25 | 80 |
| - Other | 173 | 87 | 179 | 89 | 50 |
| Other (2) | 85 | - | 83 | - | - |
| Total liabilities and equity | 1,403 | 518 | 1,507 | 518 | |
| Cash | 82 | - | 79 | - | - |
| Inter-bank lending | 36 | - | 44 | - | - |
| Debt securities > 1 year | | | | | |
| - central and local governments | | | | | |
| AAA to AA- | 70 | 3 | 77 | 4 | 5 |
| - other eligible bonds | 64 | 13 | 73 | 15 | 20 |
| - other bonds | 20 | 20 | 14 | 14 | 100 |
| Debt securities < 1 year | 42 | - | 45 | - | - |
| Derivatives | 453 | - | 530 | - | - |
| Reverse repurchase agreements | 91 | - | 101 | - | - |
| Customer loans and advances > 1 year | | | | | |
| - residential mortgages | 145 | 94 | 145 | 94 | 65 |
| - other | 167 | 167 | 173 | 173 | 100 |
| Customer loans and advances < 1 year | | | | | |
| - retail loans | 19 | 16 | 19 | 16 | 85 |

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| | | | | | |
|--------------------------------------|-------|------|-------|------|-----|
| - other | 129 | 65 | 137 | 69 | 50 |
| Other (3) | 85 | 85 | 70 | 70 | 100 |
| Total assets | 1,403 | 463 | 1,507 | 455 | |
| Undrawn commitments | 237 | 12 | 240 | 12 | 5 |
| Total assets and undrawn commitments | 1,640 | 475 | 1,747 | 467 | |
| Net stable funding ratio | | 109% | | 111% | |

Notes:

- (1) Available stable funding.
- (2) Deferred tax, insurance liabilities and other liabilities.
- (3) Prepayments, accrued income, deferred tax, settlement balances and other assets.

Key points

- The NSFR remained broadly stable at 109% despite an £8 billion increase in term assets.
- Equity and long-term wholesale funding remained unchanged in the quarter resulting in available stable funding being maintained at £518 billion.
- Term assets increased by £8 billion in the quarter reflecting an increase in the seasonal settlement balances (£16 billion) and higher ineligible debt securities (£6 billion) due to some eurozone country downgrades. This was partially offset by reductions in both customer loans and advances (£10 billion) and eligible debt securities (£3 billion).

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 including disposal groups are also presented. Non-Core includes amounts relating to RFS MI of £0.5 billion at 31 March 2012 (31 December 2011 - £0.4 billion).

| 31 March 2012 | | | 31 December 2011 | | |
|---------------|----------|-------|------------------|----------|-------|
| Core | Non-Core | Total | Core | Non-Core | Total |
| £m | £m | £m | £m | £m | £m |

| | | | | | | |
|--|---------|----------|----------|---------|----------|----------|
| Central and local government | 8,577 | 1,397 | 9,974 | 8,359 | 1,383 | 9,742 |
| Finance | 42,035 | 3,442 | 45,477 | 46,452 | 3,229 | 49,681 |
| Residential mortgages | 139,784 | 3,438 | 143,222 | 138,509 | 5,102 | 143,611 |
| Personal lending | 31,209 | 1,297 | 32,506 | 31,067 | 1,556 | 32,623 |
| Property | 38,355 | 36,346 | 74,701 | 38,704 | 38,064 | 76,768 |
| Construction | 6,065 | 2,434 | 8,499 | 6,781 | 2,672 | 9,453 |
| Manufacturing | 22,587 | 4,207 | 26,794 | 23,201 | 4,931 | 28,132 |
| Service industries and business activities | | | | | | |
| - retail, wholesale and repairs | 20,528 | 1,981 | 22,509 | 21,314 | 2,339 | 23,653 |
| - transport and storage | 15,760 | 4,525 | 20,285 | 16,454 | 5,477 | 21,931 |
| - health, education and recreation | 13,294 | 1,304 | 14,598 | 13,273 | 1,419 | 14,692 |
| - hotels and restaurants | 7,072 | 1,013 | 8,085 | 7,143 | 1,161 | 8,304 |
| - utilities | 6,355 | 1,777 | 8,132 | 6,543 | 1,849 | 8,392 |
| - other | 23,660 | 3,663 | 27,323 | 24,228 | 3,772 | 28,000 |
| Agriculture, forestry and fishing | 3,497 | 83 | 3,580 | 3,471 | 129 | 3,600 |
| Finance leases and instalment credit | 8,534 | 5,596 | 14,130 | 8,440 | 6,059 | 14,499 |
| Interest accruals | 551 | 116 | 667 | 675 | 116 | 791 |
| Gross loans | 387,863 | 72,619 | 460,482 | 394,614 | 79,258 | 473,872 |
| Loan impairment provisions | (8,663) | (11,413) | (20,076) | (8,292) | (11,468) | (19,760) |
| Net loans | 379,200 | 61,206 | 440,406 | 386,322 | 67,790 | 454,112 |
| Gross loans including disposal groups | 407,178 | 73,364 | 480,542 | 414,063 | 80,005 | 494,068 |
| Loan impairment provisions including disposal groups | (9,443) | (11,429) | (20,872) | (9,065) | (11,486) | (20,551) |
| Net loans including disposal groups | 397,735 | 61,935 | 459,670 | 404,998 | 68,519 | 473,517 |

Key points

- Gross loans and advances excluding disposal groups decreased by £13.4 billion primarily driven by the managed run-off of Non-Core, which contracted by 8%. Other than UK Retail, lending declined in all Core businesses, most notably International Banking and Markets, reflecting both management action and weak customer demand.
- Despite a challenging environment, UK Retail lending to customers was up £1.8 billion as the business continues to focus on building its franchise.
- In International Banking, the portfolio loan book decreased by £4.7 billion across various sectors, reflecting capital management discipline and accelerated repayments.
- Markets' lending decreased by £2.6 billion, mainly to non-bank financial institutions reflecting lower collateral requirements.
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Property and construction lending decreased by £3.0 billion, principally due to Non-Core run-off and disposals.

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). REIL are stated without giving effect to any security held which could reduce the eventual loss should it occur, nor any provision marked.

| | 31 March 2012 | | | 31 December 2011 | | |
|---|---------------|--------------------|-------------|------------------|--------------------|-------------|
| | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m |
| Impaired loans (1) | 15,007 | 23,023 | 38,030 | 15,306 | 23,441 | 38,747 |
| Accruing loans past due 90 days or more (2) | 1,323 | 447 | 1,770 | 1,556 | 542 | 2,098 |
| Total REIL | 16,330 | 23,470 | 39,800 | 16,862 | 23,983 | 40,845 |
| REIL including disposal groups | | | 41,330 | | | 42,394 |
| REIL as a % of gross loans and advances (3) | 4.3% | 32.2% | 8.6% | 4.4% | 30.1% | 8.6% |
| Provisions as a % of REIL | 54% | 49% | 51% | 50% | 48% | 49% |

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

- Whilst overall Group REIL remained relatively stable at 8.6% of gross loans, provision coverage increased to 51% from 49%.
- Core REIL declined marginally and provision coverage increased to 54% from 50% which included increased coverage in Ulster Bank to 53% from 50%.
- The increase in Non-Core's REIL to gross loans ratio to 32.2% from 30.1% reflects a contraction in gross loans (8%), due to the continuing progress in managing down the Non-Core portfolio.

Risk and balance sheet management (continued)

Risk management: Credit risk: Risk elements in lending (continued)

The table below details the movements in REIL for the quarter ended 31 March 2012.

| | Impaired loans | | | Other loans (1) | | | REIL | | |
|--|----------------|--------------------|-------------|-----------------|--------------------|-------------|------------|--------------------|-------------|
| | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m |
| At 1 January 2012 | 15,306 | 23,441 | 38,747 | 1,556 | 542 | 2,098 | 16,862 | 23,983 | 40,845 |
| Currency translation and other adjustments | (31) | (136) | (167) | 10 | (6) | 4 | (21) | (142) | (163) |
| Additions | 1,627 | 981 | 2,608 | 637 | 74 | 711 | 2,264 | 1,055 | 3,319 |
| Transfers | (92) | 17 | (75) | (10) | (22) | (32) | (102) | (5) | (107) |
| Disposals and restructurings | (597) | (123) | (720) | (93) | (6) | (99) | (690) | (129) | (819) |
| Repayments | (801) | (717) | (1,518) | (777) | (135) | (912) | (1,578) | (852) | (2,430) |
| Amounts written-off | (405) | (440) | (845) | - | - | - | (405) | (440) | (845) |
| At 31 March 2012 | 15,007 | 23,023 | 38,030 | 1,323 | 447 | 1,770 | 16,330 | 23,470 | 39,800 |

Note:

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

Key points

- REIL decreased by £1 billion, or 3% in the quarter, split equally between Core and Non-Core. Transfers to the performing book and disposals (£0.8 billion), debt repayments (£2.4 billion) and write-offs (£0.8 billion) were partially offset by additions (£3.3 billion).
- Ulster Bank (Core and Non-Core) REIL increased by £0.4 billion largely reflecting the challenging market conditions.

Risk and balance sheet management (continued)

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

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

| Gross | Gross | REIL | Provisions | REIL as a | Provisions | Impairment | Amounts |
|-------|-------|------|------------|-----------|------------|------------|---------|
|-------|-------|------|------------|-----------|------------|------------|---------|

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| | loans to banks | loans to customers £m | £m | £m | % of gross loans to customers % | as a % of REIL % | charge £m | written-off £m |
|---------------------------------------|----------------------|-----------------------------|--------|--------|---|------------------------|--------------|-------------------|
| 31 March 2012 | £m | £m | £m | £m | % | % | £m | £m |
| UK Retail | 942 | 105,196 | 4,120 | 2,364 | 3.9 | 57 | 155 | 155 |
| UK Corporate | 926 | 97,702 | 3,929 | 1,698 | 4.0 | 43 | 176 | 98 |
| Wealth | 2,028 | 16,967 | 228 | 87 | 1.3 | 38 | 10 | 3 |
| International Banking | 4,045 | 53,060 | 873 | 845 | 1.6 | 97 | 35 | 31 |
| Ulster Bank | 1,555 | 33,932 | 5,874 | 3,101 | 17.3 | 53 | 394 | 14 |
| US Retail & Commercial | 185 | 50,949 | 910 | 391 | 1.8 | 43 | 16 | 87 |
| Retail & Commercial Markets | 9,681 | 357,806 | 15,934 | 8,486 | 4.5 | 53 | 786 | 388 |
| Direct Line Group and other | 21,963 | 28,848 | 396 | 311 | 1.4 | 79 | 10 | 17 |
| Core | 4,129 | 1,209 | - | - | - | - | - | - |
| Non-Core | 35,773 | 387,863 | 16,330 | 8,797 | 4.2 | 54 | 796 | 405 |
| Group | 426 | 72,619 | 23,470 | 11,414 | 32.3 | 49 | 499 | 440 |
| Total including disposal groups | 36,199 | 460,482 | 39,800 | 20,211 | 8.6 | 51 | 1,295 | 845 |
| 31 December 2011 | | | | | | | | |
| UK Retail | 628 | 103,377 | 4,087 | 2,344 | 4.0 | 57 | 191 | 165 |
| UK Corporate | 806 | 98,563 | 3,988 | 1,623 | 4.0 | 41 | 236 | 156 |
| Wealth | 2,422 | 16,913 | 211 | 81 | 1.2 | 38 | 13 | 3 |
| International Banking | 3,411 | 57,728 | 1,632 | 851 | 2.8 | 52 | 56 | 20 |
| Ulster Bank | 2,079 | 34,052 | 5,523 | 2,749 | 16.2 | 50 | 327 | 61 |
| US Retail & Commercial | 208 | 51,562 | 1,007 | 455 | 2.0 | 45 | 53 | 105 |
| Retail & Commercial Markets | 9,554 | 362,195 | 16,448 | 8,103 | 4.5 | 49 | 876 | 510 |
| Direct Line Group and other | 29,991 | 31,490 | 414 | 311 | 1.3 | 75 | 48 | 16 |
| Core | 3,829 | 929 | - | - | - | - | - | - |
| Non-Core | 43,374 | 394,614 | 16,862 | 8,414 | 4.3 | 50 | 924 | 526 |
| Group | 619 | 79,258 | 23,983 | 11,469 | 30.3 | 48 | 730 | 981 |
| Total including disposal groups | 43,993 | 473,872 | 40,845 | 19,883 | 8.6 | 49 | 1,654 | 1,507 |
| | | | | | | | 1,654 | 1,507 |
| | 44,080 | 494,068 | 42,394 | 20,674 | 8.6 | 49 | | |

31 March 2011

| | | | | | | | | |
|---------------------------------|--------|---------|--------|--------|------|----|-------|-----|
| UK Retail | 448 | 110,045 | 4,641 | 2,652 | 4.2 | 57 | 194 | 274 |
| UK Corporate | 101 | 114,840 | 4,618 | 1,929 | 4.0 | 42 | 107 | 107 |
| Wealth | 2,200 | 16,475 | 214 | 64 | 1.3 | 30 | 5 | 5 |
| International Banking | 3,822 | 63,320 | 1,531 | 802 | 2.4 | 52 | (6) | 19 |
| Ulster Bank | 2,689 | 37,167 | 4,638 | 2,111 | 12.5 | 46 | 461 | 11 |
| US Retail & Commercial | 186 | 46,960 | 972 | 499 | 2.1 | 51 | 84 | 96 |
| Retail & Commercial | 9,446 | 388,807 | 16,614 | 8,057 | 4.3 | 48 | 845 | 512 |
| Markets | 46,931 | 22,473 | 404 | 359 | 1.8 | 89 | 7 | 2 |
| Direct Line Group and other | 2,057 | 1,217 | - | - | - | - | - | - |
| Core | 58,434 | 412,497 | 17,018 | 8,416 | 4.1 | 49 | 852 | 514 |
| Non-Core | 999 | 100,779 | 24,023 | 10,842 | 23.8 | 45 | 1,046 | 438 |
| Group | 59,433 | 513,276 | 41,041 | 19,258 | 8.0 | 47 | 1,898 | 952 |
| Total including disposal groups | 60,046 | 516,886 | 41,087 | 19,289 | 7.9 | 47 | 1,898 | 952 |

Risk and balance sheet management (continued)

Risk management: Credit risk: Loan impairment provisions

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

| | 31 March 2012 | | | 31 December 2011 | | |
|--|---------------|----------------|-------------|------------------|----------------|-------------|
| | Core £m | Non-Core £m | Total £m | Core £m | Non-Core £m | Total £m |
| Individually assessed | 2,829 | 9,998 | 12,827 | 2,674 | 9,960 | 12,634 |
| Collectively assessed | 4,543 | 792 | 5,335 | 4,279 | 861 | 5,140 |
| Latent loss | 1,291 | 623 | 1,914 | 1,339 | 647 | 1,986 |
| Loans to customers | 8,663 | 11,413 | 20,076 | 8,292 | 11,468 | 19,760 |
| Loans to banks | 134 | 1 | 135 | 122 | 1 | 123 |
| Total provisions | 8,797 | 11,414 | 20,211 | 8,414 | 11,469 | 19,883 |
| Provisions as a % of REIL | 54% | 49% | 51% | 50% | 48% | 49% |
| Customer provisions as a % of customer loans (1) | 2.3% | 15.7% | 4.4% | 2.2% | 14.4% | 4.2% |

Note:

(1) Includes disposal groups and excludes reverse repos.

Key points

- Group customer provisions remained relatively stable, although coverage of loans increased from 4.2% to 4.4%.
- Impairment provisions increased by £0.3 billion in the quarter predominately in Ulster Bank Core where continued elevated impairment charges on mortgages more than offset write-offs.
- Non-Core provisions remained at 2011 year end levels, with Ulster Bank contributing approximately 60% of the total, provision coverage increased to 15.7% from 14.4%.

Risk and balance sheet management (continued)

Risk management: Credit risk: Impairment charge

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

| | 31 March 2012 | | | Quarter ended 31 December 2011 | | | | 31 March 2011 | | |
|-------------------------------------|---------------|--------------------|-------------|-----------------------------------|--------------------|-----------------|-------------|---------------|--------------------|-------------|
| | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | RFS MI £m | Total £m | Core £m | Non- Core £m | Total £m |
| Individually assessed | 294 | 451 | 745 | 533 | 720 | - | 1,253 | 384 | 901 | 1,285 |
| Collectively assessed | 530 | 65 | 595 | 478 | 113 | - | 591 | 584 | 136 | 720 |
| Latent loss | (40) | (17) | (57) | (87) | (103) | - | (190) | (116) | 9 | (107) |
| Loans to customers | 784 | 499 | 1,283 | 924 | 730 | - | 1,654 | 852 | 1,046 | 1,898 |
| Loans to banks | 12 | - | 12 | - | - | - | - | - | - | - |
| Securities - sovereign debt (1) | - | - | - | 224 | - | - | 224 | - | - | - |
| - other | 29 | (10) | 19 | 17 | 21 | 2 | 40 | 20 | 29 | 49 |
| Charge to income statement | 825 | 489 | 1,314 | 1,165 | 751 | 2 | 1,918 | 872 | 1,075 | 1,947 |
| Charge as a % of gross loans (2) | 0.8% | 2.7% | 1.1% | 0.9% | 3.7% | - | 1.3% | 0.8% | 4.0% | 1.5% |

Notes:

(1) Sovereign debt impairment and related interest rate hedge adjustments.

(2)

Customer loan impairment charge as a percentage of gross customer loans including disposal groups and excluding reverse repurchase agreements.

Key points

- Group loan impairment losses of £1.3 billion fell by £0.4 billion or 22%, driven by lower individual charges in Non-Core and improvement across Retail & Commercial businesses, with the exception of Ulster Bank. Ulster Bank continues to face challenging credit conditions.
- Total Ulster Bank Group impairments were £0.7 billion compared with £0.6 billion in Q4 2011, primarily due to further deterioration in asset quality in the Core residential mortgage portfolio.
- The Group's customer loan impairment charge as a percentage of customer loans and advances was 1.1% compared with 1.3% in Q4 2011 and 1.5% in Q1 2011.
- In Q1 2012, as part of private sector involvement in the Greek government bail-out, the vast majority of the Group's available-for-sale portfolio of Greek government debt was exchanged for Greek government debt and European Financial Stability Facility notes. The Greek government debt received in the exchange was sold. During April 2012, the remaining Greek government debt that had not been exchanged in Q1 2012 was exchanged and the bonds received were also sold.

For more details on Ulster Bank (Core and Non-Core) loans, REIL, provisions and related coverage ratios, refer to pages 110 and 111.

Risk and balance sheet management (continued)

Risk management: Credit risk: Debt securities

The table below analyses debt securities by issuer and measurement classification.

| | Central and local government | | | Banks | Other financial institutions | | Corporate | Total | Of which ABS |
|-----------------------------|------------------------------|--------|--------|--------|------------------------------|-------|-----------|--------|--------------|
| | UK | US | Other | | | | | | |
| 31 March 2012 | £m | £m | £m | £m | £m | £m | £m | £m | |
| Held-for-trading | 6,855 | 17,079 | 37,552 | 2,986 | 24,726 | 3,052 | 92,250 | 22,422 | |
| Designated as at fair value | 1 | - | 132 | 97 | 581 | 7 | 818 | 556 | |
| Available-for-sale | 11,871 | 20,547 | 20,012 | 12,214 | 30,509 | 2,228 | 97,381 | 38,759 | |
| Loans and receivables | 10 | - | 4 | 368 | 4,638 | 462 | 5,482 | 4,630 | |
| Long positions | 18,737 | 37,626 | 57,700 | 15,665 | 60,454 | 5,749 | 195,931 | 66,367 | |
| - Of which US agencies | - | 4,778 | - | - | 27,221 | - | 31,999 | 30,185 | |

| | | | | | | | | |
|-----------------------------|---------|----------|----------|---------|---------|-------|----------|---------|
| Short positions (HFT) | (2,133) | (8,855) | (18,613) | (1,997) | (2,125) | (903) | (34,626) | (213) |
| Available-for-sale | | | | | | | | |
| Gross unrealised gains | 1,141 | 1,083 | 1,071 | 88 | 658 | 93 | 4,134 | 747 |
| Gross unrealised losses | - | - | (63) | (603) | (1,601) | (9) | (2,276) | (2,179) |
| 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) |

Key points

- Debt securities decreased by £13.1 billion or 6% in the first quarter, of which £9.9 billion were available-for-sale securities across the Group and £2.8 billion related to held-for-trading positions in Markets.
- Held-for-trading: decreased by £2.8 billion primarily in government bonds. The decrease in UK and US central and local government long positions was due to disposals, along with an increase in netting opportunities. Other government bonds included £21.2 billion long and £13.4 billion short positions relating to eurozone countries, of which £5.0 billion and £5.3 billion respectively related to eurozone periphery countries. The increase in financial institutions mainly relates to US agency residential mortgage-backed securities, as markets picked up.
- Available-for-sale: decreased by £9.9 billion, comprising £7.4 billion central and local government and £2.2 billion financial institutions. UK government bonds fell by £1.6 billion due to additional netting benefits (£1.1 billion) and a change in Direct Line Group investment strategy. Disposals from the RBS N.V. liquidity

portfolio resulted in lower government bonds (£3.3 billion), primarily German and French. Non-Core disposals led to a £1.0 billion net reduction in ABS issued by non-bank financial institutions.

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 | | | Banks | Other financial | | Total | % of total | Of which ABS |
|----------------------|------------------------------|--------|--------|--------|-----------------|-----------|---------|------------|--------------|
| | UK | US | Other | | institutions | Corporate | | | |
| | £m | £m | £m | £m | £m | £m | £m | | £m |
| 31 March 2012 | | | | | | | | | |
| AAA | 18,737 | 12 | 22,792 | 2,651 | 14,460 | 156 | 58,808 | 30 | 12,982 |
| AA to AA+ | - | 37,609 | 9,432 | 3,553 | 31,988 | 702 | 83,284 | 43 | 36,532 |
| A to AA- | - | - | 17,285 | 5,978 | 4,032 | 1,496 | 28,791 | 15 | 5,761 |
| BBB- to A- | - | 5 | 7,569 | 2,719 | 4,616 | 1,411 | 16,320 | 8 | 6,306 |
| Non-investment grade | - | - | 620 | 421 | 3,876 | 1,247 | 6,164 | 3 | 3,837 |
| Unrated | - | - | 2 | 343 | 1,482 | 737 | 2,564 | 1 | 949 |
| | 18,737 | 37,626 | 57,700 | 15,665 | 60,454 | 5,749 | 195,931 | 100 | 66,367 |
| 31 December 2011 | | | | | | | | | |
| 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 |

Key points

- The decrease in AAA rated debt securities related to the downgrading of France and Austria to AA+ and a decrease in UK government debt securities. Additionally, certain Spanish covered bonds and the Dutch bond portfolio were downgraded during the quarter.
- The decrease in A to AA- debt securities related to the further downgrade of Italy to BBB+ and a decrease in Japanese debt securities.

- Non-investment grade and unrated debt securities now account for 4% of the debt securities portfolio, down from 5% at the start of the year.

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

| | 31 March 2012 | | | | 31 December 2011 | | | |
|------------------------------|---------------|----------|-----------------|-------------|------------------|----------|-----------------|-------------|
| | US £m | UK £m | Other (1) £m | Total £m | US £m | UK £m | Other (1) £m | Total £m |
| Central and local | | | | | | | | |
| Government | 20,547 | 11,871 | 20,012 | 52,430 | 20,848 | 13,436 | 25,552 | 59,836 |
| Banks | 326 | 1,207 | 10,681 | 12,214 | 376 | 1,391 | 11,408 | 13,175 |
| Other financial institutions | 15,858 | 3,129 | 11,522 | 30,509 | 17,453 | 3,100 | 11,199 | 31,752 |
| Corporate | 191 | 1,060 | 977 | 2,228 | 131 | 1,105 | 1,299 | 2,535 |
| Total | 36,922 | 17,267 | 43,192 | 97,381 | 38,808 | 19,032 | 49,458 | 107,298 |
| Of which ABS | 18,547 | 3,848 | 16,364 | 38,759 | 20,256 | 3,659 | 16,820 | 40,735 |
| AFS reserves (gross) | 616 | 723 | (1,315) | 24 | 486 | 845 | (1,815) | (484) |

Note:

(1) Includes eurozone countries that are detailed on pages 116 to 127.

Risk and balance sheet management (continued)

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

Overview

At 31 March 2012, Ulster Bank Group accounted for 10% of the Group's total gross customer loans and 9% of the Group's Core gross customer loans. The impairment charge of £654 million for Q1 2012 was £84 million higher than the charge for Q4 2011. The Q1 2012 charge was mainly driven by the residential mortgage and commercial real estate portfolios as high unemployment, austerity measures and economic uncertainty have reduced incomes and, together with limited liquidity, have depressed the property market.

Core

The impairment charge for Q1 2012 of £394 million was £67 million higher than the Q4 2011 charge. The mortgage sector accounted for £215 million (55%) of the Q1 2012 impairment charge (Q4 2011 - 41%). High unemployment, lower incomes and falling house prices have driven increases in mortgage impairments. An increase in the mortgage default portfolio in the quarter accounted for 75% of the rise in Q1 2012 REIL.

REIL increased by £351 million in the quarter, largely due to the continuing difficult conditions in residential mortgages.

Non-Core

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The impairment charge for Q1 2012 was £260 million (Q4 2011 - £243 million), with the commercial real estate sector accounting for £226 million (87%) of the Q1 2012 charge. At 31 March 2012, 67% of REIL was in Non-Core (Q4 2011 - 68%). The majority of the Non-Core commercial real estate development portfolio (94%) is REIL, with 58% provision coverage.

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 March 2012 | Gross loans £m | REIL £m | Provisions £m | REIL as a % of gross loans % | Provisions as a % of REIL % | Provisions as a % of gross loans % | Impairment charge £m | Amounts written-off £m |
|-------------------------------|-------------------|------------|------------------|---------------------------------------|--------------------------------------|---|----------------------------|------------------------------|
| Core | | | | | | | | |
| Mortgages | 19,814 | 2,449 | 1,144 | 12.4 | 47 | 5.8 | 215 | 6 |
| Personal unsecured | 1,317 | 203 | 188 | 15.4 | 93 | 14.3 | 11 | 7 |
| Commercial real estate | | | | | | | | |
| - investment | 3,835 | 976 | 448 | 25.4 | 46 | 11.7 | 40 | - |
| - development | 825 | 325 | 158 | 39.4 | 49 | 19.2 | 14 | - |
| Other corporate | 8,141 | 1,921 | 1,163 | 23.6 | 61 | 14.3 | 114 | 1 |
| | 33,932 | 5,874 | 3,101 | 17.3 | 53 | 9.1 | 394 | 14 |
| Non-Core | | | | | | | | |
| Commercial real estate | | | | | | | | |
| - investment | 3,719 | 3,010 | 1,429 | 80.9 | 47 | 38.4 | 84 | - |
| - development | 7,969 | 7,492 | 4,382 | 94.0 | 58 | 55.0 | 142 | 20 |
| Other corporate | 1,696 | 1,170 | 664 | 69.0 | 57 | 39.2 | 34 | 5 |
| | 13,384 | 11,672 | 6,475 | 87.2 | 55 | 48.4 | 260 | 25 |
| Ulster Bank Group | | | | | | | | |
| Mortgages | 19,814 | 2,449 | 1,144 | 12.4 | 47 | 5.8 | 215 | 6 |
| Personal unsecured | 1,317 | 203 | 188 | 15.4 | 93 | 14.3 | 11 | 7 |
| Commercial real estate | | | | | | | | |
| - investment | 7,554 | 3,986 | 1,877 | 52.8 | 47 | 24.8 | 124 | - |

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| | | | | | | | | |
|-----------------|--------|--------|-------|------|----|------|-----|----|
| - development | 8,794 | 7,817 | 4,540 | 88.9 | 58 | 51.6 | 156 | 20 |
| Other corporate | 9,837 | 3,091 | 1,827 | 31.4 | 59 | 18.6 | 148 | 6 |
| | 47,316 | 17,546 | 9,576 | 37.1 | 55 | 20.2 | 654 | 39 |

31 December
2011

| | | | | | | | | |
|------------------------|--------|-------|-------|------|----|------|-----|----|
| Core | | | | | | | | |
| Mortgages | 20,020 | 2,184 | 945 | 10.9 | 43 | 4.7 | 133 | 7 |
| Personal unsecured | 1,533 | 201 | 184 | 13.1 | 92 | 12.0 | 11 | 6 |
| Commercial real estate | | | | | | | | |
| - investment | 3,882 | 1,014 | 413 | 26.1 | 41 | 10.6 | 51 | - |
| - development | 881 | 290 | 145 | 32.9 | 50 | 16.5 | 32 | 16 |
| Other corporate | 7,736 | 1,834 | 1,062 | 23.7 | 58 | 13.7 | 100 | 33 |
| | 34,052 | 5,523 | 2,749 | 16.2 | 50 | 8.1 | 327 | 62 |

Non-Core
Commercial
real estate

| | | | | | | | | |
|-----------------|--------|--------|-------|------|----|------|-----|----|
| - investment | 3,860 | 2,916 | 1,364 | 75.5 | 47 | 35.3 | 151 | - |
| - development | 8,490 | 7,536 | 4,295 | 88.8 | 57 | 50.6 | 77 | 31 |
| Other corporate | 1,630 | 1,159 | 642 | 71.1 | 55 | 39.4 | 15 | 5 |
| | 13,980 | 11,611 | 6,301 | 83.1 | 54 | 45.1 | 243 | 36 |

Ulster Bank
Group

| | | | | | | | | |
|------------------------|--------|--------|-------|------|----|------|-----|----|
| Mortgages | 20,020 | 2,184 | 945 | 10.9 | 43 | 4.7 | 133 | 7 |
| Personal unsecured | 1,533 | 201 | 184 | 13.1 | 92 | 12.0 | 11 | 6 |
| Commercial real estate | | | | | | | | |
| - investment | 7,742 | 3,930 | 1,777 | 50.8 | 45 | 23.0 | 202 | - |
| - development | 9,371 | 7,826 | 4,440 | 83.5 | 57 | 47.4 | 109 | 47 |
| Other corporate | 9,366 | 2,993 | 1,704 | 32.0 | 57 | 18.2 | 115 | 38 |
| | 48,032 | 17,134 | 9,050 | 35.7 | 53 | 18.8 | 570 | 98 |

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)

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| 31 March 2011 | Gross loans £m | REIL £m | Provisions £m | REIL Provisions | | Provisions | | Impairment charge £m | Amounts written-off £m |
|-----------------------------------|----------------------|------------|------------------|-------------------------------|------------------------|-------------------------------|-------------------------------|----------------------------|------------------------------|
| | | | | as a % of gross loans % | as a % of REIL % | as a % of gross loans % | as a % of gross loans % | | |
| Core | | | | | | | | | |
| Mortgages | 21,495 | 1,780 | 676 | 8.3 | 38 | 3.1 | 233 | 2 | |
| Personal unsecured | 1,499 | 193 | 164 | 12.9 | 85 | 10.9 | 11 | 8 | |
| Commercial real estate | | | | | | | | | |
| - investment | 4,272 | 773 | 282 | 18.1 | 36 | 6.6 | 73 | - | |
| - development | 1,015 | 210 | 99 | 20.7 | 47 | 9.8 | 24 | - | |
| Other corporate | 8,886 | 1,682 | 890 | 18.9 | 53 | 10.0 | 120 | 1 | |
| | 37,167 | 4,638 | 2,111 | 12.5 | 46 | 5.7 | 461 | 11 | |
| Non-Core | | | | | | | | | |
| Commercial real estate | | | | | | | | | |
| - investment | 3,947 | 2,449 | 1,060 | 62.0 | 43 | 26.9 | 223 | - | |
| - development | 8,881 | 7,588 | 3,524 | 85.4 | 46 | 39.7 | 503 | - | |
| Other corporate | 1,995 | 1,186 | 658 | 59.4 | 55 | 33.0 | 107 | - | |
| | 14,823 | 11,223 | 5,242 | 75.7 | 47 | 35.4 | 833 | - | |
| Ulster Bank Group | | | | | | | | | |
| Mortgages | 21,495 | 1,780 | 676 | 8.3 | 38 | 3.1 | 233 | 2 | |
| Personal unsecured | 1,499 | 193 | 164 | 12.9 | 85 | 10.9 | 11 | 8 | |
| Commercial real estate | | | | | | | | | |
| - investment | 8,219 | 3,222 | 1,342 | 39.2 | 42 | 16.3 | 296 | - | |
| - development | 9,896 | 7,798 | 3,623 | 78.8 | 46 | 36.6 | 527 | - | |
| Other corporate | 10,881 | 2,868 | 1,548 | 26.4 | 54 | 14.2 | 227 | 1 | |
| | 51,990 | 15,861 | 7,353 | 30.5 | 46 | 14.1 | 1,294 | 11 | |

Risk and balance sheet management (continued)

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

Residential mortgages

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

| | 31 | |
|---|----------|----------|
| | 31 March | December |
| | 2012 | 2011 |
| LTV distribution calculated on a value basis | £m | £m |
| <= 70% | 4,393 | 4,526 |
| > 70% and <= 90% | 2,275 | 2,501 |
| > 90% and <= 110% | 2,806 | 3,086 |
| > 110% and <= 130% | 2,850 | 3,072 |
| > 130% | 7,486 | 6,517 |
| Total portfolio average LTV at quarter end | 112.5% | 106.1% |
| Average LTV on new originations during the year | 69.8% | 73.9% |

Key points

- The residential mortgage portfolio across Ulster Bank Group totalled £19.8 billion at 31 March 2012, with 89% in the Republic of Ireland and 11% in Northern Ireland. At constant exchange rates, the portfolio decreased by 1% from Q4 2011, as a result of natural amortisation and limited growth due to low market demand. The deterioration in the house price index during Q1 2012 contributed to an increase in the average indexed LTV.
- The mortgage REIL continued to increase as a result of the continued challenging economic environment. At 31 March 2012, REIL as a percentage of gross mortgages was 12.4% (by value) compared with 8.3% at 31 March 2011. The impairment charge for Q1 2012 was £215 million compared with £233 million for Q1 2011. Repossession levels were higher than in Q1 2011, with a total of 46 properties repossessed during Q1 2012 (compared with 37 during Q1 2011). 50% of repossessions during Q1 2012 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 March 2012, 9.4% (by value) of the mortgage book (£1.9 billion) was on a forbearance arrangement compared with 9.1% (£1.8 billion) at 31 December 2011. The majority of these forbearance arrangements are in the performing book (75%) and not 90 days past due.

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 £16.3 billion at 31 March 2012, of which £11.7 billion or 71% is Non-Core. The geographic split of the total Ulster Bank Group commercial real estate portfolio remained similar to 2011, with 26% in Northern Ireland, 63% in the Republic of Ireland and 11% in the UK excluding Northern Ireland.

| Exposure by geography | Development | | Investment | | Total £m |
|-----------------------|------------------|-------------------|------------------|-------------------|-------------|
| | Commercial £m | Residential £m | Commercial £m | Residential £m | |
| 31 March 2012 | | | | | |
| Ireland (ROI & NI) | 2,472 | 5,897 | 4,965 | 1,106 | 14,440 |
| UK (excluding NI) | 72 | 315 | 1,353 | 100 | 1,840 |
| RoW | 6 | 32 | 25 | 5 | 68 |
| | 2,550 | 6,244 | 6,343 | 1,211 | 16,348 |
| 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 |

Key points

- The outlook for commercial real estate remains challenging, with limited liquidity in the marketplace to support sales or refinancing. The decline in asset valuations continues to place pressure on the portfolio.
- Ulster Bank Group remains focused on proactive management, debt reduction and de-risking of its commercial real estate portfolio while maintaining and responsibly servicing the Core client base through the cycle.

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 further details of the Group's approach to country risk management, refer to pages 208 to 210 of the Group's 2011 Annual Report and Accounts.

The following tables show the Group's exposures by country of incorporation of the counterparty at 31 March 2012. 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 March 2012, as well as selected eurozone countries. The numbers are stated before taking into account the impact of mitigants, such as collateral (with the exception of repos), insurance or guarantees, which 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.

Definitions of headings in the following tables:

Lending comprises gross loans and advances to: central and local government; central banks, including cash balances; other banks and financial institutions, incorporating overdraft and other short-term facilities; corporates, 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 legally 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.

Risk and balance sheet management (continued)

Risk management: Country risk (continued)

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 172 of the Group's 2011 Annual Report and Accounts.

Credit default swaps (CDSs) - under a 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.

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

Risk and balance sheet management (continued)

Risk management: Country risk: Summary

| | 31 March 2012 | | | | | | | | | | | |
|-------------------|--|------------------------|----------------------|--|-----------------|----------------|---------|------------------------|----------------------------|--------------------------|--|-------------------------------|
| | Lending | | | | | | | Total lending £m | Of which Non-Core £m | Debt securities £m | Derivatives (gross of collateral) and repos £m | Balanc she exposur £ |
| | Central and local government £m | Central banks £m | Other banks £m | Other financial institutions £m | Corporate £m | Personal £m | | | | | | |
| Eurozone | | | | | | | | | | | | |
| Ireland | 45 | 1,068 | 41 | 435 | 18,690 | 18,631 | 38,910 | 10,113 | 773 | 2,577 | 42,2 | |
| Spain | 9 | - | 277 | 122 | 5,340 | 353 | 6,101 | 3,502 | 6,363 | 2,148 | 14,6 | |
| Italy | - | 40 | 200 | 344 | 1,709 | 22 | 2,315 | 1,127 | 1,065 | 2,174 | 5,5 | |
| Portugal | - | - | 1 | - | 422 | 4 | 427 | 262 | 204 | 544 | 1,1 | |
| Greece | 3 | 5 | 1 | 31 | 395 | 14 | 449 | 90 | 38 | 322 | 8 | |
| Germany | 10 | 20,471 | 473 | 325 | 5,939 | 148 | 27,366 | 4,819 | 17,395 | 15,496 | 60,2 | |
| Netherlands | 2,582 | 9,842 | 967 | 1,556 | 4,691 | 22 | 19,660 | 2,440 | 10,287 | 10,063 | 40,0 | |
| France | 517 | 4 | 1,254 | 346 | 3,266 | 74 | 5,461 | 2,268 | 5,486 | 8,729 | 19,6 | |
| Luxembourg | - | - | 20 | 1,416 | 2,222 | 3 | 3,661 | 1,379 | 125 | 2,260 | 6,0 | |
| Belgium | 286 | 55 | 177 | 271 | 741 | 21 | 1,551 | 409 | 1,125 | 2,844 | 5,5 | |
| Other eurozone | 117 | - | 22 | 111 | 1,465 | 26 | 1,741 | 322 | 835 | 1,860 | 4,4 | |
| | 3,569 | 31,485 | 3,433 | 4,957 | 44,880 | 19,318 | 107,642 | 26,731 | 43,696 | 49,017 | 200,3 | |

Total
eurozone

Other countries

| | | | | | | | | | | | |
|-------------|-----|-----|-------|----|-------|-----|-------|-------|-------|-----|-----|
| India | - | 142 | 739 | 42 | 3,132 | 114 | 4,169 | 328 | 1,403 | 100 | 5,6 |
| China | 239 | 172 | 1,503 | 34 | 764 | 28 | 2,740 | 234 | 479 | 383 | 3,6 |
| South Korea | - | 20 | 716 | 1 | 543 | 1 | 1,281 | 3 | 792 | 423 | 2,4 |
| Turkey | 152 | 56 | 263 | 45 | 1,059 | 23 | 1,598 | 342 | 278 | 98 | 1,9 |
| Brazil | - | - | 775 | - | 200 | 3 | 978 | 64 | 790 | 90 | 1,8 |
| Russia | - | 24 | 900 | 7 | 580 | 59 | 1,570 | 74 | 223 | 23 | 1,8 |
| Romania | 25 | 136 | 14 | 4 | 446 | 381 | 1,006 | 1,005 | 311 | 5 | 1,3 |

Risk and balance sheet management (continued)

Risk management: Country risk: Summary (continued)

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

| | | | | | | | | | | | |
|---------|----|-----|----|---|-----|-----|-------|-------|-----|---|-------|
| Romania | 66 | 145 | 30 | 8 | 413 | 392 | 1,054 | 1,054 | 220 | 6 | 1,000 |
|---------|----|-----|----|---|-----|-----|-------|-------|-----|---|-------|

Risk and balance sheet management (continued)

Risk management: Country risk (continued)

Key points

Exposures are affected by currency movements. Over the first quarter of 2012, sterling appreciated 3.4% against the US dollar and 0.4% against the euro.

- Balance sheet and off-balance sheet exposures to most countries declined in the first quarter of 2012 as the Group maintained a cautious stance and many clients reduced debt levels. The reductions were seen in all broad product categories and in all client groups, with a few exceptions as noted below. Non-Core exposure declined in most countries, particularly Germany and Spain, as a result of sales and repayments.
- Eurozone periphery (Ireland, Spain, Italy, Portugal and Greece) - Exposure decreased in all five countries, in part caused by significant reductions in available-for-sale debt securities. Most of the Group's exposure arises from the activities of Markets, International Banking, Ulster Bank (with respect to Ireland), and Group Treasury. The Group has large holdings of Spanish bank and financial institution mortgage-backed securities bonds and smaller quantities of Italian bonds. International Banking provides trade finance facilities to clients across Europe including the eurozone periphery.
- Ireland - The Group's exposure to Ireland is driven by Ulster Bank Group (88% of the Group's Irish exposure at 31 March 2012). The largest components of the Group's exposure are corporate lending of £18.7 billion (more than half of these loans being to the property sector - mainly commercial real estate, plus construction and building materials) and personal lending of £18.6 billion (mainly mortgages). In addition, the Group has cash and derivatives exposure to the Central Bank of Ireland (CBI), financial institutions and large international clients with funding subsidiaries based in Ireland.

Exposure to the central bank declined by £0.3 billion; this reduction was driven by a change in CBI regulatory requirements. Commercial real estate lending amounted to £10.8 billion at 31 March 2012, only slightly down from the 31 December 2011 level as adverse market conditions hampered asset disposals and refinancing. The commercial real estate lending exposure is largely in Ulster Bank Non-Core and includes REIL of £7.9 billion and loan provisions of £4.2 billion. In personal lending, residential mortgage loans amounted to £17.6 billion, including REIL of £2.4 billion and loan provisions of £1.1 billion. The residential housing market

continues to suffer from weak domestic demand, with house prices now approximately 50% below their 2007 peak.

- Spain - The Group maintains strong relationships with selected banks, other financial institutions and large corporate clients. The exposure to Spain is driven by corporate lending and a sizeable ABS portfolio of £6.5 billion, including £6.1 billion of residential mortgage-backed securities covered bonds. The latter portfolio, which is the Group's largest exposure to the financial sector, continues to perform satisfactorily. The Group continues to monitor the situation closely, including undertaking stress analyses of this AFS portfolio.

Corporate lending decreased by £0.4 billion, due to reductions mostly in the natural resources and property sectors. Commercial real estate lending amounted to £2.3 billion at 31 March 2012, nearly all in Non-Core, and includes REIL of £1.0 billion and loan provisions of £0.3 billion.

Risk and balance sheet management (continued)

Risk management: Country risk (continued)

Key points (continued)

- Italy - The Group maintains strong relationships with Italian government entities, banks, other financial institutions and large corporate clients. In addition, the Group is an active market-maker in Italian government bonds, resulting in large gross long and short positions in held-for-trading securities.

Corporate lending declined by £0.7 billion largely to manufacturing companies. AFS government and private sector bond exposure was significantly reduced through sales.

- Portugal - Exposure was stable during the first quarter of 2012, as reductions in lending and a sale of some Group Treasury available-for-sale bonds were offset by a significant recovery in market prices.
- Greece - The Group recognised an impairment charge in respect of AFS Greek government bonds in 2011. It participated in the restructuring of the Greek government debt in March 2012, which resulted in new bonds, most of which were sold in March (the remainder were sold in April), and in £0.2 billion of AFS bonds issued by the European Financial Stability Facility incorporated in Luxembourg. The Group now has no exposure to AFS bonds issued by the Greek government.

Remaining exposure to Greece at the end of the first quarter was £0.8 billion. This largely comprised corporate lending (part of this being exposure to local subsidiaries of international companies) and also included some partly collateralised derivative and repo exposure to banks.

-

Germany and the Netherlands - The Group holds significant short-term surplus liquidity with central banks given credit risk and capital considerations and limited alternative investment opportunities; this exposure also fluctuates as part of the Group's asset and liability management. In addition, net long held-for-trading positions in German and Dutch bonds in Markets increased driven by market opportunities; concurrently, German AFS bond positions in Group Treasury were reduced in line with internal liquidity management strategies.

- France - During the first quarter of 2012, in anticipation of widening credit spreads and as part of general risk management, the Group reduced its holdings in French bonds, both available-for-sale in Group Treasury and held-for-trading in Markets.

Risk and balance sheet management (continued)

Risk management: Country risk (continued)

Key points (continued)

- CDS protection bought and sold - The Group uses CDS contracts to manage both country and counterparty exposures.

During the first quarter of 2012, gross notional CDS contracts, bought and sold, decreased significantly. This was caused by maturing of contracts and by efforts to reduce counterparty credit exposures and risk-weighted assets through derivative compression trades and other means. In addition, the decrease in gross notional CDS positions contributed to a decrease in the fair value of bought and sold CDS contracts, which also declined due to a general narrowing of eurozone CDS spreads. However, spreads generally widened in April, reflecting renewed eurozone concerns.

Greek sovereign CDS positions were minimal at 31 March 2012 and were fully closed out in April, as the use of the collective action clause in the Greek debt swap resulted in a credit event occurring, which triggered Greek sovereign CDS contracts.

The Group primarily transacts these 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, the risk is mitigated through specific collateralisation.

Due to their bespoke nature, exposures relating to CDPCs and associated hedges have not been included as they cannot be meaningfully attributed to a particular country or reference entity. Nth-to-default basket swaps have also been excluded as they cannot be meaningfully attributed to a particular reference entity.

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 b Notional Bought |
|------------------------------------|---------|--------|------------|--------------------------------------|-----------------|------------------------|--------|--------------------------|--|-------------------------------|-----------------------------|
| 31 March 2012 | £m | £m | £m | £m | £m | Long | Short | £m | £m | £m | £m |
| Central and local | | | | | | | | | | | |
| government | 3,569 | - | - | 14,710 | 212 | 21,221 | 13,391 | 22,540 | 1,739 | 27,848 | 36,127 |
| Central banks | 31,485 | - | - | - | - | 7 | - | 7 | 5,664 | 37,156 | - |
| Other banks | 3,433 | - | - | 8,126 | (542) | 1,175 | 1,189 | 8,112 | 29,338 | 40,883 | 16,333 |
| Other financial institutions | 4,957 | - | - | 10,283 | (1,007) | 1,967 | 533 | 11,717 | 8,621 | 25,295 | 13,122 |
| Corporate | 44,880 | 14,468 | 7,394 | 859 | 27 | 643 | 182 | 1,320 | 3,655 | 49,855 | 59,568 |
| Personal | 19,318 | 2,548 | 1,272 | - | - | - | - | - | - | 19,318 | - |
| | 107,642 | 17,016 | 8,666 | 33,978 | (1,310) | 25,013 | 15,295 | 43,696 | 49,017 | 200,355 | 125,150 |
| 31 December 2011 | | | | | | | | | | | |
| 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 |
| 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 |

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 March 2012 | | | | | | | | | | |
| Banks | 62,327 | 2,949 | 1,475 | 120 | 198 | 18 | - | - | 64,000 | 3,087 |
| Other financial Institutions | 57,670 | 2,210 | 596 | 85 | 2,674 | 223 | 210 | 73 | 61,150 | 2,591 |
| Total | 119,997 | 5,159 | 2,071 | 205 | 2,872 | 241 | 210 | 73 | 125,150 | 5,678 |
| 31 December 2011 | 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: Eurozone periphery

| | Lending | REIL | Provisions | AFS and LAR | | HFT debt | | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS by r | |
|------------------------------|---------|--------|------------|-------------|----------|----------|-------|-----------------------|---|-------------------------|-----------------|--------|
| | | | | securities | reserves | Long | Short | | | | Notional Bought | Sold |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| 31 March 2012 | | | | | | | | | | | | |
| Central and local | | | | | | | | | | | | |
| government | 57 | - | - | 562 | (177) | 4,977 | 5,285 | 254 | 135 | 446 | 23,858 | 23,860 |
| Central banks | 1,113 | - | - | - | - | - | - | - | 101 | 1,214 | - | - |
| Other banks | 520 | - | - | 5,270 | (755) | 276 | 227 | 5,319 | 4,713 | 10,552 | 7,610 | 7,430 |
| Other financial institutions | 932 | - | - | 2,276 | (593) | 312 | 139 | 2,449 | 1,354 | 4,735 | 3,102 | 2,720 |
| Corporate | 26,556 | 12,296 | 6,581 | 176 | - | 276 | 31 | 421 | 1,462 | 28,439 | 8,811 | 7,460 |
| Personal | 19,024 | 2,522 | 1,247 | - | - | - | - | - | - | 19,024 | - | - |
| | 48,202 | 14,818 | 7,828 | 8,284 | (1,525) | 5,841 | 5,682 | 8,443 | 7,765 | 64,410 | 43,381 | 41,490 |
| 31 December 2011 | | | | | | | | | | | | |

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Central and local

| | | | | | | | | | | | | |
|------------------------------|--------|--------|-------|-------|---------|-------|-------|-------|-------|--------|--------|--------|
| government Central banks | 61 | - | - | 1,207 | (339) | 4,854 | 5,652 | 409 | 236 | 706 | 25,883 | 26,177 |
| Other banks | 1,549 | - | - | - | - | - | - | - | - | 1,549 | - | - |
| Other financial institutions | 585 | - | - | 5,279 | (956) | 436 | 318 | 5,397 | 4,824 | 10,806 | 9,372 | 9,150 |
| Corporate Personal | 820 | - | - | 2,331 | (654) | 228 | 56 | 2,503 | 1,855 | 5,178 | 3,854 | 3,630 |
| | 28,135 | 12,103 | 6,527 | 274 | 4 | 238 | - | 512 | 1,489 | 30,136 | 10,798 | 9,320 |
| | 19,262 | 2,258 | 1,048 | - | - | - | - | - | 1 | 19,263 | - | - |
| | 50,412 | 14,361 | 7,575 | 9,091 | (1,945) | 5,756 | 6,026 | 8,821 | 8,405 | 67,638 | 49,907 | 48,290 |

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 March 2012 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Banks | 23,823 | 2,598 | 978 | 111 | 93 | 11 | - | - | 24,894 | 2,720 |
| Other financial Institutions | 17,423 | 1,859 | 236 | 50 | 765 | 123 | 63 | 63 | 18,487 | 2,095 |
| Total | 41,246 | 4,457 | 1,214 | 161 | 858 | 134 | 63 | 63 | 43,381 | 4,815 |
| 31 December 2011 | 48,090 | 8,586 | 998 | 163 | 819 | 176 | - | - | 49,907 | 8,925 |

Risk and balance sheet management (continued)

Risk management: Country risk: Ireland

| | Lending | REIL | Provisions | AFS and LAR debt | | HFT debt securities | | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS by reference | |
|--------------------------|---------|------|------------|------------------|----------|---------------------|-------|-----------------------|---|-------------------------|------------------|---------------|
| | | | | securities | reserves | Long | Short | | | | Notional Bought | Notional Sold |
| 31 March 2012 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Central and local | | | | | | | | | | | | |
| government Central banks | 45 | - | - | 115 | (34) | 7 | 13 | 109 | 11 | 165 | 2,276 | 2,281 |
| Other banks | 1,068 | - | - | - | - | - | - | - | 101 | 1,169 | - | - |
| | 41 | - | - | 183 | (24) | 156 | - | 339 | 1,220 | 1,600 | 128 | 125 |

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| | | | | | | | | | | | | |
|------------------------------|--------|--------|-------|-----|------|-----|----|-----|-------|--------|-------|-------|
| Other financial institutions | 435 | - | - | 54 | - | 142 | 63 | 133 | 809 | 1,377 | 742 | 677 |
| Corporate | 18,690 | 10,624 | 5,784 | 60 | - | 133 | 1 | 192 | 436 | 19,318 | 369 | 286 |
| Personal | 18,631 | 2,522 | 1,247 | - | - | - | - | - | - | 18,631 | - | - |
| | 38,910 | 13,146 | 7,031 | 412 | (58) | 438 | 77 | 773 | 2,577 | 42,260 | 3,515 | 3,369 |
| 31 December 2011 | | | | | | | | | | | | |
| Central and local government | 45 | - | - | 102 | (46) | 20 | 19 | 103 | 92 | 240 | 2,145 | 2,223 |
| Central banks | 1,467 | - | - | - | - | - | - | - | - | 1,467 | - | - |
| Other banks | 136 | - | - | 177 | (39) | 195 | 14 | 358 | 1,459 | 1,953 | 110 | 107 |
| Other financial institutions | 336 | - | - | 61 | - | 116 | 35 | 142 | 855 | 1,333 | 523 | 630 |
| Corporate | 18,994 | 10,269 | 5,689 | 148 | 3 | 135 | - | 283 | 417 | 19,694 | 425 | 322 |
| Personal | 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 |

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 March 2012 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Banks | 1,692 | 233 | 9 | 1 | - | - | - | - | 1,701 | 234 |
| Other financial Institutions | 1,443 | 165 | 161 | - | 210 | 9 | - | - | 1,814 | 174 |
| Total | 3,135 | 398 | 170 | 1 | 210 | 9 | - | - | 3,515 | 408 |
| 31 December 2011 | 2,911 | 532 | 163 | 1 | 129 | 7 | - | - | 3,203 | 540 |

Risk and balance sheet management (continued)

Risk management: Country risk: Spain

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| | Lending | REIL | Provisions | AFS and LAR | | HFT debt | | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS by reference | |
|------------------------------|---------|-------|------------|-----------------|----------|----------|-------|-----------------------|---|-------------------------|------------------|--------|
| | | | | debt securities | reserves | Long | Short | | | | Bought | Sold |
| 31 March 2012 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Central and local | | | | | | | | | | | | |
| government Central banks | 9 | - | - | 35 | (13) | 677 | 899 | (187) | 29 | (149) | 5,839 | 5,876 |
| Other banks | - | - | - | - | - | - | - | - | - | - | - | - |
| Other financial institutions | 277 | - | - | 4,860 | (698) | 104 | 156 | 4,808 | 1,317 | 6,402 | 1,974 | 1,973 |
| Corporate | 122 | - | - | 1,632 | (583) | 112 | 45 | 1,699 | 366 | 2,187 | 1,427 | 1,214 |
| Personal | 5,340 | 1,040 | 357 | - | - | 59 | 16 | 43 | 436 | 5,819 | 3,886 | 3,084 |
| | 353 | - | - | - | - | - | - | - | - | 353 | - | - |
| | 6,101 | 1,040 | 357 | 6,527 | (1,294) | 952 | 1,116 | 6,363 | 2,148 | 14,612 | 13,126 | 12,147 |
| 31 December 2011 | | | | | | | | | | | | |
| Central and local | | | | | | | | | | | | |
| government Central banks | 9 | - | - | 33 | (15) | 360 | 751 | (358) | 35 | (314) | 5,151 | 5,155 |
| Other banks | 3 | - | - | - | - | - | - | - | - | 3 | - | - |
| Other financial institutions | 206 | - | - | 4,892 | (867) | 162 | 214 | 4,840 | 1,622 | 6,668 | 1,965 | 1,937 |
| Corporate | 154 | - | - | 1,580 | (639) | 65 | 8 | 1,637 | 282 | 2,073 | 2,417 | 2,204 |
| Personal | 5,775 | 1,190 | 442 | 9 | - | 27 | - | 36 | 454 | 6,265 | 4,831 | 3,959 |
| | 362 | - | - | - | - | - | - | - | - | 362 | - | - |
| | 6,509 | 1,190 | 442 | 6,514 | (1,521) | 614 | 973 | 6,155 | 2,393 | 15,057 | 14,364 | 13,225 |

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 March 2012 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Banks | 6,748 | 532 | 67 | 5 | 32 | 3 | - | - | 6,847 | 540 |
| | 6,045 | 510 | 21 | 3 | 213 | 53 | - | - | 6,279 | 566 |

Other financial
Institutions

| | | | | | | | | | | |
|------------------|--------|-------|-----|---|-----|----|---|---|--------|-------|
| Total | 12,793 | 1,042 | 88 | 8 | 245 | 56 | - | - | 13,126 | 1,106 |
| 31 December 2011 | 13,833 | 1,235 | 230 | 8 | 301 | 54 | - | - | 14,364 | 1,297 |

Risk and balance sheet management (continued)

Risk management: Country risk: Italy

| | Lending | | | AFS and LAR debt | AFS reserves | HFT debt securities | | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS by ref | |
|------------------------------------|---------|-----|----|------------------------|-----------------|---------------------------|-------|--------------------------|--|-------------------------------|--------------------|------------------|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | Notional Bought | Notional Sold |
| 31 March 2012 | | | | | | | | | | | | |
| Central and local | | | | | | | | | | | | |
| government Central banks | - | - | - | 348 | (87) | 4,247 | 4,341 | 254 | 77 | 331 | 12,341 | 12,385 |
| Other banks | 40 | - | - | - | - | - | - | - | - | 40 | - | - |
| Other financial institutions | 200 | - | - | 119 | (14) | 15 | 69 | 65 | 1,509 | 1,774 | 4,357 | 4,199 |
| Corporate | 344 | - | - | 585 | (10) | 39 | 18 | 606 | 133 | 1,083 | 891 | 793 |
| Personal | 1,709 | 281 | 98 | 74 | - | 80 | 14 | 140 | 455 | 2,304 | 3,809 | 3,387 |
| | 22 | - | - | - | - | - | - | - | - | 22 | - | - |
| | 2,315 | 281 | 98 | 1,126 | (111) | 4,381 | 4,442 | 1,065 | 2,174 | 5,554 | 21,398 | 20,764 |
| 31 December 2011 | | | | | | | | | | | | |
| Central and local | | | | | | | | | | | | |
| government Central banks | - | - | - | 704 | (220) | 4,336 | 4,725 | 315 | 90 | 405 | 12,125 | 12,218 |
| Other banks | 73 | - | - | - | - | - | - | - | - | 73 | - | - |
| Other financial institutions | 233 | - | - | 119 | (14) | 67 | 88 | 98 | 1,064 | 1,395 | 6,078 | 5,938 |
| Corporate | 299 | - | - | 685 | (15) | 40 | 13 | 712 | 686 | 1,697 | 872 | 762 |
| Personal | | | | | | | | | | | | |

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| institutions | | | | | | | | | | | | |
|--------------|-------|-----|-----|-------|-------|-------|-------|-------|-------|-------|--------|--------|
| Corporate | 2,444 | 361 | 113 | 75 | - | 58 | - | 133 | 474 | 3,051 | 4,742 | 4,299 |
| Personal | 23 | - | - | - | - | - | - | - | - | 23 | - | - |
| | 3,072 | 361 | 113 | 1,583 | (249) | 4,501 | 4,826 | 1,258 | 2,314 | 6,644 | 23,817 | 23,217 |

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 March 2012 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Banks | 12,448 | 1,096 | 857 | 97 | 61 | 8 | - | - | 13,366 | 1,201 |
| Other financial Institutions | 7,703 | 658 | 54 | 47 | 275 | 42 | - | - | 8,032 | 747 |
| Total | 20,151 | 1,754 | 911 | 144 | 336 | 50 | - | - | 21,398 | 1,948 |
| 31 December 2011 | 23,042 | 3,226 | 495 | 96 | 280 | 53 | - | - | 23,817 | 3,375 |

Risk and balance sheet management (continued)

Risk management: Country risk: Portugal

| 31 March 2012 | Lending | REIL | Provisions | AFS and LAR debt | | HFT debt | | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS by refer | |
|------------------------------|---------|------|------------|------------------|----------|----------|-------|-----------------------|---|-------------------------|-----------------|-------|
| | | | | securities | reserves | Long | Short | | | | Notional Bought | Sold |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Central and local | | | | | | | | | | | | |
| government | - | - | - | 51 | (43) | 21 | 32 | 40 | 18 | 58 | 3,277 | 3,264 |
| Other banks | 1 | - | - | 108 | (19) | 1 | 2 | 107 | 402 | 510 | 1,146 | 1,134 |
| Other financial institutions | - | - | - | 5 | - | 19 | 13 | 11 | 44 | 55 | 8 | 5 |
| Corporate | 422 | 42 | 34 | 42 | - | 4 | - | 46 | 80 | 548 | 350 | 316 |
| Personal | 4 | - | - | - | - | - | - | - | - | 4 | - | - |
| | 427 | 42 | 34 | 206 | (62) | 45 | 47 | 204 | 544 | 1,175 | 4,781 | 4,719 |
| 31 December 2011 | | | | | | | | | | | | |

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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 | - | - |
| | 510 | 27 | 27 | 194 | (94) | 73 | 154 | 113 | 519 | 1,142 | 4,875 | 4,894 |

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 March 2012 | | | | | | | | | | |
| Banks | 2,747 | 644 | 45 | 8 | - | - | - | - | 2,792 | 652 |
| Other financial Institutions | 1,956 | 466 | - | - | 33 | 13 | - | - | 1,989 | 479 |
| Total | 4,703 | 1,110 | 45 | 8 | 33 | 13 | - | - | 4,781 | 1,131 |
| 31 December 2011 | 4,796 | 1,303 | 46 | 12 | 33 | 15 | - | - | 4,875 | 1,330 |

Risk and balance sheet management (continued)

Risk management: Country risk: Greece

| | Lending | REIL | Provisions | AFS and LAR | AFS reserves | HFT debt | | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS by reference | |
|-------------------|---------|------|------------|-----------------|--------------|----------|-------|-----------------------|---|-------------------------|------------------|------|
| | | | | debt securities | | Long | Short | | | | Notional Bought | Sold |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| 31 March 2012 | | | | | | | | | | | | |
| Central and local | 3 | - | - | 13 | - | 25 | - | 38 | - | 41 | 125 | 63 |

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| | | | | | | | | | | | | |
|------------------------------------|-----|-----|-----|----|---|----|---|----|-----|-----|-----|-----|
| government Central banks | 5 | - | - | - | - | - | - | - | - | 5 | - | - |
| Other banks | 1 | - | - | - | - | - | - | - | 265 | 266 | 5 | 5 |
| Other financial institutions | 31 | - | - | - | - | - | - | - | 2 | 33 | 34 | 34 |
| Corporate | 395 | 309 | 308 | - | - | - | - | - | 55 | 450 | 397 | 391 |
| Personal | 14 | - | - | - | - | - | - | - | - | 14 | - | - |
| | 449 | 309 | 308 | 13 | - | 25 | - | 38 | 322 | 809 | 561 | 493 |

31
December
2011
Central and
local

| | | | | | | | | | | | | |
|------------------------------------|-----|-----|-----|-----|---|-----|---|-----|-----|-------|-------|-------|
| government Central banks | 7 | - | - | 312 | - | 102 | 5 | 409 | - | 416 | 3,158 | 3,165 |
| Other banks | 6 | - | - | - | - | - | - | - | - | 6 | - | - |
| Other financial institutions | - | - | - | - | - | - | - | - | 290 | 290 | 22 | 22 |
| institutions | 31 | - | - | - | - | - | - | - | 2 | 33 | 34 | 34 |
| Corporate | 427 | 256 | 256 | - | - | - | - | - | 63 | 490 | 434 | 428 |
| Personal | 14 | - | - | - | - | - | - | - | - | 14 | - | - |
| | 485 | 256 | 256 | 312 | - | 102 | 5 | 409 | 355 | 1,249 | 3,648 | 3,649 |

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 March 2012 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Banks | 188 | 93 | - | - | - | - | - | - | 188 | 93 |
| Other financial Institutions | 276 | 60 | - | - | 34 | 6 | 63 | 63 | 373 | 129 |
| Total | 464 | 153 | - | - | 34 | 6 | 63 | 63 | 561 | 222 |
| 31 December 2011 | 3,508 | 2,290 | 64 | 46 | 76 | 47 | - | - | 3,648 | 2,383 |

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: 4 May 2012

THE ROYAL BANK OF
SCOTLAND GROUP plc
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill
Title: Deputy Secretary