

ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
February 28, 2013

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 28 February, 2013

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): _____

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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

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

Risk and balance sheet management (continued)

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Risk and balance sheet management (continued)

Credit risk

Introduction

Credit risk is the risk of financial loss due to the failure of a customer or counterparty to meet its obligation to settle outstanding amounts. The credit risk that the Group faces arises mainly from wholesale and retail lending, provision of contingent obligations (such as letters of credit and guarantees) and counterparty credit risk arising from derivative contracts and securities financing transactions entered into with customers. Other material risks covered by the Group's credit risk management framework are:

- Concentration risk - the risk of an outsized loss due to the concentration of credit risk to a specific asset class or product, industry sector, customer or counterparty, or country.
- Settlement risk - the intra-day risk that arises when the Group releases funds prior to confirmed receipt of value from a third party.
- Issuer risk - the risk of loss on a tradable instrument (e.g. bond) due to default by the issuer.
- Wrong way risk - the risk of loss that arises when the risk factors driving the exposure to a counterparty are positively correlated with the probability of default for that counterparty.
- Credit mitigation risk - the risk that credit risk mitigation (for example, taking a legal charge over property to secure a customer loan) is not enforceable or that the value of such mitigation decreases, thus leading to unanticipated losses.

Top and emerging credit risks

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. The Group therefore remains sensitive to the economic conditions within the geographies in which it operates, in particular the UK, Ireland, the US and the eurozone.

The following credit risks continue to be the focus of management attention.

Irish property market

The continuing challenging economic climate within Ireland has resulted in impairment levels for Irish portfolios remaining at elevated levels. In particular, high unemployment, austerity measures and general economic uncertainty have reduced real estate lease rentals. This, together with limited liquidity, has depressed asset values and reduced consumer spending with a consequent downward impact on the commercial real estate portfolio as well as broader impacts on Ulster Bank Group's mortgage and small and medium enterprise (SME) lending portfolios. Further details on Ulster Bank Group's credit risk profile can be found on pages 231 to 234.

Commercial real estate

While progress has been made in reducing the overall exposure and rebalancing the portfolio, commercial real estate remains a key credit concentration risk for the Group. The Group has continued to strengthen its approach to managing sector concentration risk, with a particular focus on additional controls for the commercial real estate portfolio.

However, the credit performance remains sensitive to the economic environment in the UK and Ireland. Although some improvements have been seen in commercial real estate values across prime locations, secondary and tertiary values remain subdued.

Risk and balance sheet management (continued)

Credit risk: Top and emerging credit risks (continued)

Refinancing risk remains a focus of management attention and is assessed throughout the credit risk management life cycle. In particular, it is considered as part of the early problem recognition and impairment assessment processes.

Further details on the Group's exposure to commercial real estate can be found on page 220.

Eurozone troubles

The ongoing impact of the troubles in the eurozone continued to be felt most significantly in the banking sector, where widening credit spreads and regulatory demand for increases in Tier 1 capital and liquidity exacerbated the risk management challenges already posed by the sector's continued weakness, as provisions and write-downs remain elevated.

A material percentage of global banking activity in risk mitigation now passes through the balance sheets of the top global players, increasing the systemic risks to the banking sector. The Group's exposures to these banks continue to be closely managed. In particular, the Group has intensified its management of settlement risk through ongoing review of the level of risk and the operational controls in place to manage it, together with proactive actions to reduce limits. The weaker banks in the eurozone also remained subject to heightened scrutiny and the Group's risk appetite for these banks was adjusted throughout 2012.

The Group has continued to focus on operational preparations for possible sovereign defaults and/or eurozone exits. The Group has also considered initiatives to determine and reduce redenomination risk. Further actions to mitigate risks and strengthen control in the eurozone typically included taking guarantees or insurance, updating collateral agreements, and tightening certain credit pre-approval processes.

The Group has a material exposure to Spanish AFS debt securities issued by banks and other financial institutions of £4.8 billion at 31 December 2012, predominately comprised of covered bonds backed by mortgages. Whilst the exposure was reduced by £1.6 billion during 2012, largely as a result of sales, the portfolio continues to be subject to heightened scrutiny, including undertaking stress analysis.

Further details on the Group's approach to managing country risk and the risks faced within the eurozone can be found on pages 243 to 289.

Risk and balance sheet management (continued)

Credit risk: Top and emerging credit risks (continued)

Shipping

The downturn observed in the shipping sector since 2008 has continued, with an oversupply of vessels leading to lower asset prices and charter rates. The Group has continued to manage exposures within this portfolio intensively, with an increasing number of customers managed under the Group's Watchlist process. The financed fleet comprises modern vessels with experienced operators and despite the difficult market conditions impairments to date have remained low. However, impairment levels remain vulnerable to a continuing underperforming market.

Further details on the Group's shipping portfolio can be found on page 188.

Retailers

Given the cyclical nature of the retail corporate sector and its sensitivity to stressed economic conditions, the Group has continued to apply heightened scrutiny to this portfolio. Despite some high-profile failures of UK high street retailers, loss experience on the RBS retail portfolio remained low during 2012 as a result of active management. The

portfolio is generally well diversified by geography and by counterparty.

Central counterparties (CCPs)

New regulation requiring greater use of CCPs for clearing over-the-counter derivatives across the industry is aimed at reducing systemic risk in the banking sector. RBS welcomes this move but recognises that the Group's concentration risk to CCPs will rise thus exchanging concentration risk to individual counterparties for concentration risk to CCPs. CCPs are vulnerable to a significant member default, fraud and increased operational risk if their infrastructure is not developed commensurate with increased activity they undertake.

In response to this industry change, the Group has developed a tailored risk appetite and risk control framework. The Group's central counterparty exposure is dominated by a small number of well-established, high quality and reputable clearing houses.

Renegotiations and forbearance

RBS uses renegotiations and forbearance as management tools to support viable customers through difficult financial periods in their lives or during business cycles. Used wisely, they can reduce the incidence of personal insolvency, as well as bankruptcies for otherwise successful enterprises. On a broader scale they can also help reduce the impact of "fire sale" pricing on real economic assets. However, they must be used selectively and require additional management vigilance throughout the loan life cycle. The Group has continued to take steps to improve its management and reporting of such loans within both corporate and retail businesses.

Further details on forbearance can be found on page 202.

Risk and balance sheet management (continued)

Credit risk (continued)

Financial assets

Exposure summary

The table below analyses the Group's financial asset exposures, both gross and net of offset arrangements.

| | Gross exposure | IFRS offset (1) | Carrying value | Non-IFRS offset (2) | Exposure post offset |
|------------------------------------|----------------|-----------------|----------------|---------------------|----------------------|
| | £m | £m | £m | £m | £m |
| 31 December 2012 | | | | | |
| Cash and balances at central banks | 79,308 | - | 79,308 | - | 79,308 |
| Reverse repos | 143,207 | (38,377) | 104,830 | (17,439) | 87,391 |
| Lending (3) | 464,691 | (1,460) | 463,231 | (34,941) | 428,290 |
| Debt securities | 164,624 | - | 164,624 | - | 164,624 |
| Equity shares | 15,237 | - | 15,237 | - | 15,237 |
| Derivatives (4) | 815,394 | (373,476) | 441,918 | (408,004) | 33,914 |
| Settlement balances | 8,197 | (2,456) | 5,741 | (1,760) | 3,981 |
| Other financial assets | 924 | - | 924 | - | 924 |
| Total | 1,691,582 | (415,769) | 1,275,813 | (462,144) | 813,669 |
| Short positions | (27,591) | - | (27,591) | - | (27,591) |
| Net of short positions | 1,663,991 | (415,769) | 1,248,222 | (462,144) | 786,078 |

31 December 2011

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| | | | | | |
|------------------------------------|-----------|-----------|-----------|-----------|----------|
| Cash and balances at central banks | 79,396 | - | 79,396 | - | 79,396 |
| Reverse repos | 138,539 | (37,605) | 100,934 | (15,246) | 85,688 |
| Lending (3) | 517,474 | - | 517,474 | (41,129) | 476,345 |
| Debt securities | 209,080 | - | 209,080 | - | 209,080 |
| Equity shares | 15,188 | - | 15,188 | - | 15,188 |
| Derivatives (4) | 1,074,548 | (544,491) | 530,057 | (478,848) | 51,209 |
| Settlement balances | 9,144 | (1,359) | 7,785 | (2,221) | 5,564 |
| Other financial assets | 1,309 | - | 1,309 | - | 1,309 |
| Total | 2,044,678 | (583,455) | 1,461,223 | (537,444) | 923,779 |
| Short positions | (41,039) | - | (41,039) | - | (41,039) |
| Net of short positions | 2,003,639 | (583,455) | 1,420,184 | (537,444) | 882,740 |

Notes:

- (1) Relates to offset arrangements that comply with IFRS criteria and to transactions cleared through and novated to central clearing houses, primarily London Clearing House and US Government Securities Clearing Corporation.
- (2) This reflects the amounts by which the Group's credit risk is reduced through arrangements such as master netting agreements and cash management pooling. In addition, the Group holds collateral in respect of individual loans and advances. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant, inventories and trade debtors; and guarantees of lending from parties other than the borrower. The Group also obtains collateral in the form of securities relating to reverse repo and derivative transactions.
- (3) Lending non-IFRS offset includes cash collateral posted against derivative liabilities of £24.6 billion, (31 December 2011 - £31.4 billion) and cash management pooling of £10.3 billion, (31 December 2011 - £9.8 billion).
- (4) Derivative non-IFRS offset includes cash collateral received against derivative assets of £34 billion (31 December 2011 - £37.2 billion). Refer to page 200.

Risk and balance sheet management (continued)

Credit risk: Financial assets (continued)

Sector concentration

The table below analyses financial assets by sector.

| | Reverse repos £m | Lending | | | Securities | | | | Balance sheet value £m | Other offset £m | Exposu p offset £m |
|--------------------------|------------------------|------------|----------------|-------------|------------|--------------|-------------------|-------------|---------------------------------|-----------------------|-----------------------------|
| | | Core £m | Non-Core £m | Total £m | Debt £m | Equity £m | Derivatives £m | Other £m | | | |
| 31 December 2012 | | | | | | | | | | | |
| Government (2) | 441 | 8,485 | 1,368 | 9,853 | 97,339 | - | 5,791 | 591 | 114,015 | (5,151) | 108,8 |
| Financial | | | | | | | | | | | |
| institutions - banks (3) | 34,783 | 30,917 | 477 | 31,394 | 11,555 | 1,643 | 335,521 | 79,308 | 494,204 | (341,103) | 153,1 |
| - other (4) | 69,256 | 39,658 | 2,540 | 42,198 | 50,104 | 2,672 | 80,817 | 5,591 | 250,638 | (97,589) | 153,0 |
| Personal | | | | | | | | | | | |
| -mortgages | - | 146,770 | 2,855 | 149,625 | - | - | - | - | 149,625 | - | 149,6 |
| | - | 31,247 | 965 | 32,212 | - | - | - | 4 | 32,216 | - | 32,2 |

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| | - | | unsecured | | | | | | | | | |
|-------------------------------|---------|----------|-----------|----------|---------|--------|---------|--------|-----------|-----------|----------|--|
| Property | - | 43,602 | 28,617 | 72,219 | 774 | 318 | 4,118 | - | 77,429 | (1,333) | 76,096 | |
| Construction | - | 6,020 | 2,029 | 8,049 | 17 | 264 | 820 | - | 9,150 | (1,687) | 7,463 | |
| Manufacturing | 326 | 22,234 | 1,553 | 23,787 | 836 | 1,639 | 1,759 | 144 | 28,491 | (3,775) | 24,716 | |
| Finance leases (5) | - | 9,201 | 4,408 | 13,609 | 82 | 1 | 13 | - | 13,705 | - | 13,705 | |
| Retail, wholesale and repairs | - | 20,842 | 1,094 | 21,936 | 461 | 1,807 | 914 | 41 | 25,159 | (1,785) | 23,374 | |
| Transport and storage | - | 14,590 | 3,751 | 18,341 | 659 | 382 | 3,397 | 2 | 22,781 | (3,240) | 19,541 | |
| Health, education and leisure | - | 15,770 | 935 | 16,705 | 314 | 554 | 904 | 59 | 18,536 | (964) | 17,572 | |
| Hotels and restaurants | - | 6,891 | 986 | 7,877 | 144 | 51 | 493 | 11 | 8,576 | (348) | 8,228 | |
| Utilities | - | 5,131 | 1,500 | 6,631 | 1,311 | 638 | 3,170 | 50 | 11,800 | (2,766) | 9,034 | |
| Other | 24 | 26,315 | 3,742 | 30,057 | 1,886 | 5,380 | 4,201 | 172 | 41,720 | (2,403) | 39,317 | |
| Total gross of provisions | 104,830 | 427,673 | 56,820 | 484,493 | 165,482 | 15,349 | 441,918 | 85,973 | 1,298,045 | (462,144) | 835,901 | |
| Provisions | - | (10,062) | (11,200) | (21,262) | (858) | (112) | - | - | (22,232) | n/a | (22,232) | |
| Total | 104,830 | 417,611 | 45,620 | 463,231 | 164,624 | 15,237 | 441,918 | 85,973 | 1,275,813 | (462,144) | 813,669 | |

For the notes to this table refer to page 186.

Risk and balance sheet management (continued)

Credit risk: Financial assets: Sector concentration (continued)

| 31 December 2011 | Reverse repos £m | Lending | | | Securities | | | | Balance sheet value £m | Other offset £m | Exposure net of other offset £m |
|------------------------------------|---------------------|------------|----------------|-------------|------------|--------------|-------------------|-------------|---------------------------|--------------------|------------------------------------|
| | | Core £m | Non-Core £m | Total £m | Debt £m | Equity £m | Derivatives £m | Other £m | | | |
| Government (2) | 2,247 | 8,359 | 1,383 | 9,742 | 125,543 | - | 5,541 | 641 | 143,714 | (1,098) | 142,616 |
| Financial institutions - banks (3) | 39,345 | 43,374 | 706 | 44,080 | 16,940 | 2,218 | 400,261 | 79,396 | 582,240 | (407,457) | 174,783 |
| - other (4) | 58,478 | 48,598 | 3,272 | 51,870 | 60,628 | 2,501 | 98,255 | 7,451 | 279,183 | (119,717) | 159,466 |
| - | - | - | - | - | - | - | - | - | - | - | - |
| Personal mortgages | - | 144,171 | 5,102 | 149,273 | - | - | - | - | 149,273 | - | 149,273 |
| - unsecured | - | 32,868 | 1,556 | 34,424 | - | - | - | 52 | 34,476 | (7) | 34,469 |
| Property | - | 42,994 | 38,064 | 81,058 | 573 | 175 | 4,599 | 1 | 86,406 | (1,274) | 85,132 |
| Construction | - | 7,197 | 2,672 | 9,869 | 50 | 53 | 946 | - | 10,918 | (1,139) | 9,779 |
| Manufacturing | 254 | 23,708 | 4,931 | 28,639 | 664 | 1,938 | 3,786 | 306 | 35,587 | (2,214) | 33,373 |
| Finance leases (5) | - | 8,440 | 6,059 | 14,499 | 145 | 2 | 75 | - | 14,721 | (16) | 14,705 |
| Retail, wholesale and repairs | - | 22,039 | 2,339 | 24,378 | 645 | 2,652 | 1,134 | 18 | 28,827 | (1,671) | 27,156 |
| Transport and storage | 436 | 16,581 | 5,477 | 22,058 | 539 | 74 | 3,759 | - | 26,866 | (241) | 26,625 |
| Health, education and leisure | - | 16,073 | 1,419 | 17,492 | 310 | 21 | 885 | - | 18,708 | (973) | 17,735 |
| Hotels and restaurants | - | 7,709 | 1,161 | 8,870 | 116 | 5 | 671 | - | 9,662 | (184) | 9,478 |
| Utilities | - | 6,557 | 1,849 | 8,406 | 1,530 | 554 | 3,708 | 30 | 14,228 | (450) | 13,778 |

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| | | | | | | | | | | | |
|---------------------------|---------|---------|----------|----------|---------|--------|---------|--------|-----------|-----------|--------|
| Other | 174 | 28,769 | 4,721 | 33,490 | 3,785 | 5,136 | 6,437 | 595 | 49,617 | (1,003) | 48,6 |
| Total gross of provisions | 100,934 | 457,437 | 80,711 | 538,148 | 211,468 | 15,329 | 530,057 | 88,490 | 1,484,426 | (537,444) | 946,9 |
| Provisions | - | (9,187) | (11,487) | (20,674) | (2,388) | (141) | - | - | (23,203) | n/a | (23,20 |
| Total | 100,934 | 448,250 | 69,224 | 517,474 | 209,080 | 15,188 | 530,057 | 88,490 | 1,461,223 | (537,444) | 923,7 |

Notes:

- (1) This shows the amount by which the Group's credit risk exposure is reduced through arrangements, such as master netting agreements, which give the Group a legal right to set off the financial asset against a financial liability due to the same counterparty. In addition, the Group holds collateral in respect of individual loans and advances to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant, inventories and trade debtors; and guarantees of lending from parties other than the borrower. The Group obtains collateral in the form of securities in reverse repurchase agreements. Cash and securities are received as collateral in respect of derivative transactions.
- (2) Includes central and local government.
- (3) Financial institutions in banks includes £79.3 billion (31 December 2011 - £79.3 billion; 31 December 2010 - £57.0 billion) relating to cash and balances at central banks.
- (4) Loans made by the Group's consolidated conduits to asset owning companies are included within Finance.
- (5) Includes instalment credit.

Risk and balance sheet management (continued)

Credit risk: Financial assets: Sector concentration (continued)

Key points

- Financial asset exposures after offset decreased by £110 billion or 12% to £814 billion, reflecting the Group's focus on reducing its funded balance sheet, primarily in Non-Core, Markets and International Banking.
- Reductions were across all major balance sheet categories: lending (£54 billion), debt securities (£44 billion) and derivatives (£88 billion). Conditions in the financial markets and the Group's focus on risk appetite and sector concentration had a direct impact on the composition of its portfolio during the year.
- Exposures to central and local governments decreased by £34 billion principally in debt securities. This was driven by Markets de-risking its balance sheet, management of the Group Treasury liquidity portfolio as well as overall risk reduction in respect of eurozone exposures. The Group's portfolio comprises exposures to central governments and sub-sovereigns such as local authorities, primarily in the Group's key markets in the UK, Western Europe and the US.
- Exposure to financial institutions was £28 billion lower, across securities, loans and derivatives, driven by economy-wide subdued activity.

The banking sector is one of the largest in the Group's portfolio. The sector is well diversified geographically and by exposure with derivative exposures being largely collateralised. The sector is tightly controlled through the combination of the single name concentration framework, a suite of credit policies specifically tailored to the sector and country limits. Exposures to the

banking sector decreased by £22 billion during the year, primarily due to reduced interbank lending and derivative activity, and a reduction in limits to banks in countries under stress, such as the peripheral eurozone countries.

Exposure to other financial institutions comprising traded and non-traded products is spread across a wide range of financial companies including insurance, securitisation vehicles, financial intermediaries including broker dealers and central counterparties (CCPs), financial guarantors - monolines and CDPCs - and funds comprising unleveraged, hedge and leveraged funds. The size of the Core portfolio has decreased marginally since 2011. Entities in this sector remain vulnerable to market shocks or contagion from the banking sector. Credit risk in these sectors is managed through the single name concentration, sector concentration and asset and product class frameworks, with specific sector and product caps in place where there is a perception of heightened credit risk, such as committed lending to banks, leveraged funds and insurance holding companies. The Group continues to develop its risk appetite framework for CCPs to reflect increased activity with these entities driven by regulatory requirements. The Group is also managing down its exposures to monolines and CDPCs with the aim of exiting these portfolios.

- The Group's exposure to property and construction sector decreased by £11 billion, principally in commercial real estate lending. The majority of the Group's Core property exposure is within UK Corporate (73%). In relation to property exposure, the UK Corporate and Ulster Bank divisions saw further deterioration in asset quality during the year.

Risk and balance sheet management (continued)

Credit risk: Financial assets: Sector concentration (continued)

Key points (continued)

- Retail, wholesale and repairs sector decreased by £4 billion, reflecting de-leveraging of customers in the retail sector. Manufacturing exposure reduced by £9 billion primarily reflecting Non-Core reductions.
- Transport and storage includes the Group's shipping exposures of £11 billion which comprises asset-backed exposures to ocean-going vessels. Excluding the impact of foreign exchange movements, the Group's exposure to the shipping sector decreased marginally during the year. Conditions remained poor across the major shipping market segments in 2012, with low charter rates and vessel values. A key protection for the Group is the minimum security covenant which is tested each quarter on an individual vessel basis to ensure prompt remedial action is taken if values fall significantly below agreed loan coverage ratios. There was an increase in the number of clients suffering liquidity issues or failing to meet their minimum security covenant and a commensurate rise in referrals to the Group's heightened monitoring process and GRG ('watchlist red'). As at 31 December 2012, 20% of the Group's exposure was classified as watchlist red. The Group's exposure to the shipping sector (including shipping related infrastructure) declined by 3.5% in 2012 as a result of amortisation and foreign exchange movements. At 31 December 2012, £0.7 billion of loans were included in risk elements in lending with an associated provision of £0.2 billion and impairment charge of £0.1 billion for 2012.
- Within lending:
 - UK Retail increased its lending to homeowners by £4.1 billion, including first-time buyers, reflecting the impact of the UK government's Funding for Lending Scheme (FLS); unsecured lending balances fell.

UK Corporate lending decreased by £3.8 billion, reflecting a combination of customer deleveraging with low business confidence and portfolio de-risking, particularly in commercial real estate, which fell by £3.5 billion. Other sectors in aggregate were broadly flat.

Non-Core continued to make significant progress on its balance sheet strategy by reducing lending by £24 billion across all sectors, principally property and construction, where commercial real estate lending decreased by £9.4 billion, reflecting repayments and asset sales.

- For further discussion on debt securities and derivatives, see pages 194 and 200 respectively.

Risk and balance sheet management (continued)

Credit risk: Financial assets (continued)

Asset quality: Group

The table below analyses the Group's financial assets excluding debt securities by internal asset quality (AQ) ratings. Debt securities are analysed by external ratings and are therefore excluded from the table below and are set out on page 196.

| | Loans and advances | | | | | | | | | | | |
|----------------------|--------------------|---------------|----------------------------|--------|--------|---------------|----------------------------|----------|----------|--|-------------|------|
| | Cash and balances | | Banks | | | Customers | | | | Settlement balances and other financial assets | | |
| | at central banks | Reverse Repos | Derivative cash collateral | Other | Total | Reverse Repos | Derivative cash collateral | Other | Total | assets | Derivatives | Comm |
| 31 December 2012 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| AQ1 | 78,039 | 17,806 | 3,713 | 10,913 | 32,432 | 42,963 | 15,022 | 39,734 | 97,719 | 2,671 | 100,652 | |
| AQ2 | 12 | 3,556 | 4,566 | 526 | 8,648 | 710 | 704 | 13,101 | 14,515 | 185 | 108,733 | |
| AQ3 | 1,156 | 5,703 | 2,241 | 2,757 | 10,701 | 2,886 | 3,917 | 25,252 | 32,055 | 539 | 152,810 | |
| AQ4 | 100 | 6,251 | 1,761 | 2,734 | 10,746 | 14,079 | 2,144 | 104,060 | 120,283 | 1,202 | 58,705 | |
| AQ5 | - | 1,183 | 469 | 787 | 2,439 | 8,163 | 679 | 92,147 | 100,989 | 659 | 13,244 | |
| AQ6 | - | 282 | 39 | 357 | 678 | 86 | 50 | 40,096 | 40,232 | 73 | 2,175 | |
| AQ7 | - | 2 | - | 236 | 238 | 1,133 | 12 | 36,223 | 37,368 | 191 | 3,205 | |
| AQ8 | - | - | - | 68 | 68 | 4 | 2 | 12,812 | 12,818 | 8 | 262 | |
| AQ9 | 1 | - | - | 93 | 93 | 23 | 7 | 17,431 | 17,461 | 137 | 1,360 | |
| AQ10 | - | - | - | - | - | - | - | 807 | 807 | 1 | 772 | |
| Past due | - | - | - | - | - | - | 249 | 10,285 | 10,534 | 999 | - | |
| Impaired | - | - | - | 134 | 134 | - | - | 38,365 | 38,365 | - | - | |
| Impairment provision | - | - | - | (114) | (114) | - | - | (21,148) | (21,148) | - | - | |

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79,308 34,783 12,789 18,491 66,063 70,047 22,786 409,165 501,998 6,665 441,918

Risk and balance sheet management (continued)

Credit risk: Financial assets: Asset quality: Core

| | Loans and advances | | | | | | | | | | | | |
|----------------------|------------------------------------|---------------|----------------------------|--------|--------|---------------|----------------------------|---------|---------|--|-------------|-------------|-------------|
| | Cash and balances at central banks | Banks | | | | Customers | | | | Settlement balances and other financial assets | | Derivatives | Commitments |
| | | Reverse Repos | Derivative cash collateral | Other | Total | Reverse Repos | Derivative cash collateral | Other | Total | assets | Derivatives | | |
| 31 December 2012 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| AQ1 | 78,003 | 17,806 | 3,713 | 10,466 | 31,985 | 42,963 | 15,022 | 32,337 | 90,322 | 2,671 | 99,882 | | |
| AQ2 | 12 | 3,556 | 4,566 | 521 | 8,643 | 710 | 704 | 10,551 | 11,965 | 185 | 108,107 | | |
| AQ3 | 1,046 | 5,703 | 2,241 | 2,738 | 10,682 | 2,886 | 3,917 | 21,688 | 28,491 | 539 | 152,462 | | |
| AQ4 | 100 | 6,251 | 1,761 | 2,729 | 10,741 | 14,079 | 2,144 | 99,771 | 115,994 | 1,202 | 57,650 | | |
| AQ5 | - | 1,183 | 469 | 785 | 2,437 | 8,163 | 679 | 87,429 | 96,271 | 659 | 12,082 | | |
| AQ6 | - | 282 | 39 | 356 | 677 | 86 | 50 | 36,891 | 37,027 | 73 | 1,476 | | |
| AQ7 | - | 2 | - | 186 | 188 | 1,133 | 12 | 32,032 | 33,177 | 191 | 2,536 | | |
| AQ8 | - | - | - | 68 | 68 | 4 | 2 | 10,731 | 10,737 | 8 | 247 | | |
| AQ9 | 1 | - | - | 93 | 93 | - | 7 | 14,979 | 14,986 | 137 | 979 | | |
| AQ10 | - | - | - | - | - | - | - | 684 | 684 | 1 | 448 | | |
| Past due | - | - | - | - | - | - | 249 | 9,528 | 9,777 | 991 | - | | |
| Impaired | - | - | - | 133 | 133 | - | - | 17,418 | 17,418 | - | - | | |
| Impairment provision | - | - | - | (113) | (113) | - | - | (9,949) | (9,949) | - | - | | |
| | 79,162 | 34,783 | 12,789 | 17,962 | 65,534 | 70,024 | 22,786 | 364,090 | 456,900 | 6,657 | 435,869 | | |

Risk and balance sheet management (continued)

Credit risk: Financial assets: Asset quality: Non-Core

| | Loans and advances | | | | | | | | | | | | |
|------------------|------------------------------------|---------------|----------------------------|-------|-------|---------------|----------------------------|-------|-------|--|-------------|-------------|-------------|
| | Cash and balances at central banks | Banks | | | | Customers | | | | Settlement balances and other financial assets | | Derivatives | Commitments |
| | | Reverse Repos | Derivative cash collateral | Other | Total | Reverse Repos | Derivative cash collateral | Other | Total | assets | Derivatives | | |
| 31 December 2012 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |

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| | | | | | | | | | | | | |
|----------------------|-----|---|---|-----|-----|----|---|----------|----------|---|-------|----|
| AQ1 | 36 | - | - | 447 | 447 | - | - | 7,397 | 7,397 | - | 770 | 1. |
| AQ2 | - | - | - | 5 | 5 | - | - | 2,550 | 2,550 | - | 626 | |
| AQ3 | 110 | - | - | 19 | 19 | - | - | 3,564 | 3,564 | - | 348 | |
| AQ4 | - | - | - | 5 | 5 | - | - | 4,289 | 4,289 | - | 1,055 | |
| AQ5 | - | - | - | 2 | 2 | - | - | 4,718 | 4,718 | - | 1,162 | |
| AQ6 | - | - | - | 1 | 1 | - | - | 3,205 | 3,205 | - | 699 | |
| AQ7 | - | - | - | 50 | 50 | - | - | 4,191 | 4,191 | - | 669 | 1. |
| AQ8 | - | - | - | - | - | - | - | 2,081 | 2,081 | - | 15 | |
| AQ9 | - | - | - | - | - | 23 | - | 2,452 | 2,475 | - | 381 | |
| AQ10 | - | - | - | - | - | - | - | 123 | 123 | - | 324 | |
| Past due | - | - | - | - | - | - | - | 757 | 757 | 8 | - | |
| Impaired | - | - | - | 1 | 1 | - | - | 20,947 | 20,947 | - | - | |
| Impairment provision | - | - | - | (1) | (1) | - | - | (11,199) | (11,199) | - | - | |
| | 146 | - | - | 529 | 529 | 23 | - | 45,075 | 45,098 | 8 | 6,049 | 5. |

Risk and balance sheet management (continued)

Credit risk: Financial assets: Asset quality (continued)

| 31 December 2011 | Cash and balances at central banks £m | Loans and advances | | Settlement balances and other financial assets | | Derivatives £m | Commit- ments £m | Contingent liabilities £m | Total £m |
|----------------------|---|--------------------|-----------------|--|---------|-------------------|------------------------|---------------------------------|-------------|
| | | Banks (1) £m | Customers £m | £m | £m | | | | |
| Total | 78,692 | 74,279 | 114,424 | 5,152 | 482,053 | 75,356 | 14,076 | 844,032 | |
| AQ1 | 342 | 1,881 | 15,810 | 93 | 8,177 | 24,269 | 3,154 | 53,726 | |
| AQ2 | 223 | 1,981 | 34,017 | 546 | 10,827 | 23,471 | 4,427 | 75,492 | |
| AQ3 | 19 | 1,612 | 108,262 | 760 | 14,421 | 40,071 | 5,847 | 170,992 | |
| AQ4 | 90 | 1,261 | 118,056 | 124 | 6,516 | 34,593 | 4,301 | 164,941 | |
| AQ5 | 9 | 188 | 50,428 | 46 | 2,221 | 17,153 | 1,662 | 71,707 | |
| AQ6 | 8 | 432 | 33,218 | 13 | 2,393 | 19,163 | 1,037 | 56,264 | |
| AQ7 | 7 | 30 | 12,622 | 19 | 1,252 | 4,159 | 276 | 18,365 | |
| AQ8 | 5 | 83 | 16,429 | 324 | 1,150 | 2,286 | 943 | 21,220 | |
| AQ9 | 1 | 164 | 784 | 6 | 1,047 | 2,354 | 221 | 4,577 | |
| Past due | - | 2 | 11,591 | 1,623 | - | - | - | 13,216 | |
| Impaired | - | 137 | 39,921 | 414 | - | - | - | 40,472 | |
| Impairment provision | - | (123) | (20,551) | (26) | - | - | - | (20,700) | |
| | 79,396 | 81,927 | 535,011 | 9,094 | 530,057 | 242,875 | 35,944 | 1,514,304 | |

| Core | | | | | | | | |
|----------------------|--------|--------|---------|-------|---------|---------|--------|-----------|
| AQ1 | 78,634 | 73,689 | 95,691 | 5,034 | 478,177 | 69,220 | 13,249 | 813,694 |
| AQ2 | 342 | 1,877 | 14,158 | 91 | 7,500 | 23,404 | 3,122 | 50,494 |
| AQ3 | 56 | 1,967 | 30,546 | 546 | 10,360 | 22,319 | 4,354 | 70,148 |
| AQ4 | 18 | 1,557 | 101,646 | 759 | 13,475 | 38,808 | 5,655 | 161,918 |
| AQ5 | 90 | 1,256 | 110,911 | 124 | 5,087 | 33,226 | 4,092 | 154,786 |
| AQ6 | 9 | 140 | 44,012 | 46 | 1,987 | 16,118 | 1,634 | 63,946 |
| AQ7 | 8 | 432 | 28,953 | 13 | 796 | 17,514 | 949 | 48,665 |
| AQ8 | 7 | 20 | 10,608 | 19 | 666 | 4,068 | 236 | 15,624 |
| AQ9 | 5 | 83 | 11,938 | 276 | 592 | 1,769 | 898 | 15,561 |
| AQ10 | 1 | 164 | 478 | 6 | 339 | 1,274 | 180 | 2,442 |
| Past due | - | 2 | 10,047 | 1,623 | - | - | - | 11,672 |
| Impaired | - | 136 | 16,457 | 413 | - | - | - | 17,006 |
| Impairment provision | - | (122) | (9,065) | (25) | - | - | - | (9,212) |
| | 79,170 | 81,201 | 466,380 | 8,925 | 518,979 | 227,720 | 34,369 | 1,416,744 |

For the note to this table refer to page 193.

Risk and balance sheet management (continued)

Credit risk: Financial assets: Asset quality (continued)

| 31 December 2011 | Cash and balances at central banks | Loans and advances | | Settlement balances and other financial assets | Derivatives | Commit- ments | Contingent liabilities | Total |
|----------------------|---|--------------------|----------|---|-------------|------------------|---------------------------|----------|
| | Banks (1) | Customers | | | | | | |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Non-Core | | | | | | | | |
| AQ1 | 58 | 590 | 18,733 | 118 | 3,876 | 6,136 | 827 | 30,338 |
| AQ2 | - | 4 | 1,652 | 2 | 677 | 865 | 32 | 3,232 |
| AQ3 | 167 | 14 | 3,471 | - | 467 | 1,152 | 73 | 5,344 |
| AQ4 | 1 | 55 | 6,616 | 1 | 946 | 1,263 | 192 | 9,074 |
| AQ5 | - | 5 | 7,145 | - | 1,429 | 1,367 | 209 | 10,155 |
| AQ6 | - | 48 | 6,416 | - | 234 | 1,035 | 28 | 7,761 |
| AQ7 | - | - | 4,265 | - | 1,597 | 1,649 | 88 | 7,599 |
| AQ8 | - | 10 | 2,014 | - | 586 | 91 | 40 | 2,741 |
| AQ9 | - | - | 4,491 | 48 | 558 | 517 | 45 | 5,659 |
| AQ10 | - | - | 306 | - | 708 | 1,080 | 41 | 2,135 |
| Past due | - | - | 1,544 | - | - | - | - | 1,544 |
| Impaired | - | 1 | 23,464 | 1 | - | - | - | 23,466 |
| Impairment provision | - | (1) | (11,486) | (1) | - | - | - | (11,488) |

| | | | | | | | |
|-----|-----|--------|-----|--------|--------|-------|--------|
| 226 | 726 | 68,631 | 169 | 11,078 | 15,155 | 1,575 | 97,560 |
|-----|-----|--------|-----|--------|--------|-------|--------|

Note:

(1) Excluding items in the course of collection from other banks of £1,470 million.

Key points

- In 2012, the Group implemented material updates to certain models, including those used for sovereign and financial institution counterparties, to incorporate more recent data and reflect new regulatory requirements applicable to wholesale internal ratings based modelling. This has resulted in ratings migration from AQ1, primarily to AQ2-AQ5. The Group had modified various risk frameworks, including risk appetite framework and latent loss assessment in anticipation of these changes. Further updates, primarily of models used for the corporate counterparties, are planned for 2013. The AQ composition of the corporate portfolio has not changed materially during the year.
- Loans and advances to banks: AQ1 balances decreased by £41.8 billion reflecting the balance sheet reduction, mainly in Markets and also the impact of model changes which resulted in certain counterparties moving to lower AQ bands, primarily to AQ2-AQ4, which increased by £6.8 billion, £8.7 billion and £9.1 billion respectively.
- Loans and advances to customers: Lower internal ratings due to model changes resulted in balances shifting from AQ1 to lower bands. The decrease in AQ5 and AQ6 balances is in line with the overall balance sheet reduction.
- Derivatives: Balance sheet reductions in Markets and model updates resulted in decrease in AQ1 balances. Increase in AQ2-AQ4 balances reflects the re-grading of counterparties previously included in AQ1.
- Impaired and past due assets, net of impairment provisions, comprise 37% of Non-Core balances. Continued weakness in commercial real estate market overall and difficult conditions in Ireland are significant contributors to this.

Risk and balance sheet management (continued)

Credit risk: Financial assets (continued)

Debt securities

IFRS measurement classification by issuer

The table below analyses debt securities by issuer and IFRS measurement classifications. US central and local government includes US federal agencies; financial institutions includes US government sponsored agencies and securitisation entities.

| | Central and local government | | | Banks | Other financial institutions | Corporate | Total | Of which ABS (1) |
|------------------------|------------------------------|--------|--------|-------|------------------------------|-----------|--------|------------------|
| | UK | US | Other | | | | | |
| 31 December 2012 | £m | £m | £m | £m | £m | £m | £m | £m |
| Held-for-trading (HFT) | 7,692 | 17,349 | 27,195 | 2,243 | 21,876 | 2,015 | 78,370 | 18,619 |

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| | | | | | | | | |
|-----------------------------|---------|----------|----------|---------|---------|-------|----------|---------|
| Designated as at fair value | - | - | 123 | 86 | 610 | 54 | 873 | 516 |
| Available-for-sale (AFS) | 9,774 | 19,046 | 16,155 | 8,861 | 23,890 | 3,167 | 80,893 | 30,743 |
| Loans and receivables | 5 | - | - | 365 | 3,728 | 390 | 4,488 | 3,707 |
| Long positions | 17,471 | 36,395 | 43,473 | 11,555 | 50,104 | 5,626 | 164,624 | 53,585 |
| Of which US agencies | - | 5,380 | - | - | 21,566 | - | 26,946 | 24,828 |
| Short positions (HFT) | (1,538) | (10,658) | (11,355) | (1,036) | (1,595) | (798) | (26,980) | (17) |
| Available-for-sale | | | | | | | | |
| Gross unrealised gains | 1,007 | 1,092 | 1,187 | 110 | 660 | 120 | 4,176 | 764 |
| Gross unrealised losses | - | (1) | (14) | (509) | (1,319) | (4) | (1,847) | (1,817) |
| 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) |

Note:

(1) Asset-backed securities.

Risk and balance sheet management (continued)

Credit risk: Financial assets: Debt securities (continued)

AFS reserves by issuer

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

| | 31 December 2012 | | | | 31 December 2011 | | | |
|----------------|------------------|----------|--------------------|-------------|------------------|----------|-----------------|-------------|
| | UK £m | US £m | Other (1) £m | Total £m | UK £m | US £m | Other (1) £m | Total £m |
| Government (2) | 9,774 | 19,046 | 16,155 | 44,975 | 13,436 | 20,848 | 25,552 | 59,836 |
| Banks | 1,085 | 357 | 7,419 | 8,861 | 1,391 | 376 | 11,408 | 13,175 |

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| | | | | | | | | |
|------------------------------|--------|--------|---------|--------|--------|--------|---------|---------|
| Other financial institutions | 2,861 | 10,613 | 10,416 | 23,890 | 3,100 | 17,453 | 11,199 | 31,752 |
| Corporate | 1,318 | 719 | 1,130 | 3,167 | 1,105 | 131 | 1,299 | 2,535 |
| Total | 15,038 | 30,735 | 35,120 | 80,893 | 19,032 | 38,808 | 49,458 | 107,298 |
| Of which ABS | 3,558 | 14,209 | 12,976 | 30,743 | 3,659 | 20,256 | 16,820 | 40,735 |
| AFS reserves (gross) | 667 | 763 | (1,277) | 153 | 845 | 486 | (1,815) | (484) |

Notes:

- (1) Includes eurozone countries as detailed in the Country risk section of this report (page 243).
- (2) Includes central and local government.

Key points

- Debt securities decreased by £44.5 billion or 21% during the year, principally due to a reduction of £26.4 billion in available-for-sale (AFS) across the Group and £16.7 billion of HFT positions within Markets reflecting a combination of de-risking strategies and active balance sheet management.
- HFT: The £16.7 billion decrease comprised £13.3 billion of central and local government, £1.3 billion of financial institutions, £1.2 billion of banks and £0.9 billion of corporate:
 - Decrease in UK and US government bonds of £1.3 billion and £2.3 billion respectively reflected maturities and disposals in line with Markets balance sheet management strategy and unwinding of positions.
 - Reduction in other government bonds principally French, Italian, Swiss and Japanese, was partially offset by moves to German and Belgian bonds.
- AFS: Decreased by £26.4 billion, comprising £14.9 billion of central and local government, other financial institutions £7.8 billion, banks £4.3 billion and offset by an increase in corporate of £0.6 billion:
 - UK and US government bonds fell by £3.7 billion and £1.8 billion respectively, primarily due to disposals.
 - Group Treasury reduced its liquidity portfolio, reflecting smaller balance sheet, resulting in lower government bonds primarily German and French (£6.0 billion)
 - Japanese government bonds fell by £2.2 billion as smaller collateral was required following a change in clearing status from direct (self-clearing) to agency.
 - Reduction in ABS: US agency decrease reflected maturities and disposals in light of favourable market conditions in the US, Markets, and US Retail & Commercial; and Non-Core strategic reductions also contributed to the decrease in bonds issued by financial institutions.
 - Bank bonds decreased by £4.3 billion of which £1.7 billion related to Spanish covered bonds reflecting disposals by Group Treasury, and lower positions in Australian and German securities reflected the close out of positions and maturities, respectively.

Risk and balance sheet management (continued)

Credit risk: Financial assets: Debt securities (continued)

Ratings

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

| | Central and local government | | | Other financial | | | Total | Total | Of which ABS |
|----------------------|------------------------------|--------|--------|-----------------|--------------|-----------|---------|-------|--------------|
| | UK | US | Other | Banks | institutions | Corporate | | | |
| 31 December 2012 | £m | £m | £m | £m | £m | £m | £m | % | £m |
| AAA | 17,471 | 31 | 17,167 | 2,304 | 11,502 | 174 | 48,649 | 30 | 10,758 |
| AA to AA+ | - | 36,357 | 7,424 | 1,144 | 26,403 | 750 | 72,078 | 44 | 28,775 |
| A to AA- | - | 6 | 11,707 | 2,930 | 3,338 | 1,976 | 19,957 | 12 | 2,897 |
| BBB- to A- | - | - | 6,245 | 4,430 | 4,217 | 1,643 | 16,535 | 10 | 7,394 |
| Non-investment grade | - | - | 928 | 439 | 3,103 | 614 | 5,084 | 3 | 2,674 |
| Unrated | - | 1 | 2 | 308 | 1,541 | 469 | 2,321 | 1 | 1,087 |
| | 17,471 | 36,395 | 43,473 | 11,555 | 50,104 | 5,626 | 164,624 | 100 | 53,585 |
| 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

- AAA rated debt securities decreased as France and Austria were downgraded to AA+ in the first half of the year and also reflected the Group's reduced holdings of UK government bonds. Additionally, certain Spanish covered bonds were downgraded in H1 2012.
- The decrease in A to AA- debt securities related to downgrades of Italy and Spain to BBB+ and BBB- respectively, in H1 2012, along with a downgrade of selected banks.
- Non-investment grade and unrated debt securities decreased by £2.2 billion and accounted for 4% of the portfolio.

Risk and balance sheet management (continued)

Credit risk: Financial assets: Debt securities (continued)

Asset-backed securities

The table below summarises the rating levels of ABS carrying values.

RMBS

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| | Government sponsored or similar (1) | | Non-Prime | Non-conforming | Sub-prime | MBS covered bond | CMBS | CDOs | CLOs | ABS covered bond | ABS other | Total |
|--------------------------|-------------------------------------|-------|-----------|----------------|-----------|------------------|-------|-------|-------|------------------|-----------|-------|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| 31 December 2012 | | | | | | | | | | | | |
| AAA | 2,454 | 2,854 | 1,487 | 11 | 639 | 396 | 92 | 1,181 | 165 | 1,479 | 10,758 | |
| AA to AA+ | 23,692 | 613 | 88 | 26 | 102 | 2,551 | 7 | 887 | 340 | 469 | 28,775 | |
| A to AA- | 201 | 302 | 275 | 33 | 155 | 808 | 74 | 146 | 20 | 883 | 2,897 | |
| BBB- to A- | 990 | 53 | 141 | 86 | 4,698 | 441 | 32 | 291 | 8 | 654 | 7,394 | |
| Non-investment grade (2) | 20 | 641 | 454 | 330 | 136 | 304 | 421 | 133 | - | 235 | 2,674 | |
| Unrated (3) | - | 108 | 8 | 298 | - | 23 | 94 | 388 | - | 168 | 1,087 | |
| | 27,357 | 4,571 | 2,453 | 784 | 5,730 | 4,523 | 720 | 3,026 | 533 | 3,888 | 53,585 | |
| Of which in Non-Core | - | 651 | 404 | 154 | - | 780 | 494 | 2,228 | - | 850 | 5,561 | |
| 31 December 2011 | | | | | | | | | | | | |
| AAA | 4,169 | 3,599 | 1,488 | 105 | 2,595 | 647 | 135 | 2,171 | 625 | 1,622 | 17,156 | |
| AA to AA+ | 29,252 | 669 | 106 | 60 | 379 | 710 | 35 | 1,533 | 321 | 550 | 33,615 | |
| A to AA- | 131 | 506 | 110 | 104 | 2,567 | 1,230 | 161 | 697 | 100 | 725 | 6,331 | |
| BBB- to A- | - | 39 | 288 | 93 | 1,979 | 333 | 86 | 341 | - | 1,321 | 4,480 | |
| Non-investment grade (2) | 21 | 784 | 658 | 396 | - | 415 | 1,370 | 176 | - | 672 | 4,492 | |
| Unrated (3) | - | 148 | 29 | 146 | - | 56 | 170 | 423 | - | 263 | 1,235 | |
| | 33,573 | 5,745 | 2,679 | 904 | 7,520 | 3,391 | 1,957 | 5,341 | 1,046 | 5,153 | 67,309 | |
| Of which in Non-Core | - | 837 | 477 | 308 | - | 830 | 1,656 | 4,227 | - | 1,861 | 10,196 | |

Notes:

- (1) Includes US agency and Dutch government guaranteed securities.
- (2) Includes HFT £1,177 million (31 December 2011 - £1,682 million), DFV £7 million (31 December 2011 - nil), AFS £1,173 million (31 December 2011 - £2,056 million) and LAR £317 million (31 December 2011 - £754 million).
- (3) Includes HFT £808 million (31 December 2011 - £804 million), AFS £149 million (31 December 2011 - £249 million) and LAR £130 million (31 December 2011 - £182 million).

Risk and balance sheet management (continued)

Credit risk: Financial assets (continued)

Equity shares

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The table below analyses holdings of equity shares for Eurozone countries and other countries with balances more than £100 million holdings of equity shares by country, issuer and measurement classification. The HFT portfolios in Markets comprise positions in the Markets Derivative Products Solutions business primarily for economic hedging of liabilities including debt issuances and equity derivatives. The AFS portfolios include capital stock in the Federal Home Loans Bank (a government sponsored entity, included in Other FI) and the Federal Reserve Bank together £0.7 billion, that US Retail & Commercial are required to hold and a number of individually small holdings in unlisted companies, mainly acquired through loan renegotiations in GRG.

| Countries | HFT/DFV (1) | | | | 31 December 2012 AFS | | | | Total £m | AFS reserves £m | HFT short positions £m |
|---------------------------|-------------|--------------|-----------------|-------------|-------------------------|--------------|-----------------|-------------|-------------|-----------------------|---------------------------------|
| | Other | | Corporate £m | Total £m | Other | | Corporate £m | Total £m | | | |
| | Banks £m | FI (2) £m | | | Banks £m | FI (2) £m | | | | | |
| Ireland | - | 126 | 47 | 173 | - | 17 | - | 17 | 190 | - | (3) |
| Spain | 18 | - | 110 | 128 | - | - | 33 | 33 | 161 | (41) | - |
| Italy | 7 | 1 | 33 | 41 | - | 5 | - | 5 | 46 | - | (15) |
| Greece | - | - | 6 | 6 | - | - | - | - | 6 | - | - |
| Portugal | - | - | 5 | 5 | - | - | - | - | 5 | - | - |
| Eurozone periphery | 25 | 127 | 201 | 353 | - | 22 | 33 | 55 | 408 | (41) | (18) |
| Netherlands | 20 | 197 | 465 | 682 | - | - | 156 | 156 | 838 | (19) | (21) |
| France | 10 | 75 | 142 | 227 | - | 1 | 104 | 105 | 332 | 23 | (10) |
| Luxembourg | 14 | 196 | 77 | 287 | - | 6 | 3 | 9 | 296 | 1 | (1) |
| Germany | 33 | 1 | 106 | 140 | - | - | - | - | 140 | - | (54) |
| Belgium | - | 23 | 6 | 29 | - | 3 | - | 3 | 32 | 1 | (1) |
| Other | 18 | 3 | 110 | 131 | - | - | - | - | 131 | - | (14) |
| Total eurozone | 120 | 622 | 1,107 | 1,849 | - | 32 | 296 | 328 | 2,177 | (35) | (119) |
| Countries | | | | | | | | | | | |
| US | 208 | 619 | 2,663 | 3,490 | 307 | 419 | - | 726 | 4,216 | 7 | (132) |
| UK | 372 | 163 | 2,648 | 3,183 | 35 | 51 | 155 | 241 | 3,424 | 73 | (35) |
| Japan | 24 | 67 | 973 | 1,064 | - | 2 | - | 2 | 1,066 | - | (1) |
| South Korea | 32 | 72 | 880 | 984 | - | - | - | - | 984 | - | - |
| China | 331 | 147 | 357 | 835 | - | 14 | 3 | 17 | 852 | 7 | (3) |
| India | 29 | 68 | 220 | 317 | - | - | - | - | 317 | - | - |
| Taiwan | 2 | 31 | 259 | 292 | - | - | - | - | 292 | - | (11) |
| Australia | 77 | 45 | 159 | 281 | - | - | - | - | 281 | - | (17) |
| Canada | 14 | 25 | 200 | 239 | - | - | 2 | 2 | 241 | 2 | (277) |
| Hong Kong | 2 | 81 | 97 | 180 | - | - | 4 | 4 | 184 | 2 | - |
| Russia | 16 | 4 | 158 | 178 | - | - | - | - | 178 | - | - |
| Romania | - | 123 | - | 123 | - | - | - | - | 123 | - | - |
| MDB and supranationals | | | | | | | | | | | |
| (3) | - | - | 156 | 156 | - | - | - | - | 156 | - | - |
| Other | 74 | 50 | 567 | 691 | - | 37 | 18 | 55 | 746 | 28 | (16) |

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Total 1,301 2,117 10,444 13,862 342 555 478 1,375 15,237 84 (611)

For the notes to this table refer to page 199.

Risk and balance sheet management (continued)

Credit risk: Financial assets: Equity shares (continued)

| Countries | HFT/DFV (1) | | | | 31 December 2011 AFS | | | | Total £m | AFS reserves £m | HFT short positions £m |
|---------------------------|-------------|--------------|-----------------|-------------|-------------------------|--------------|-----------------|-------------|-------------|-----------------------|---------------------------------|
| | Other | | | Total £m | Other | | | Total £m | | | |
| | Banks £m | FI (2) £m | Corporate £m | | Banks £m | FI (2) £m | Corporate £m | | | | |
| Ireland | - | 7 | 208 | 215 | - | 6 | - | 6 | 221 | - | (4) |
| Spain | 55 | 2 | 75 | 132 | - | - | 72 | 72 | 204 | (4) | (16) |
| Italy | 11 | 1 | 51 | 63 | - | 5 | - | 5 | 68 | - | (4) |
| Greece | - | 1 | 2 | 3 | - | - | - | - | 3 | - | (22) |
| Portugal | - | - | - | - | - | - | 5 | 5 | 5 | - | (1) |
| Eurozone periphery | 66 | 11 | 336 | 413 | - | 11 | 77 | 88 | 501 | (4) | (47) |
| Netherlands | 1 | 67 | 671 | 739 | - | 55 | - | 55 | 794 | (76) | (82) |
| France | 12 | 15 | 117 | 144 | 3 | 2 | 97 | 102 | 246 | 20 | (62) |
| Luxembourg | - | 201 | 90 | 291 | 383 | 3 | - | 386 | 677 | 17 | - |
| Germany | 23 | 4 | 114 | 141 | - | - | - | - | 141 | - | (186) |
| Belgium | 2 | 8 | 4 | 14 | - | 15 | 1 | 16 | 30 | 10 | (10) |
| Other | 18 | 15 | 102 | 135 | - | - | - | - | 135 | - | (58) |
| Total eurozone | 122 | 321 | 1,434 | 1,877 | 386 | 86 | 175 | 647 | 2,524 | (33) | (445) |
| Countries | | | | | | | | | | | |
| US | 120 | 97 | 1,442 | 1,659 | 323 | 575 | 52 | 950 | 2,609 | 128 | (544) |
| UK | 420 | 217 | 2,785 | 3,422 | 33 | 215 | 64 | 312 | 3,734 | 40 | (145) |
| Japan | 43 | 82 | 1,289 | 1,414 | - | 1 | - | 1 | 1,415 | - | (3) |
| South Korea | 2 | 47 | 299 | 348 | - | - | - | - | 348 | - | (3) |
| China | 510 | 228 | 637 | 1,375 | - | 13 | - | 13 | 1,388 | 4 | (6) |
| India | 35 | 14 | 314 | 363 | - | - | - | - | 363 | - | - |
| Taiwan | 2 | 37 | 226 | 265 | - | - | - | - | 265 | - | (4) |
| Australia | 95 | 90 | 406 | 591 | - | - | 14 | 14 | 605 | 2 | (219) |
| Canada | - | 4 | 148 | 152 | - | - | 2 | 2 | 154 | 2 | (449) |
| Hong Kong | 10 | 45 | 100 | 155 | - | - | 3 | 3 | 158 | (2) | (2) |
| Russia | 30 | - | 215 | 245 | - | - | - | - | 245 | - | (2) |
| Romania | 1 | 45 | - | 46 | - | - | - | - | 46 | - | - |
| MDB and supranationals | | | | | | | | | | | |
| (3) | - | - | 233 | 233 | - | - | - | - | 233 | - | - |
| Other | 86 | 381 | 600 | 1,067 | - | 3 | 31 | 34 | 1,101 | 26 | (158) |

| | | | | | | | | | | | |
|-------|-------|-------|--------|--------|-----|-----|-----|-------|--------|-----|---------|
| Total | 1,476 | 1,608 | 10,128 | 13,212 | 742 | 893 | 341 | 1,976 | 15,188 | 167 | (1,980) |
|-------|-------|-------|--------|--------|-----|-----|-----|-------|--------|-----|---------|

Notes:

- (1) Designated as at fair value through profit or loss (DFV) balances are £533 million (31 December 2011 - £773 million) of which nil banks (31 December 2011 - nil), £61 million other financial institutions (31 December 2011 - £81 million) and £472 million corporate (31 December 2011 - £692 million).
- (2) Other financial institutions including government sponsored entities (GSEs).
- (3) MDB - Multilateral development banks.

Risk and balance sheet management (continued)

Credit risk: Financial assets (continued)

Derivatives

Summary

The table below analyses the fair value of the Group's derivatives by type of contract. Master netting arrangements in respect of mark-to-market (mtm) positions and collateral shown below do not result in a net presentation in the Group's balance sheet under IFRS.

| | 31 December 2012 | | | | | 31 December 2011 | | | | | |
|--------------------------|------------------|------------|-------------|--------------|--------------|------------------|-------------|----------|-----------|-----------|----|
| | Notional (1) | | | | | Assets | Liabilities | Notional | | | |
| | GBP £bn | USD £bn | Euro £bn | Other £bn | Total £bn | | | £m | £m | £bn | £m |
| Interest rate | | | | | | | | | | | |
| (2) | 5,144 | 10,395 | 11,343 | 6,601 | 33,483 | 363,453 | 345,565 | 38,727 | 422,553 | 406,784 | |
| Exchange rate | 370 | 1,987 | 716 | 1,625 | 4,698 | 63,068 | 70,481 | 4,482 | 74,526 | 81,022 | |
| Credit | 4 | 320 | 202 | 27 | 553 | 11,005 | 10,353 | 1,054 | 26,836 | 26,743 | |
| Other (3) | 18 | 50 | 27 | 16 | 111 | 4,392 | 7,941 | 123 | 6,142 | 9,560 | |
| | | | | | | 441,918 | 434,340 | | 530,057 | 524,109 | |
| Counterparty mtm netting | | | | | | (373,906) | (373,906) | | (441,626) | (441,626) | |
| Cash | | | | | | | | | | | |
| collateral | | | | | | (34,099) | (24,633) | | (37,222) | (31,368) | |
| Securities collateral | | | | | | (5,616) | (8,264) | | (5,312) | (8,585) | |
| | | | | | | 28,297 | 27,537 | | 45,897 | 42,530 | |

Notes:

- (1) Exchange traded contracts were £2,497 billion, principally interest rate. Trades are generally closed out daily hence mark-to-market was insignificant (assets - £41 million; liabilities - £255 million).
- (2) Interest rate notional includes £15,864 billion (31 December 2011 - £16,377 billion) relating to contracts with central clearing houses.
- (3) Comprises equity and commodity derivatives.

Key points

- Net exposure, after taking account of position and collateral netting arrangements, decreased by 38% (liabilities decreased by 35%) due to lower derivative fair values, driven by market movements, including foreign exchange rates and increased use of compression cycles.
- Interest rate contracts decreased due to the increased use of compression cycles reflecting a greater number of market participants and hence trade-matching and the effect of exchange rate movements. This was partially

offset by downward shifts in interest rate yields.

- The decrease in exchange rate contracts reflected the impact of exchange rate movements and trade maturities. This was partially offset by higher trade volumes reflecting hedge funds taking advantage of market uncertainty.
- Credit derivatives decreased due to a managed risk reduction and an increase in trades compressed through compression cycles.

Derivative fair values are driven by complex factors such as changes in foreign exchange rates, interest rates, credit default swap spreads and other underlying rates. At 31 December 2012, derivative fair values were in a net asset position of £7.6 billion. More specifically:

- Group Treasury issues long term fixed rate debt that is hedged with floating rate interest rate swaps and also uses swaps to hedge fixed rate indefinite maturity liabilities such as equity and customer accounts. As interest rates have fallen over recent years the fair value of these swaps has increased. This net asset position is mirrored by the net liability position relating to the difference between the fair value and carrying value on fixed rate loans and current accounts.
- Within Markets the hedging of issued notes, more exotic derivatives and long dated zero coupon inflation structures have led to a positive fair value which is not offset by other derivatives or hedges.

Risk and balance sheet management (continued)

Credit risk: Financial assets: Derivatives (continued)

Credit derivatives

The Group trades credit derivatives as part of its client led business and to mitigate credit risk. The Group's credit derivative exposures relating to proprietary trading are minimal. The table below analyses the Group's bought and sold protection.

| Group | 31 December 2012 | | | | 31 December 2011 | | | |
|------------------------------------|------------------|-------------|---------------|-------------|------------------|-------------|---------------|-------------|
| | Notional | | Fair value | | Notional | | Fair value | |
| | Bought £bn | Sold £bn | Bought £bn | Sold £bn | Bought £bn | Sold £bn | Bought £bn | Sold £bn |
| Client-led trading & residual risk | 250.7 | 240.7 | 3.4 | 3.1 | 401.0 | 390.5 | 17.0 | 16.5 |
| Credit hedging - banking book (1) | 5.4 | 0.4 | 0.1 | - | 15.6 | 4.7 | 0.1 | 0.1 |
| Credit hedging - trading book | | | | | | | | |
| - rates | 9.4 | 5.8 | 0.1 | 0.1 | 21.2 | 17.1 | 0.9 | 1.7 |
| - credit and mortgage markets | 22.4 | 16.0 | 0.9 | 0.7 | 42.9 | 28.4 | 2.3 | 1.7 |
| - other | 1.4 | 0.6 | - | - | 0.9 | 0.1 | - | - |
| Total excluding APS | 289.3 | 263.5 | 4.5 | 3.9 | 481.6 | 440.8 | 20.3 | 20.0 |
| APS | - | - | - | - | 131.8 | - | (0.2) | - |
| | 289.3 | 263.5 | 4.5 | 3.9 | 613.4 | 440.8 | 20.1 | 20.0 |
| Core | | | | | | | | |
| | 231.4 | 228.4 | 3.0 | 2.7 | 371.0 | 369.4 | 14.6 | 14.0 |

Client-led trading

| | | | | | | | | |
|----------------------------------|-------|-------|-----|-----|-------|-------|------|------|
| Credit hedging - banking book | 1.7 | - | - | - | 2.2 | 1.0 | - | 0.1 |
| Credit hedging - trading book | | | | | | | | |
| - rates | 7.8 | 4.6 | 0.1 | 0.1 | 19.9 | 16.2 | 0.9 | 1.7 |
| - credit and mortgage markets | 13.9 | 13.6 | 0.2 | 0.2 | 4.6 | 4.0 | 0.3 | 0.2 |
| - other | 1.3 | 0.5 | - | - | 0.7 | 0.1 | - | - |
| | 256.1 | 247.1 | 3.3 | 3.0 | 398.4 | 390.7 | 15.8 | 16.0 |

Non-Core

| | | | | | | | | |
|---|------|------|-----|-----|------|------|-----|-----|
| Residual risk | 19.3 | 12.3 | 0.4 | 0.4 | 30.0 | 21.1 | 2.4 | 2.5 |
| Credit hedging - banking book (1) | 3.7 | 0.4 | 0.1 | - | 13.4 | 3.7 | 0.1 | - |
| Credit hedging - trading book | | | | | | | | |
| - rates | 1.6 | 1.2 | - | - | 1.3 | 0.9 | - | - |
| - credit and mortgage markets | 8.5 | 2.4 | 0.7 | 0.5 | 38.3 | 24.4 | 2.0 | 1.5 |
| - other | 0.1 | 0.1 | - | - | 0.2 | - | - | - |
| | 33.2 | 16.4 | 1.2 | 0.9 | 83.2 | 50.1 | 4.5 | 4.0 |

By counterparty

| | | | | | | | | |
|---------------------------------|-------|-------|-----|-----|-------|-------|-------|------|
| Central government (APS) | - | - | - | - | 131.8 | - | (0.2) | - |
| Monoline insurers | 4.6 | - | 0.4 | - | 8.6 | - | 0.6 | - |
| CDPCs (2) | 21.0 | - | 0.2 | - | 24.5 | - | 0.9 | - |
| Banks | 127.2 | 128.6 | 2.3 | 2.8 | 204.1 | 202.1 | 8.5 | 10.2 |
| Other financial institutions | 135.8 | 134.9 | 1.4 | 1.1 | 234.8 | 231.6 | 10.5 | 9.5 |
| Corporates | 0.7 | - | 0.2 | - | 9.6 | 7.1 | (0.2) | 0.3 |
| | 289.3 | 263.5 | 4.5 | 3.9 | 613.4 | 440.8 | 20.1 | 20.0 |

Notes:

- (1) Credit hedging in the banking book principally relates to portfolio management in Non-Core.
- (2) Credit derivative product company.

Risk and balance sheet management (continued)

Credit risk: (continued)

Problem debt management

While the principles of identifying, managing and providing for problem debts are broadly similar for wholesale and retail customers, the procedures differ based on the nature of the assets, as discussed below.

Renegotiations and forbearance

Loan modifications take place in a variety of circumstances including but not limited to a customer's current or potential credit deterioration. Where the contractual payment terms of a loan have been changed because of the customer's financial difficulties, it is classified as 'renegotiated' in the wholesale portfolio and as 'forbearance' in the retail portfolio.

Wholesale renegotiations

As part of the Group's problem debt management process, a number of renegotiation options are available when a wholesale customer is facing financial difficulties and corrective action is deemed necessary. The vast majority of wholesale loan renegotiations take place within GRG. However, within its early problem management framework, the Group may agree various remedial measures with customers whose loans are performing but who are experiencing temporary financial difficulties.

Asset quality

The data presented in the tables below include loans renegotiated during 2011 and 2012 which individually exceed thresholds set at divisional level, ranging from nil to £10 million. This population captures approximately 68% of that proportion of the wholesale portfolio which is either on Watchlist or under GRG stewardship. We continue to refine our approach relating to renegotiated loans and as part of the 2012 review, the amounts in-progress and completed renegotiations relating to 2011 have been revised.

The table below shows the value of loans (excluding loans where the Group has initiated recovery procedures) where renegotiations were completed during the year and, sets out related internal asset quality bands, sector breakdowns and renegotiation types.

| Sector | 31 December 2012 | | | 31 December 2011 (revised) | | |
|--|------------------|--------------------------|-------------------------------------|----------------------------|--------------------------|-------------------------------------|
| | Performing £m | Non- performing £m | Non- provisions coverage % | Performing £m | Non- performing £m | Non- provisions coverage % |
| Property | 1,954 | 3,288 | 18 | 2,166 | 3,215 | 25 |
| Transport | 832 | 99 | 23 | 771 | 670 | 10 |
| Telecommunications, media and technology | 237 | 341 | 46 | 57 | 33 | 30 |
| Retail and leisure | 487 | 111 | 34 | 331 | 433 | 10 |
| Other (1) | 792 | 245 | 28 | 893 | 792 | 42 |
| | 4,302 | 4,084 | 22 | 4,218 | 5,143 | 25 |

Note:

(1) SME business within Wealth is now reported within Wholesale forbearance.

Risk and balance sheet management (continued)

Credit risk: Problem debt management: Wholesale renegotiations (continued)

Renegotiation arrangements

The table below analyses the incidence of the main types of renegotiation by loan value.

| Arrangement type | 31 December | |
|--|-------------|----------------|
| | 2012 | 2011 (revised) |
| | % | % |
| Variation in margin | 9 | 12 |
| Payment concessions and loan rescheduling | 69 | 92 |
| Forgiveness of all or part of the outstanding debt | 29 | 33 |
| Other (2) | 20 | 9 |

Note:

- (1) The total above exceeds 100% as an individual case can involve more than one type of arrangement.
- (2) Main types of "other" concessions include formal "standstill" agreements, release of security and amendments to negative pledge. 2012 saw the completion of a small number of material standstill agreements, accounting for the higher proportion of the "Other" modification type.

Key points

Renegotiations completed during 2012, subject to thresholds as explained above, were £8.4 billion (31 December 2011 - £9.4 billion). The volume of renegotiations continues at a high level as difficult economic conditions persist in the UK and Ireland, particularly in real estate markets and the Group continues its active problem debt management. Renegotiations are likely to remain significant: at 31 December 2012 loans totalling £13.7 billion (31 December 2011 - £11.7 billion) were in the process of being renegotiated but had not yet reached legal completion (these loans are not included in the tables above). Of these 69% were non-performing loans, with an associated provision coverage of 32%, and 31% were performing loans. The principal types of arrangements being offered include variation in margin, payment concessions and loan rescheduling and forgiveness of all or part of the outstanding debt.

Loans renegotiated during 2011 and 2012 outstanding at 31 December 2012 were £17.7 billion, of which £9.3 billion relates to arrangements completed during 2011.

Additional provisions charged during 2012 relating to loans renegotiated during 2011 totalled £0.2 billion and provision coverage of those loans at 31 December 2012 was 25%.

Of the loans renegotiated by the GRG during 2011 and 2012 (£14.5 billion), 6% had been returned to satisfactory by 31 December 2012.

Renegotiated loans disclosed in the table above may have been subject of one or more covenants waivers or modifications. In addition loans totalling £3.5 billion were granted financial covenant concessions only during the year. Such loans are not included in the table above as these concessions do not affect a loan's contractual cash flows.

Year-on-year analysis of renegotiated loans may be skewed by individual material cases reaching legal completion during a given year. This is particularly relevant when comparing the value of renegotiations completed in the property and transport sectors in 2012 with previous years.

Risk and balance sheet management (continued)

Credit risk: Problem debt management: Wholesale renegotiations (continued)

Key points

In 2012 renegotiations were more prevalent in the Group's most significant corporate sectors and in those industries experiencing difficult markets, notably property and transport as the Group seeks to support viable customers. The majority of renegotiations granted to borrowers in the property sector were payment concessions and loan rescheduling. During 2012 there has been an increase in the number of renegotiations in the shipping sector as poor economic conditions persist.

84% of 'completed' and 93% of 'in progress' renegotiated cases were managed by GRG.

Provisions for the non-performing loans disclosed above are individually assessed and renegotiations are taken into account when determining the level of provision. The provision coverage is affected by the timing of write-offs and provisions. In some cases loans are fully or partially written off on the completion of a renegotiation. Non-performing renegotiated loans also include loans against which no provision is held and where these cases are large they can have a significant impact on the provision coverage within a specific sector.

Retail forbearance

Arrears status and provisions

The mortgage arrears information for retail accounts in forbearance, related provision and type of arrangements are shown in the tables below.

| | No missed payments | | 1-3 months in arrears | | >3 months in arrears | | Total Forborne balances | | |
|-------------------------|--------------------|-----------------|-----------------------|-----------------|----------------------|-----------------|-------------------------|-----------------|------|
| | Balance £m | Provision £m | Balance £m | Provision £m | Balance £m | Provision £m | Balance £m | Provision £m | % |
| 3 1 December 2012 | | | | | | | | | |
| UK Retail (1,2) | 4,006 | 20 | 388 | 16 | 450 | 64 | 4,844 | 100 | 4.9 |
| Ulster Bank (1,2) | 915 | 100 | 546 | 60 | 527 | 194 | 1,988 | 354 | 10.4 |
| RBS Citizens (3) | - | - | 179 | 25 | 160 | 10 | 339 | 35 | 1.6 |
| Wealth (4) | 38 | - | - | - | 7 | - | 45 | - | 0.5 |
| | 4,959 | 120 | 1,113 | 101 | 1,144 | 268 | 7,216 | 489 | 4.9 |
| 3 1 December 2011 | | | | | | | | | |
| UK Retail (1,2) | 3,677 | 16 | 351 | 13 | 407 | 59 | 4,435 | 88 | 4.7 |
| Ulster Bank (1,2) | 893 | 78 | 516 | 45 | 421 | 124 | 1,830 | 247 | 9.1 |

| | | | | | | | | | |
|--------------|-------|----|-----|----|-----|-----|-------|-----|-----|
| RBS | | | | | | | | | |
| Citizens (3) | - | - | 91 | 10 | 89 | 10 | 180 | 20 | 0.8 |
| Wealth | 121 | - | - | - | 2 | - | 123 | - | 1.3 |
| | 4,691 | 94 | 958 | 68 | 919 | 193 | 6,568 | 355 | 4.4 |

Notes:

- (1) Includes all forbearance arrangements whether relating to the customer's lifestyle changes or financial difficulty.
- (2) Includes the current stock position of forbearance deals agreed since early 2008 for UK Retail and early 2009 for Ulster Bank.
- (3) Forbearance stock reported at 31 December 2012 now includes home equity loans and lines as well as the residential mortgage portfolio.
- (4) SME business within Wealth is now reported within Wholesale forbearance.

Risk and balance sheet management (continued)

Credit risk: Problem debt management: Retail forbearance (continued)

Forbearance arrangements

The incidence of the main types of retail forbearance on the balance sheet as at 31 December 2012 is analysed below. This includes forbearance arrangements agreed during 2012 and balance at the year end. For a small proportion of mortgages, more than one forbearance type applies.

| | UK Retail £m | Ulster Bank £m | RBS Citizens (1) £m | Wealth (2) £m | Total (3) £m |
|---|--------------------|----------------------|------------------------------|---------------------|-----------------|
| 31 December 2012 | | | | | |
| Interest only conversions - temporary and permanent | 1,220 | 924 | - | 6 | 2,150 |
| Term extensions - capital repayment and interest only | 2,271 | 183 | - | 27 | 2,481 |
| Payment concessions | 215 | 762 | 339 | 9 | 1,325 |
| Capitalisation of arrears | 932 | 119 | - | - | 1,051 |
| Other | 452 | - | - | 3 | 455 |
| | 5,090 | 1,988 | 339 | 45 | 7,462 |
| 31 December 2011 | | | | | |
| Interest only conversions - temporary and permanent | 1,269 | 795 | - | 3 | 2,067 |
| Term extensions - capital repayment and interest only | 1,805 | 58 | - | 97 | 1,960 |
| Payment concessions | 198 | 876 | 180 | - | 1,254 |
| Capitalisation of arrears | 864 | 101 | - | - | 965 |
| Other | 517 | - | - | 23 | 540 |
| | 4,653 | 1,830 | 180 | 123 | 6,786 |

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The table below shows forbearance agreed during 2012 analysed between performing and non-performing.

| | RBS | | | | Total (3) |
|--|--------------|----------------|-----------------|---------------|-----------|
| | UK Retail | Ulster Bank | Citizens (1) | Wealth (2) | |
| 31 December 2012 | £m | £m | £m | £m | £m |
| Performing forbearance in the year | 1,809 | 2,111 | 88 | 18 | 4,026 |
| Non-performing forbearance in the year | 184 | 1,009 | 71 | 2 | 1,266 |
| Total forbearance in the year (4) | 1,993 | 3,120 | 159 | 20 | 5,292 |

Note:

- (1) Forbearance stock reported at 31 December 2012 now includes home equity loans and lines as well as the residential mortgage portfolio.
- (2) SME business within Wealth is now reported within Wholesale forbearance.
- (3) As an individual case can include more than one type of arrangement, the analysis in the table on forbearance arrangements exceeds the total value of cases subject to forbearance.
- (4) Includes all deals agreed during the year (new customers and renewals) regardless of whether they remain active at the year end.

Risk and balance sheet management (continued)

Credit risk: Problem debt management: Retail forbearance (continued)

Key points

UK Retail

- The reported numbers for forbearance in UK Retail capture all instances where a change has been made to the contractual payment terms including those where the customer is up-to-date on payments and there is no obvious evidence of financial stress. The reported figures include stock dating back to 1 January 2008.
- At 31 December 2012, stock levels of £4.8 billion represent 4.9% of the total mortgage assets; this represents a 9.2% increase in forbearance stock since 31 December 2011. Of these, approximately 83% were up-to-date with payments (compared with approximately 97% of the mortgage population not subject to forbearance activity). Forbearance flow has remained stable year on year.
- The most frequently occurring forbearance types were term extensions (47% of assets subject to forbearance at 31 December 2012), interest only conversions (25%) and capitalisations of arrears (19%). The stock of cases subject to interest only conversions reflects legacy policy. In 2009, UK Retail ceased providing this type of forbearance treatment for customers in financial difficulty and no longer permits interest only conversions on residential mortgages where the customer is current on payments.
- The provision cover on performing assets subject to forbearance was about five times that on assets not subject to forbearance.

Ulster Bank

- The reported numbers for forbearance in Ulster Bank Group capture all instances where a change has been made to the contractual payment terms including those where the customer is up-to-date on payments and there is no obvious evidence of financial stress. The reported figures include stock dating back to early 2009.

- Ulster Bank Group continues to assist customers in the difficult economic environment. Mortgage forbearance treatments have been in place since 2009 and are aimed at assisting customers in financial difficulty. At 31 December 2012, 10.4% of total mortgage assets (£1.9 billion) were subject to a forbearance arrangement, an increase from 9.1% (£1.8 billion) at 31 December 2011. The majority of these forbearance arrangements were in the performing book (73%).
- The majority of the forbearance arrangements offered by Ulster Bank currently are temporary concessions, accounting for 85% of assets subject to forbearance at 31 December 2012. These are offered for periods of one to three years and incorporate different levels of repayment based on the customer's ability to pay. The additional treatment options developed by Ulster Retail will lead to a shift to more long term arrangements over time.
- Of these temporary forbearance types, the largest category at 31 December 2012 was interest only conversions, which accounted for 46% of total assets subject to forbearance. The other categories of temporary forbearance were payment concessions: reduced repayments (36%); and payment holidays (38%).
- The flow by forbearance type remained stable when compared with 2011 was a modest reduction, 3%, in customers seeking assistance for the first time year on year.
- The provision cover on performing assets subject to forbearance is approximately eight times higher than that on performing assets not subject to forbearance.

Risk and balance sheet management (continued)

Credit risk: Problem debt management (continued)

Risk elements in lending (REIL)

REIL, provisions and impairments

The tables below analyse gross loans and advances to banks and customers (excluding reverse repos) and the related debt management measures and ratios by division.

Divisional analysis

| | Gross loans to | | Credit metrics | | | | Year-to-date | |
|------------------------|----------------|-----------|----------------|------------|---|---------------------------|-------------------|---------------------|
| | Banks | Customers | REIL | Provisions | REIL as a % of gross loans to customers | Provisions as a % of REIL | Impairment charge | Amounts written-off |
| 31 December 2012 | £m | £m | £m | £m | % | % | £m | £m |
| UK Retail | 695 | 113,599 | 4,569 | 2,629 | 4.0 | 58 | 529 | 599 |
| UK Corporate | 746 | 107,025 | 5,452 | 2,432 | 5.1 | 45 | 836 | 514 |
| Wealth | 1,545 | 17,074 | 248 | 109 | 1.5 | 44 | 46 | 15 |
| International | | | | | | | | |
| Banking | 4,827 | 42,342 | 422 | 391 | 1.0 | 93 | 111 | 445 |
| Ulster Bank | 632 | 32,652 | 7,533 | 3,910 | 23.1 | 52 | 1,364 | 72 |
| US Retail & Commercial | 435 | 51,271 | 1,146 | 285 | 2.2 | 25 | 83 | 391 |

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| | | | | | | | | |
|-----------------------------|--------|---------|--------|--------|------|----|-------|-------|
| Retail & Commercial Markets | 8,880 | 363,963 | 19,370 | 9,756 | 5.3 | 50 | 2,969 | 2,036 |
| Direct Line Group and other | 16,805 | 29,787 | 396 | 305 | 1.3 | 77 | 25 | 109 |
| Core | 5,232 | 3,006 | - | 1 | - | - | 1 | - |
| Non-Core | 30,917 | 396,756 | 19,766 | 10,062 | 5.0 | 51 | 2,995 | 2,145 |
| Group | 477 | 56,343 | 21,374 | 11,200 | 37.9 | 52 | 2,320 | 2,121 |
| | 31,394 | 453,099 | 41,140 | 21,262 | 9.1 | 52 | 5,315 | 4,266 |

31 December 2011

| | | | | | | | | |
|-----------------------------|--------|---------|--------|--------|------|----|-------|-------|
| UK Retail | 628 | 110,659 | 4,599 | 2,678 | 4.2 | 58 | 788 | 823 |
| UK Corporate Wealth | 806 | 110,729 | 5,001 | 2,062 | 4.5 | 41 | 790 | 658 |
| International Banking | 2,422 | 16,913 | 211 | 81 | 1.2 | 38 | 25 | 11 |
| Ulster Bank | 3,411 | 57,729 | 1,632 | 851 | 2.8 | 52 | 168 | 125 |
| US Retail & Commercial | 2,079 | 34,052 | 5,523 | 2,749 | 16.2 | 50 | 1,384 | 124 |
| Retail & Commercial Markets | 208 | 51,562 | 1,007 | 455 | 2.0 | 45 | 248 | 373 |
| Direct Line Group and other | 9,554 | 381,644 | 17,973 | 8,876 | 4.7 | 49 | 3,403 | 2,114 |
| Core | 29,991 | 31,490 | 414 | 311 | 1.3 | 75 | - | 23 |
| Non-Core | 3,829 | 929 | - | - | - | - | - | - |
| Group | 43,374 | 414,063 | 18,387 | 9,187 | 4.4 | 50 | 3,403 | 2,137 |
| | 706 | 80,005 | 24,007 | 11,487 | 30.0 | 48 | 3,838 | 2,390 |
| | 44,080 | 494,068 | 42,394 | 20,674 | 8.6 | 49 | 7,241 | 4,527 |

Risk and balance sheet management (continued)

Credit risk: Problem debt management: REIL, provisions and impairments (continued)

Key points

- Total REIL decreased by £1.3 billion to £41.1 billion compared with December 2011 as improvements in International Banking and in Non-Core were partially offset by the continued increase in REIL in UK Corporate and Ulster Bank Core mortgage and corporate portfolios.
- Non-Core REIL decreased by £2.6 billion or 11% reflecting a mixture of repayments and write-offs within UK Corporate, Markets and International Banking corporate portfolios.
- Conditions in Ireland remain difficult and economic indicators continue to be weak, this is reflected in the Ulster Bank credit metrics with Core REIL increasing by £2.0 billion since 31 December 2011, primarily within mortgage and commercial real estate portfolios, to £7.5 billion and is now 23.1% of loans and advances to

customers. Impairments continue to outpace write-offs.

- The provision coverage increased to 52% at 31 December 2012 from 49% at 31 December 2011 as the economic conditions remain challenging particularly in relation to Ulster Bank and commercial real estate portfolio's.
- The impairment charge for 2012 of £5.3 billion was 27% lower than in 2011. The main drivers were lower impairment across Non-Core portfolios (down £1.5 billion or 40%) mainly as a result of lower impairments across Ulster Bank's commercial real estate portfolio (down £1.3 billion or 58%) and continued improvement across Core UK portfolios.
- Commercial real estate lending metrics were as follows:

| | Total 31 December 2012 | 31 December 2011 | Non-Core 31 December 2012 | 31 December 2011 |
|---|---------------------------------|------------------------|------------------------------------|------------------------|
| Lending (gross) | £63.0bn | £74.8bn | £26.4bn | £34.3bn |
| Of which REIL | £22.1bn | £22.9bn | £17.1bn | £18.8bn |
| Provisions | £10.1bn | £9.5bn | £8.3bn | £8.2bn |
| REIL as a % of gross loans to customers | 35.1% | 30.6% | 64.8% | 54.8% |
| Provisions as a % of REIL | 46% | 41% | 49% | 44% |

Note:

(1) Excludes property related lending to customers in other sectors managed by Real Estate Finance.

Ulster Bank is a significant contributor to Non-Core commercial real estate lending. For further information refer to the section on Ulster Bank Group (Core and Non-Core).

Risk and balance sheet management (continued)

Credit risk: Problem debt management: REIL, provisions and impairments (continued)

Sector and geographical regional analysis - Group

The tables below analyse gross loans and advances to banks and customers (excluding reverse repos) and the related debt management by sector and geography (by location of lending office) for the Group, Core and Non-Core.

| | Credit metrics | | | | | | | |
|----------------------|----------------------|------------|------------------|--|--------------------------------------|--|----------------------------|------------------------------|
| | 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 |
| 31 December 2012 | | | | | | | | |
| Government (1) | 9,853 | - | - | - | - | - | - | - |
| Finance | 42,198 | 592 | 317 | 1.4 | 54 | 0.8 | 145 | 380 |
| Personal - mortgages | 149,625 | 6,549 | 1,824 | 4.4 | 28 | 1.2 | 948 | 461 |

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| | | | | | | | | |
|-------------------------------|---------|--------|--------|------|-----|------|-------|-------|
| - unsecured | 32,212 | 2,903 | 2,409 | 9.0 | 83 | 7.5 | 631 | 793 |
| Property | 72,219 | 21,223 | 9,859 | 29.4 | 46 | 13.7 | 2,212 | 1,080 |
| Construction | 8,049 | 1,483 | 640 | 18.4 | 43 | 8.0 | 94 | 182 |
| Manufacturing | 23,787 | 755 | 357 | 3.2 | 47 | 1.5 | 134 | 203 |
| Finance leases (2) | 13,609 | 442 | 294 | 3.2 | 67 | 2.2 | 44 | 263 |
| Retail, wholesale and repairs | 21,936 | 1,143 | 644 | 5.2 | 56 | 2.9 | 230 | 176 |
| Transport and storage | 18,341 | 834 | 336 | 4.5 | 40 | 1.8 | 289 | 102 |
| Health, education and leisure | 16,705 | 1,190 | 521 | 7.1 | 44 | 3.1 | 144 | 100 |
| Hotels and restaurants | 7,877 | 1,597 | 726 | 20.3 | 45 | 9.2 | 176 | 102 |
| Utilities | 6,631 | 118 | 21 | 1.8 | 18 | 0.3 | (4) | - |
| Other | 30,057 | 2,177 | 1,240 | 7.2 | 57 | 4.1 | 323 | 395 |
| Latent | - | - | 1,960 | - | - | - | (74) | - |
| | 453,099 | 41,006 | 21,148 | 9.1 | 52 | 4.7 | 5,292 | 4,237 |
| of which: | | | | | | | | |
| UK | | | | | | | | |
| - residential mortgages | 109,530 | 2,440 | 457 | 2.2 | 19 | 0.4 | 122 | 32 |
| - personal lending | 20,498 | 2,477 | 2,152 | 12.1 | 87 | 10.5 | 479 | 610 |
| - property | 53,730 | 10,521 | 3,944 | 19.6 | 37 | 7.3 | 964 | 490 |
| - construction | 6,507 | 1,165 | 483 | 17.9 | 41 | 7.4 | 100 | 158 |
| - other | 122,029 | 3,729 | 2,611 | 3.1 | 70 | 2.1 | 674 | 823 |
| Europe | | | | | | | | |
| - residential mortgages | 17,836 | 3,092 | 1,151 | 17.3 | 37 | 6.5 | 526 | 50 |
| - personal lending | 1,905 | 226 | 208 | 11.9 | 92 | 10.9 | 38 | 13 |
| - property | 14,634 | 10,347 | 5,766 | 70.7 | 56 | 39.4 | 1,264 | 441 |
| - construction | 1,132 | 289 | 146 | 25.5 | 51 | 12.9 | (11) | 12 |
| - other | 27,424 | 4,451 | 2,996 | 16.2 | 67 | 10.9 | 817 | 539 |
| US | | | | | | | | |
| - residential mortgages | 21,929 | 990 | 208 | 4.5 | 21 | 0.9 | 298 | 377 |
| - personal lending | 8,748 | 199 | 48 | 2.3 | 24 | 0.5 | 109 | 162 |
| - property | 3,343 | 170 | 29 | 5.1 | 17 | 0.9 | (11) | 83 |
| - construction | 388 | 8 | 1 | 2.1 | 13 | 0.3 | - | 12 |
| - other | 29,354 | 352 | 630 | 1.2 | 179 | 2.1 | (86) | 149 |
| RoW | | | | | | | | |
| - residential mortgages | 330 | 27 | 8 | 8.2 | 30 | 2.4 | 2 | 2 |
| - personal lending | 1,061 | 1 | 1 | 0.1 | 100 | 0.1 | 5 | 8 |
| - property | 512 | 185 | 120 | 36.1 | 65 | 23.4 | (5) | 66 |
| - construction | 22 | 21 | 10 | 95.5 | 48 | 45.5 | 5 | - |
| - other | 12,187 | 316 | 179 | 2.6 | 57 | 1.5 | 2 | 210 |
| | 453,099 | 41,006 | 21,148 | 9.1 | 52 | 4.7 | 5,292 | 4,237 |
| Banks | 31,394 | 134 | 114 | 0.4 | 85 | 0.4 | 23 | 29 |

For the notes to this table refer to page 214.

Risk and balance sheet management (continued)

Credit risk: Problem debt management: REIL, provisions and impairments (continued)

Sector and geographical regional analysis - Group (continued)

| | Credit metrics | | | | | | | |
|-------------------------------|----------------|--------|------------|----------------------------|---------------------------|----------------------------------|-------------------|---------------------|
| | Gross loans | REIL | Provisions | REIL as a % of gross loans | Provisions as a % of REIL | Provisions as a % of gross loans | Impairment charge | Amounts written-off |
| 31 December 2011 | £m | £m | £m | % | % | % | £m | £m |
| Government (1) | 9,742 | - | - | - | - | - | - | - |
| Finance | 51,870 | 1,062 | 726 | 2.0 | 68 | 1.4 | 89 | 87 |
| Personal - mortgages | 149,273 | 5,270 | 1,396 | 3.5 | 26 | 0.9 | 1,076 | 516 |
| - unsecured | 34,424 | 3,070 | 2,456 | 8.9 | 80 | 7.1 | 782 | 1,286 |
| Property | 81,058 | 22,101 | 8,994 | 27.3 | 41 | 11.1 | 3,669 | 1,171 |
| Construction | 9,869 | 1,943 | 761 | 19.7 | 39 | 7.7 | 140 | 244 |
| Manufacturing | 28,639 | 913 | 525 | 3.2 | 58 | 1.8 | 227 | 215 |
| Finance leases (2) | 14,499 | 794 | 508 | 5.5 | 64 | 3.5 | 112 | 170 |
| Retail, wholesale and repairs | 24,378 | 1,067 | 549 | 4.4 | 51 | 2.3 | 180 | 172 |
| Transport and storage | 22,058 | 606 | 154 | 2.7 | 25 | 0.7 | 78 | 43 |
| Health, education and leisure | 17,492 | 1,192 | 502 | 6.8 | 42 | 2.9 | 304 | 98 |
| Hotels and restaurants | 8,870 | 1,490 | 675 | 16.8 | 45 | 7.6 | 334 | 131 |
| Utilities | 8,406 | 88 | 23 | 1.0 | 26 | 0.3 | 3 | 3 |
| Other | 33,490 | 2,661 | 1,217 | 7.9 | 46 | 3.6 | 792 | 391 |
| Latent | - | - | 2,065 | - | - | - | (545) | - |
| | 494,068 | 42,257 | 20,551 | 8.6 | 49 | 4.2 | 7,241 | 4,527 |
| of which: | | | | | | | | |
| UK | | | | | | | | |
| - residential mortgages | 106,388 | 2,262 | 431 | 2.1 | 19 | 0.4 | 180 | 25 |
| - personal lending | 22,008 | 2,717 | 2,209 | 12.3 | 81 | 10.0 | 645 | 1,007 |
| - property | 60,041 | 11,147 | 3,837 | 18.6 | 34 | 6.4 | 1,411 | 493 |
| - construction | 7,589 | 1,427 | 560 | 18.8 | 39 | 7.4 | 187 | 228 |
| - other | 132,548 | 4,635 | 2,943 | 3.5 | 63 | 2.2 | 514 | 655 |
| Europe | | | | | | | | |
| - residential mortgages | 18,946 | 2,205 | 713 | 11.6 | 32 | 3.8 | 467 | 10 |
| - personal lending | 2,464 | 209 | 180 | 8.5 | 86 | 7.3 | 25 | 126 |
| - property | 16,384 | 10,314 | 4,947 | 63.0 | 48 | 30.2 | 2,296 | 504 |
| - construction | 1,754 | 362 | 185 | 20.6 | 51 | 10.5 | (62) | - |
| - other | 34,497 | 4,261 | 2,873 | 12.4 | 67 | 8.3 | 1,267 | 293 |
| US | | | | | | | | |
| - residential mortgages | 23,237 | 770 | 240 | 3.3 | 31 | 1.0 | 426 | 481 |
| - personal lending | 8,441 | 143 | 66 | 1.7 | 46 | 0.8 | 112 | 153 |
| - property | 3,783 | 329 | 92 | 8.7 | 28 | 2.4 | (2) | 139 |
| - construction | 457 | 121 | 10 | 26.5 | 8 | 2.2 | 9 | 16 |
| - other | 37,015 | 517 | 895 | 1.4 | 173 | 2.4 | (175) | 180 |

| | | | | | | | | |
|-------------------------|---------|--------|--------|------|-----|------|-------|-------|
| RoW | | | | | | | | |
| - residential mortgages | 702 | 33 | 12 | 4.7 | 36 | 1.7 | 3 | - |
| - personal lending | 1,511 | 1 | 1 | 0.1 | 100 | 0.1 | - | - |
| - property | 850 | 311 | 118 | 36.6 | 38 | 13.9 | (36) | 35 |
| - construction | 69 | 33 | 6 | 47.8 | 18 | 8.7 | 6 | - |
| - other | 15,384 | 460 | 233 | 3.0 | 51 | 1.5 | (32) | 182 |
| | 494,068 | 42,257 | 20,551 | 8.6 | 49 | 4.2 | 7,241 | 4,527 |
| Banks | 44,080 | 137 | 123 | 0.3 | 90 | 0.3 | - | - |

For notes to this table refer to page 214.

Risk and balance sheet management (continued)

Credit risk: Problem debt management: REIL, provisions and impairments (continued)

Sector and geographical regional analysis - Core

| | Gross loans £m | REIL £m | Provisions £m | Credit metrics | | Provisions of gross loans % | Impairment charge £m | Amounts written-off £m |
|----------------------------------|----------------------|------------|------------------|--|--|--------------------------------------|----------------------------|------------------------------|
| | | | | REIL as a % of gross loans % | Provisions as a % of gross loans % | | | |
| 31 December 2012 | | | | | | | | |
| Government (1) | 8,485 | - | - | - | - | - | - | - |
| Finance | 39,658 | 185 | 149 | 0.5 | 81 | 0.4 | 54 | 338 |
| Personal - mortgages | 146,770 | 6,229 | 1,691 | 4.2 | 27 | 1.2 | 786 | 234 |
| - unsecured | 31,247 | 2,717 | 2,306 | 8.7 | 85 | 7.4 | 568 | 718 |
| Property | 43,602 | 4,672 | 1,674 | 10.7 | 36 | 3.8 | 748 | 214 |
| Construction | 6,020 | 757 | 350 | 12.6 | 46 | 5.8 | 119 | 60 |
| Manufacturing | 22,234 | 496 | 225 | 2.2 | 45 | 1.0 | 118 | 63 |
| Finance leases (2) | 9,201 | 159 | 107 | 1.7 | 67 | 1.2 | 35 | 41 |
| Retail, wholesale and repairs | 20,842 | 791 | 439 | 3.8 | 55 | 2.1 | 181 | 129 |
| Transport and storage | 14,590 | 440 | 112 | 3.0 | 25 | 0.8 | 72 | 21 |
| Health, education and leisure | 15,770 | 761 | 299 | 4.8 | 39 | 1.9 | 109 | 67 |
| Hotels and restaurants | 6,891 | 1,042 | 473 | 15.1 | 45 | 6.9 | 138 | 56 |
| Utilities | 5,131 | 10 | 5 | 0.2 | 50 | 0.1 | - | - |
| Other | 26,315 | 1,374 | 794 | 5.2 | 58 | 3.0 | 190 | 175 |
| Latent | - | - | 1,325 | - | - | - | (146) | - |
| | 396,756 | 19,633 | 9,949 | 4.9 | 51 | 2.5 | 2,972 | 2,116 |
| of which: | | | | | | | | |
| UK | | | | | | | | |
| - residential mortgages | 109,511 | 2,440 | 457 | 2.2 | 19 | 0.4 | 122 | 32 |
| - personal lending | 20,443 | 2,454 | 2,133 | 12.0 | 87 | 10.4 | 474 | 594 |
| - property | 35,532 | 2,777 | 896 | 7.8 | 32 | 2.5 | 395 | 181 |

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| | | | | | | | | |
|-------------------------|---------|--------|-------|------|-----|------|-------|-------|
| - construction | 5,101 | 671 | 301 | 13.2 | 45 | 5.9 | 109 | 47 |
| - other | 108,713 | 2,662 | 1,737 | 2.4 | 65 | 1.6 | 499 | 379 |
| Europe | | | | | | | | |
| - residential mortgages | 17,446 | 3,060 | 1,124 | 17.5 | 37 | 6.4 | 521 | 24 |
| - personal lending | 1,540 | 143 | 138 | 9.3 | 97 | 9.0 | 29 | 11 |
| - property | 4,896 | 1,652 | 685 | 33.7 | 41 | 14.0 | 350 | 6 |
| - construction | 513 | 60 | 39 | 11.7 | 65 | 7.6 | 4 | 10 |
| - other | 22,218 | 2,280 | 1,711 | 10.3 | 75 | 7.7 | 362 | 267 |
| US | | | | | | | | |
| - residential mortgages | 19,483 | 702 | 102 | 3.6 | 15 | 0.5 | 141 | 176 |
| - personal lending | 8,209 | 119 | 34 | 1.4 | 29 | 0.4 | 65 | 112 |
| - property | 2,847 | 112 | 13 | 3.9 | 12 | 0.5 | 3 | 27 |
| - construction | 384 | 5 | - | 1.3 | - | - | 1 | 3 |
| - other | 28,267 | 252 | 432 | 0.9 | 171 | 1.5 | (111) | 90 |
| RoW | | | | | | | | |
| - residential mortgages | 330 | 27 | 8 | 8.2 | 30 | 2.4 | 2 | 2 |
| - personal lending | 1,055 | 1 | 1 | 0.1 | 100 | 0.1 | - | 1 |
| - property | 327 | 131 | 80 | 40.1 | 61 | 24.5 | - | - |
| - construction | 22 | 21 | 10 | 95.5 | 48 | 45.5 | 5 | - |
| - other | 9,919 | 64 | 48 | 0.6 | 75 | 0.5 | 1 | 154 |
| | 396,756 | 19,633 | 9,949 | 4.9 | 51 | 2.5 | 2,972 | 2,116 |
| Banks | 30,917 | 133 | 113 | 0.4 | 85 | 0.4 | 23 | 29 |

For the notes to this table refer to page 214.

Risk and balance sheet management (continued)

Credit risk: Problem debt management: REIL, provisions and impairments (continued)

Sector and geographical regional analysis - Core (continued)

| | Credit metrics | | | | | | | |
|-------------------------------|----------------|-------|------------|----------------------------|---------------------------|----------------------------------|-------------------|---------------------|
| | Gross loans | REIL | Provisions | REIL as a % of gross loans | Provisions as a % of REIL | Provisions as a % of gross loans | Impairment charge | Amounts written-off |
| 31 December 2011 | £m | £m | £m | % | % | % | £m | £m |
| Government (1) | 8,359 | - | - | - | - | - | - | - |
| Finance | 48,598 | 745 | 579 | 1.5 | 78 | 1.2 | 207 | 44 |
| Personal - mortgages | 144,171 | 4,890 | 1,216 | 3.4 | 25 | 0.8 | 776 | 198 |
| - unsecured | 32,868 | 2,960 | 2,364 | 9.0 | 80 | 7.2 | 715 | 935 |
| Property | 42,994 | 4,132 | 1,133 | 9.6 | 27 | 2.6 | 469 | 167 |
| Construction | 7,197 | 841 | 286 | 11.7 | 34 | 4.0 | 179 | 143 |
| Manufacturing | 23,708 | 490 | 242 | 2.1 | 49 | 1.0 | 106 | 125 |
| Finance leases (2) | 8,440 | 172 | 110 | 2.0 | 64 | 1.3 | 31 | 68 |
| Retail, wholesale and repairs | 22,039 | 679 | 345 | 3.1 | 51 | 1.6 | 208 | 119 |
| Transport and storage | 16,581 | 342 | 60 | 2.1 | 18 | 0.4 | 47 | 29 |

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| | | | | | | | | |
|-------------------------------|---------|--------|-------|------|-----|------|-------|-------|
| Health, education and leisure | 16,073 | 691 | 257 | 4.3 | 37 | 1.6 | 170 | 55 |
| Hotels and restaurants | 7,709 | 1,005 | 386 | 13.0 | 38 | 5.0 | 209 | 60 |
| Utilities | 6,557 | 22 | 1 | 0.3 | 5 | - | - | - |
| Other | 28,769 | 1,282 | 668 | 4.5 | 52 | 2.3 | 538 | 194 |
| Latent | - | - | 1,418 | - | - | - | (252) | - |
| | 414,063 | 18,251 | 9,065 | 4.4 | 50 | 2.2 | 3,403 | 2,137 |
| of which: | | | | | | | | |
| UK | | | | | | | | |
| - residential mortgages | 104,965 | 2,210 | 420 | 2.1 | 19 | 0.4 | 174 | 24 |
| - personal lending | 21,881 | 2,680 | 2,179 | 12.2 | 81 | 10.0 | 657 | 828 |
| - property | 35,431 | 2,984 | 744 | 8.4 | 25 | 2.1 | 378 | 114 |
| - construction | 5,707 | 655 | 236 | 11.5 | 36 | 4.1 | 160 | 138 |
| - other | 114,878 | 2,571 | 1,648 | 2.2 | 64 | 1.4 | 366 | 398 |
| Europe | | | | | | | | |
| - residential mortgages | 18,393 | 2,121 | 664 | 11.5 | 31 | 3.6 | 437 | 10 |
| - personal lending | 1,972 | 143 | 125 | 7.3 | 87 | 6.3 | (8) | 22 |
| - property | 4,846 | 1,037 | 365 | 21.4 | 35 | 7.5 | 162 | 10 |
| - construction | 1,019 | 72 | 43 | 7.1 | 60 | 4.2 | 13 | - |
| - other | 24,414 | 2,430 | 1,806 | 10.0 | 74 | 7.4 | 915 | 183 |
| US | | | | | | | | |
| - residential mortgages | 20,311 | 526 | 120 | 2.6 | 23 | 0.6 | 162 | 164 |
| - personal lending | 7,505 | 136 | 59 | 1.8 | 43 | 0.8 | 66 | 85 |
| - property | 2,413 | 111 | 24 | 4.6 | 22 | 1.0 | 16 | 43 |
| - construction | 412 | 98 | 1 | 23.8 | 1 | 0.2 | - | 5 |
| - other | 34,971 | 345 | 583 | 1.0 | 169 | 1.7 | 26 | 96 |
| RoW | | | | | | | | |
| - residential mortgages | 502 | 33 | 12 | 6.6 | 36 | 2.4 | 3 | - |
| - personal lending | 1,510 | 1 | 1 | 0.1 | 100 | 0.1 | - | - |
| - property | 304 | - | - | - | - | - | (87) | - |
| - construction | 59 | 16 | 6 | 27.1 | 38 | 10.2 | 6 | - |
| - other | 12,570 | 82 | 29 | 0.7 | 35 | 0.2 | (43) | 17 |
| | 414,063 | 18,251 | 9,065 | 4.4 | 50 | 2.2 | 3,403 | 2,137 |
| Banks | 43,374 | 136 | 122 | 0.3 | 90 | 0.3 | - | - |

For the notes to this table refer to page 214.

Risk and balance sheet management (continued)

Credit risk: Problem debt management: REIL, provisions and impairments (continued)

Sector and geographical regional analysis - Non-Core

| 31 December 2012 | Credit metrics | | | | | | |
|------------------|-------------------|------------|------------------|----------------------------|---------------------------------|----------------------------------|----------------------|
| | Gross loans £m | REIL £m | Provisions £m | REIL as a % of gross | Provisions as a % of REIL | Provisions as a % of gross | Impairment charge |

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| | | | | loans % | % | loans % | £m | £m |
|-------------------------------|--------|--------|--------|------------|-----|------------|-------|-------|
| Government (1) | 1,368 | - | - | - | - | - | - | - |
| Finance | 2,540 | 407 | 168 | 16.0 | 41 | 6.6 | 91 | 42 |
| Personal - mortgages | 2,855 | 320 | 133 | 11.2 | 42 | 4.7 | 162 | 227 |
| - unsecured | 965 | 186 | 103 | 19.3 | 55 | 10.7 | 63 | 75 |
| Property | 28,617 | 16,551 | 8,185 | 57.8 | 49 | 28.6 | 1,464 | 866 |
| Construction | 2,029 | 726 | 290 | 35.8 | 40 | 14.3 | (25) | 122 |
| Manufacturing | 1,553 | 259 | 132 | 16.7 | 51 | 8.5 | 16 | 140 |
| Finance leases (2) | 4,408 | 283 | 187 | 6.4 | 66 | 4.2 | 9 | 222 |
| Retail, wholesale and repairs | 1,094 | 352 | 205 | 32.2 | 58 | 18.7 | 49 | 47 |
| Transport and storage | 3,751 | 394 | 224 | 10.5 | 57 | 6.0 | 217 | 81 |
| Health, education and leisure | 935 | 429 | 222 | 45.9 | 52 | 23.7 | 35 | 33 |
| Hotels and restaurants | 986 | 555 | 253 | 56.3 | 46 | 25.7 | 38 | 46 |
| Utilities | 1,500 | 108 | 16 | 7.2 | 15 | 1.1 | (4) | - |
| Other | 3,742 | 803 | 446 | 21.5 | 56 | 11.9 | 133 | 220 |
| Latent | - | - | 635 | - | - | - | 72 | - |
| | 56,343 | 21,373 | 11,199 | 37.9 | 52 | 19.9 | 2,320 | 2,121 |
| of which: | | | | | | | | |
| UK | | | | | | | | |
| - residential mortgages | 19 | - | - | - | - | - | - | - |
| - personal lending | 55 | 23 | 19 | 41.8 | 83 | 34.5 | 5 | 16 |
| - property | 18,198 | 7,744 | 3,048 | 42.6 | 39 | 16.7 | 569 | 309 |
| - construction | 1,406 | 494 | 182 | 35.1 | 37 | 12.9 | (9) | 111 |
| - other | 13,316 | 1,067 | 874 | 8.0 | 82 | 6.6 | 175 | 444 |
| Europe | | | | | | | | |
| - residential mortgages | 390 | 32 | 27 | 8.2 | 84 | 6.9 | 5 | 26 |
| - personal lending | 365 | 83 | 70 | 22.7 | 84 | 19.2 | 9 | 2 |
| - property | 9,738 | 8,695 | 5,081 | 89.3 | 58 | 52.2 | 914 | 435 |
| - construction | 619 | 229 | 107 | 37.0 | 47 | 17.3 | (15) | 2 |
| - other | 5,206 | 2,171 | 1,285 | 40.7 | 59 | 24.7 | 455 | 272 |
| US | | | | | | | | |
| - residential mortgages | 2,446 | 288 | 106 | 11.8 | 37 | 4.3 | 157 | 201 |
| - personal lending | 539 | 80 | 14 | 14.8 | 18 | 2.6 | 44 | 50 |
| - property | 496 | 58 | 16 | 11.7 | 28 | 3.2 | (14) | 56 |
| - construction | 4 | 3 | 1 | 75.0 | 33 | 25.0 | (1) | 9 |
| - other | 1,087 | 100 | 198 | 9.2 | 198 | 18.2 | 25 | 59 |
| RoW | | | | | | | | |
| - residential mortgages | - | - | - | - | - | - | - | - |
| - personal lending | 6 | - | - | - | - | - | 5 | 7 |
| - property | 185 | 54 | 40 | 29.2 | 74 | 21.6 | (5) | 66 |
| - construction | - | - | - | - | - | - | - | - |
| - other | 2,268 | 252 | 131 | 11.1 | 52 | 5.8 | 1 | 56 |
| | 56,343 | 21,373 | 11,199 | 37.9 | 52 | 19.9 | 2,320 | 2,121 |

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| | | | | | | | | |
|-------|-----|---|---|-----|-----|-----|---|---|
| Banks | 477 | 1 | 1 | 0.2 | 100 | 0.2 | - | - |
|-------|-----|---|---|-----|-----|-----|---|---|

For the notes to this table refer to page 214.

Risk and balance sheet management (continued)

Credit risk: Problem debt management: REIL, provisions and impairments (continued)

Sector and geographical regional analysis - Non-Core (continued)

| | Credit metrics | | | | | | | |
|-------------------------------|----------------|--------|------------|----------------------------|---------------------------|----------------------------------|-------------------|---------------------|
| | Gross loans | REIL | Provisions | REIL as a % of gross loans | Provisions as a % of REIL | Provisions as a % of gross loans | Impairment charge | Amounts written-off |
| 31 December 2011 | £m | £m | £m | % | % | % | £m | £m |
| Government (1) | 1,383 | - | - | - | - | - | - | - |
| Finance | 3,272 | 317 | 147 | 9.7 | 46 | 4.5 | (118) | 43 |
| Personal - mortgages | 5,102 | 380 | 180 | 7.4 | 47 | 3.5 | 300 | 318 |
| - unsecured | 1,556 | 110 | 92 | 7.1 | 84 | 5.9 | 67 | 351 |
| Property | 38,064 | 17,969 | 7,861 | 47.2 | 44 | 20.7 | 3,200 | 1,004 |
| Construction | 2,672 | 1,102 | 475 | 41.2 | 43 | 17.8 | (39) | 101 |
| Manufacturing | 4,931 | 423 | 283 | 8.6 | 67 | 5.7 | 121 | 90 |
| Finance leases (2) | 6,059 | 622 | 398 | 10.3 | 64 | 6.6 | 81 | 102 |
| Retail, wholesale and repairs | 2,339 | 388 | 204 | 16.6 | 53 | 8.7 | (28) | 53 |
| Transport and storage | 5,477 | 264 | 94 | 4.8 | 36 | 1.7 | 31 | 14 |
| Health, education and leisure | 1,419 | 501 | 245 | 35.3 | 49 | 17.3 | 134 | 43 |
| Hotels and restaurants | 1,161 | 485 | 289 | 41.8 | 60 | 24.9 | 125 | 71 |
| Utilities | 1,849 | 66 | 22 | 3.6 | 33 | 1.2 | 3 | 3 |
| Other | 4,721 | 1,379 | 549 | 29.2 | 40 | 11.6 | 254 | 197 |
| Latent | - | - | 647 | - | - | - | (293) | - |
| | 80,005 | 24,006 | 11,486 | 30.0 | 48 | 14.4 | 3,838 | 2,390 |
| of which: | | | | | | | | |
| UK | | | | | | | | |
| - residential mortgages | 1,423 | 52 | 11 | 3.7 | 21 | 0.8 | 6 | 1 |
| - personal lending | 127 | 37 | 30 | 29.1 | 81 | 23.6 | (12) | 179 |
| - property | 24,610 | 8,163 | 3,093 | 33.2 | 38 | 12.6 | 1,033 | 379 |
| - construction | 1,882 | 772 | 324 | 41.0 | 42 | 17.2 | 27 | 90 |
| - other | 17,670 | 2,064 | 1,295 | 11.7 | 63 | 7.3 | 148 | 257 |
| Europe | | | | | | | | |
| - residential mortgages | 553 | 84 | 49 | 15.2 | 58 | 8.9 | 30 | - |
| - personal lending | 492 | 66 | 55 | 13.4 | 83 | 11.2 | 33 | 104 |
| - property | 11,538 | 9,277 | 4,582 | 80.4 | 49 | 39.7 | 2,134 | 494 |
| - construction | 735 | 290 | 142 | 39.5 | 49 | 19.3 | (75) | - |
| - other | 10,083 | 1,831 | 1,067 | 18.2 | 58 | 10.6 | 352 | 110 |
| US | | | | | | | | |

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| | | | | | | | | |
|-------------------------|--------|--------|--------|-------|-----|------|-------|-------|
| - residential mortgages | 2,926 | 244 | 120 | 8.3 | 49 | 4.1 | 264 | 317 |
| - personal lending | 936 | 7 | 7 | 0.7 | 100 | 0.7 | 46 | 68 |
| - property | 1,370 | 218 | 68 | 15.9 | 31 | 5.0 | (18) | 96 |
| - construction | 45 | 23 | 9 | 51.1 | 39 | 20.0 | 9 | 11 |
| - other | 2,044 | 172 | 312 | 8.4 | 181 | 15.3 | (201) | 84 |
| RoW | | | | | | | | |
| - residential mortgages | 200 | - | - | - | - | - | - | - |
| - personal lending | 1 | - | - | - | - | - | - | - |
| - property | 546 | 311 | 118 | 57.0 | 38 | 21.6 | 51 | 35 |
| - construction | 10 | 17 | - | 170.0 | - | - | - | - |
| - other | 2,814 | 378 | 204 | 13.4 | 54 | 7.2 | 11 | 165 |
| | 80,005 | 24,006 | 11,486 | 30.0 | 48 | 14.4 | 3,838 | 2,390 |
| Banks | 706 | 1 | 1 | 0.1 | 100 | 0.1 | - | - |

Notes:

(1) Includes central and local government.

(2) Includes instalment credit.

Risk and balance sheet management (continued)

Credit risk: Problem debt management: REIL, provisions and impairments (continued)

REIL flow statement

REIL are stated without giving effect to any security held that could reduce the eventual loss should it occur or to any provisions marked.

| | UK Retail £m | UK Corporate £m | UK Wealth £m | International Banking £m | Ulster Bank £m | US Retail & Commercial £m | Markets £m | Core £m | Non- Core £m | Total £m |
|---|--------------------|-----------------------|--------------------|--------------------------------|----------------------|---------------------------------|---------------|------------|--------------------|-------------|
| At 1 January 2012 | 4,599 | 5,001 | 211 | 1,632 | 5,523 | 1,007 | 414 | 18,387 | 24,007 | 42,394 |
| Currency translation and other adjustments | 53 | (6) | (1) | (227) | (115) | (47) | 184 | (159) | (487) | (646) |
| Additions | 1,771 | 4,362 | 111 | 286 | 3,299 | 660 | 56 | 10,545 | 5,800 | 16,345 |
| Transfers (1) | (33) | 7 | - | (110) | - | - | 6 | (130) | 70 | (60) |
| Transfers to performing book | - | (133) | (8) | (624) | - | - | (75) | (840) | (1,035) | (1,875) |
| Repayments | (1,222) | (3,265) | (50) | (90) | (1,102) | (83) | (80) | (5,892) | (4,860) | (10,752) |
| Amounts written-off | (599) | (514) | (15) | (445) | (72) | (391) | (109) | (2,145) | (2,121) | (4,266) |
| At 31 December 2012 | 4,569 | 5,452 | 248 | 422 | 7,533 | 1,146 | 396 | 19,766 | 21,374 | 41,140 |

| | Non-Core (by donating divisions) | | | | | Total £m |
|--|----------------------------------|--------------------------------|----------------------|---------------------------------|-------------|-------------|
| | UK Corporate £m | International Banking £m | Ulster Bank £m | US Retail & Commercial £m | Other £m | |
| At 1 January 2012 | 3,685 | 8,051 | 11,675 | 486 | 110 | 24,007 |
| Currency translation and other adjustments | (57) | (104) | (231) | (20) | (75) | (487) |
| Additions | 1,542 | 2,210 | 1,713 | 323 | 12 | 5,800 |
| Transfers (1) | 11 | 59 | - | - | - | 70 |
| Transfers to performing book | (171) | (863) | - | - | (1) | (1,035) |
| Repayments | (1,798) | (1,379) | (1,618) | (62) | (3) | (4,860) |
| Amounts written-off | (590) | (1,067) | (140) | (309) | (15) | (2,121) |
| At 31 December 2012 | 2,622 | 6,907 | 11,399 | 418 | 28 | 21,374 |

Note:

(1) Represents transfers to/from REIL from/to potential problem loans.

Risk and balance sheet management (continued)

Credit risk: Problem debt management: REIL, provisions and impairments (continued)

Impairment provisions flow statement

The movement in loan impairment provisions by division is shown in the table below.

| | UK Retail £m | UK Corporate £m | UK Wealth £m | International Banking £m | Ulster Bank £m | US R&C (1) £m | Total R&C (1) £m | Central Markets £m | Central Items £m | Total Core £m | Total Non-Core £m | RFS MI £m | Group £m |
|--|--------------------|-----------------------|--------------------|--------------------------------|----------------------|------------------------|---------------------------|--------------------------|------------------------|---------------------|-------------------------|-----------------|-------------|
| At 1 January 2012 | 2,679 | 2,061 | 81 | 851 | 2,749 | 455 | 8,876 | 311 | - | 9,187 | 11,487 | - | 20,674 |
| Currency translation and other adjustments | 12 | 87 | - | (131) | (54) | 53 | (33) | 77 | - | 44 | (369) | - | (325) |
| Disposal of subsidiaries | - | - | - | - | - | - | - | - | - | - | (1) | (4) | (5) |
| Amounts written-off | (599) | (514) | (15) | (445) | (72) | (391) | (2,036) | (109) | - | (2,145) | (2,121) | - | (4,266) |
| Recoveries of amounts previously written-off | 96 | 18 | - | 9 | 2 | 85 | 210 | 1 | - | 211 | 130 | - | 341 |

| | | | | | | | | | | | | | |
|---|-------|-------|-----|-----|-------|-----|-------|-----|---|--------|--------|---|--------|
| Charged to income statement - continuing operations | 529 | 836 | 46 | 111 | 1,364 | 83 | 2,969 | 25 | 1 | 2,995 | 2,320 | - | 5,315 |
| - discontinued operations | - | - | - | - | - | - | - | - | - | - | - | 4 | 4 |
| Unwind of discount (2) | (88) | (56) | (3) | (4) | (79) | - | (230) | - | - | (230) | (246) | - | (476) |
| At 31 December 2012 | 2,629 | 2,432 | 109 | 391 | 3,910 | 285 | 9,756 | 305 | 1 | 10,062 | 11,200 | - | 21,262 |
| Individually assessed | | | | | | | | | | | | | |
| - banks | - | - | - | 6 | - | - | 6 | 107 | - | 113 | 1 | - | 114 |
| - customers | - | 1,024 | 96 | 270 | 1,213 | 46 | 2,649 | 189 | 1 | 2,839 | 9,805 | - | 12,644 |
| Collectively assessed | 2,439 | 1,111 | - | - | 2,110 | 125 | 5,785 | - | - | 5,785 | 757 | - | 6,542 |
| Latent | 190 | 297 | 13 | 115 | 587 | 114 | 1,316 | 9 | - | 1,325 | 637 | - | 1,962 |
| | 2,629 | 2,432 | 109 | 391 | 3,910 | 285 | 9,756 | 305 | 1 | 10,062 | 11,200 | - | 21,262 |

Notes:

- (1) Retail & Commercial.
(2) Recognised in interest income.

Risk and balance sheet management (continued)

Credit risk: Problem debt management: REIL, provisions and impairments (continued)

Impairment provisions flow statement (continued)

| | Non-Core (by donating division) | | | | | Total £m |
|---|---------------------------------|--------------------------------|----------------------|-----------------|-------------|-------------|
| | UK Corporate £m | International Banking £m | Ulster Bank £m | US R&C £m | Other £m | |
| | At 1 January 2012 | 1,633 | 3,027 | 6,363 | 416 | |
| Currency translation and other adjustments | (100) | (58) | (107) | (89) | (15) | (369) |
| Disposal of subsidiaries | - | - | - | (1) | - | (1) |
| Amounts written-off | (590) | (1,067) | (140) | (309) | (15) | (2,121) |
| Recoveries of amounts previously written-off | 21 | 38 | 4 | 63 | 4 | 130 |
| Charged to income statement | | | | | | |

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| | | | | | | |
|-------------------------|-------|-------|-------|-----|----|--------|
| - continuing operations | 241 | 913 | 983 | 177 | 6 | 2,230 |
| Unwind of discount | (38) | (38) | (170) | - | - | (246) |
| At 31 December 2012 | 1,167 | 2,815 | 6,933 | 257 | 28 | 11,200 |
| Individually assessed | | | | | | |
| - banks | - | 1 | - | - | - | 1 |
| - customers | 688 | 2,604 | 6,481 | 24 | 8 | 9,805 |
| Collectively assessed | 422 | - | 225 | 92 | 18 | 757 |
| Latent | 57 | 210 | 227 | 141 | 2 | 637 |
| | 1,167 | 2,815 | 6,933 | 257 | 28 | 11,200 |

Key points

Within Core, increase in collectively assessed provisions related primarily to Ulster Bank's mortgage and corporate portfolio reflecting a continuation of difficult conditions in Ireland.

Non-Core individually assessed provisions decreased by £0.2 billion reflecting write-offs in Markets and UK Corporate.

Risk and balance sheet management (continued)

Credit risk: Problem debt management: REIL, provisions and impairments (continued)

Impairment charge analysis

| | UK | UK | International | Ulster | US | Total | | Central | Total | | | |
|----------------------------|--------|-----------|---------------|---------|-------|-------|-------|---------|-------|-------|----------|-------|
| 31 December | Retail | Corporate | Wealth | Banking | Bank | R&C | Total | Markets | Items | Core | Non-Core | Group |
| 2012 | £m | £m | £m | £m | £m | (1) | (1) | £m | £m | £m | £m | £m |
| Individually assessed | - | 554 | 42 | 137 | 457 | 15 | 1,205 | 28 | 1 | 1,234 | 1,935 | 3,169 |
| Collectively assessed | 544 | 317 | - | (1) | 787 | 237 | 1,884 | - | - | 1,884 | 312 | 2,196 |
| Latent loss | (15) | (35) | 4 | (48) | 120 | (169) | (143) | (3) | - | (146) | 73 | (73) |
| Loans to customers | 529 | 836 | 46 | 88 | 1,364 | 83 | 2,946 | 25 | 1 | 2,972 | 2,320 | 5,292 |
| Loans to banks | - | - | - | 23 | - | - | 23 | - | - | 23 | - | 23 |
| Securities - other | - | 2 | - | - | - | 8 | 10 | 12 | 39 | 61 | (97) | (36) |
| Charge to income statement | 529 | 838 | 46 | 111 | 1,364 | 91 | 2,979 | 37 | 40 | 3,056 | 2,223 | 5,279 |

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31 December 2011

| | | | | | | | | | | | | |
|----------------------------|------|-------|----|------|-------|------|-------|------|-------|-------|-------|-------|
| Individually assessed | - | 612 | 24 | 233 | 637 | 64 | 1,570 | 10 | - | 1,580 | 3,615 | 5,195 |
| Collectively assessed | 798 | 392 | - | - | 655 | 230 | 2,075 | - | - | 2,075 | 516 | 2,591 |
| Latent loss | (10) | (213) | 1 | (65) | 92 | (46) | (241) | (11) | - | (252) | (293) | (545) |
| Loans to customers | 788 | 791 | 25 | 168 | 1,384 | 248 | 3,404 | (1) | - | 3,403 | 3,838 | 7,241 |
| Securities | | | | | | | | | | | | |
| - sovereign debt (2) | - | - | - | - | - | - | - | - | 1,268 | 1,268 | - | 1,268 |
| - other | - | 2 | - | - | - | 78 | 80 | 39 | (2) | 117 | 81 | 198 |
| Charge to income statement | 788 | 793 | 25 | 168 | 1,384 | 326 | 3,484 | 38 | 1,266 | 4,788 | 3,919 | 8,707 |

Notes:

(1) Retail & Commercial.

(2) Includes related interest rate hedge instruments.

Risk and balance sheet management (continued)

Credit risk: Problem debt management: REIL, provisions and impairments (continued)

Impairment charge analysis (continued)

| 31 December 2012 | Non-Core (by donating division) | | | | | Total £m |
|----------------------------|---------------------------------|--------------------------------|----------------------|-----------------|-------------|-------------|
| | UK Corporate £m | International Banking £m | Ulster Bank £m | US R&C £m | Other £m | |
| Individually assessed | 206 | 913 | 842 | (25) | (1) | 1,935 |
| Collectively assessed | 71 | - | 25 | 208 | 8 | 312 |
| Latent loss | (37) | 1 | 116 | (6) | (1) | 73 |
| Loans to customers | 240 | 914 | 983 | 177 | 6 | 2,320 |
| Securities | - | (97) | - | - | - | (97) |
| Charge to income statement | 240 | 817 | 983 | 177 | 6 | 2,223 |
| 31 December 2011 | | | | | | |
| Individually assessed | 512 | 679 | 2,426 | (3) | 1 | 3,615 |
| Collectively assessed | 129 | - | 29 | 372 | (14) | 516 |
| Latent loss | (113) | - | (106) | (66) | (8) | (293) |
| Loans to customers | 528 | 679 | 2,349 | 303 | (21) | 3,838 |
| Securities | - | 78 | - | - | 3 | 81 |
| Charge to income statement | 528 | 757 | 2,349 | 303 | (18) | 3,919 |

Risk and balance sheet management (continued)

Credit risk (continued)

Key credit portfolios

Commercial real estate

The commercial real estate lending portfolio totalled £63.0 billion at 31 December 2012, an £11.8 billion or 16% decrease from £74.8 billion at 31 December 2011. The commercial real estate sector comprises exposures to entities involved in the development of, or investment in, commercial and residential properties (including housebuilders). The analysis of lending utilisations below excludes rate risk management and contingent obligations.

| By division (1) | 31 December 2012 | | | 31 December 2011 | | |
|------------------------|------------------|-------------------|---------------|------------------|-------------------|---------------|
| | Investment £m | Development £m | Total £m | Investment £m | Development £m | Total £m |
| Core | | | | | | |
| UK Corporate | 22,504 | 4,091 | 26,595 | 25,101 | 5,023 | 30,124 |
| Ulster Bank | 3,575 | 729 | 4,304 | 3,882 | 881 | 4,763 |
| US Retail & Commercial | 3,857 | 3 | 3,860 | 4,235 | 70 | 4,305 |
| International Banking | 849 | 315 | 1,164 | 872 | 299 | 1,171 |
| Markets | 630 | 57 | 687 | 141 | 61 | 202 |
| | 31,415 | 5,195 | 36,610 | 34,231 | 6,334 | 40,565 |
| Non-Core | | | | | | |
| UK Corporate | 2,651 | 983 | 3,634 | 3,957 | 2,020 | 5,977 |
| Ulster Bank | 3,383 | 7,607 | 10,990 | 3,860 | 8,490 | 12,350 |
| US Retail & Commercial | 392 | - | 392 | 901 | 28 | 929 |
| International Banking | 11,260 | 154 | 11,414 | 14,689 | 336 | 15,025 |
| | 17,686 | 8,744 | 26,430 | 23,407 | 10,874 | 34,281 |
| Total | 49,101 | 13,939 | 63,040 | 57,638 | 17,208 | 74,846 |

| By geography (1) | Investment | | Development | | Total £m |
|--------------------------|------------------|-------------------|------------------|-------------------|-------------|
| | Commercial £m | Residential £m | Commercial £m | Residential £m | |
| 31 December 2012 | | | | | |
| UK (excluding NI) (2) | 25,864 | 5,567 | 839 | 4,777 | 37,047 |
| Ireland (ROI and NI) (2) | 4,651 | 989 | 2,234 | 5,712 | 13,586 |
| Western Europe (other) | 5,995 | 370 | 22 | 33 | 6,420 |
| US | 4,230 | 981 | - | 15 | 5,226 |
| RoW | 454 | - | 65 | 242 | 761 |
| | 41,194 | 7,907 | 3,160 | 10,779 | 63,040 |

31 December 2011

| | | | | | |
|--------------------------|--------|-------|-------|--------|--------|
| UK (excluding NI) (2) | 28,653 | 6,359 | 1,198 | 6,511 | 42,721 |
| Ireland (ROI and NI) (2) | 5,146 | 1,132 | 2,591 | 6,317 | 15,186 |
| Western Europe (other) | 7,649 | 1,048 | 9 | 52 | 8,758 |
| US | 5,552 | 1,279 | 59 | 46 | 6,936 |
| RoW | 785 | 35 | 141 | 284 | 1,245 |
| | 47,785 | 9,853 | 3,998 | 13,210 | 74,846 |

For the notes to these tables refer to the following page.

Risk and balance sheet management (continued)

Credit risk: Key credit portfolios: Commercial real estate (continued)

| By geography (1) | Investment | | Development | | Total £m |
|--------------------------|------------|----------------|-------------|----------------|-------------|
| | Core £m | Non-Core £m | Core £m | Non-Core £m | |
| 31 December 2012 | | | | | |
| UK (excluding NI) (2) | 23,312 | 8,119 | 4,184 | 1,432 | 37,047 |
| Ireland (ROI and NI) (2) | 2,877 | 2,763 | 665 | 7,281 | 13,586 |
| Western Europe (other) | 403 | 5,962 | 24 | 31 | 6,420 |
| US | 4,629 | 582 | 15 | - | 5,226 |
| RoW | 194 | 260 | 307 | - | 761 |
| | 31,415 | 17,686 | 5,195 | 8,744 | 63,040 |

31 December 2011

| | | | | | |
|--------------------------|--------|--------|-------|--------|--------|
| UK (excluding NI) (2) | 25,904 | 9,108 | 5,118 | 2,591 | 42,721 |
| Ireland (ROI and NI) (2) | 3,157 | 3,121 | 793 | 8,115 | 15,186 |
| Western Europe (other) | 422 | 8,275 | 20 | 41 | 8,758 |
| US | 4,521 | 2,310 | 71 | 34 | 6,936 |
| RoW | 227 | 593 | 332 | 93 | 1,245 |
| | 34,231 | 23,407 | 6,334 | 10,874 | 74,846 |

| By sub-sector (1) | UK (excl NI) (2) | Ireland (ROI and NI) (2) | Western Europe £m | US £m | RoW £m | Total £m |
|-------------------|------------------------|--------------------------------|-------------------------|----------|-----------|-------------|
| | £m | £m | £m | £m | £m | £m |
| 31 December 2012 | | | | | | |
| Residential | 10,344 | 6,701 | 403 | 996 | 242 | 18,686 |
| Office | 6,112 | 1,132 | 1,851 | 99 | 176 | 9,370 |
| Retail | 7,529 | 1,492 | 1,450 | 117 | 129 | 10,717 |
| Industrial | 3,550 | 476 | 143 | 4 | 39 | 4,212 |
| Mixed/other | 9,512 | 3,785 | 2,573 | 4,010 | 175 | 20,055 |

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37,047 13,586 6,420 5,226 761 63,040

31 December 2011

| | | | | | | |
|-------------|--------|--------|-------|-------|-------|--------|
| Residential | 12,870 | 7,449 | 1,100 | 1,325 | 319 | 23,063 |
| Office | 7,155 | 1,354 | 2,246 | 404 | 352 | 11,511 |
| Retail | 8,709 | 1,641 | 1,891 | 285 | 275 | 12,801 |
| Industrial | 4,317 | 507 | 520 | 24 | 105 | 5,473 |
| Mixed/other | 9,670 | 4,235 | 3,001 | 4,898 | 194 | 21,998 |
| | 42,721 | 15,186 | 8,758 | 6,936 | 1,245 | 74,846 |

Notes:

- (1) Excludes commercial real estate lending in Wealth as these loans are generally supported by personal guarantees in addition to collateral. This portfolio, which totalled £1.4 billion at 31 December 2012 (31 December 2011 - £1.3 billion), continues to perform in line with expectations and requires minimal provisions.
- (2) ROI: Republic of Ireland; NI: Northern Ireland.

Risk and balance sheet management (continued)

Credit risk: Key credit portfolios: Commercial real estate (continued)

Key points

- In line with the Group's strategy, the overall exposure to commercial real estate fell during 2012 across all geographies. The overall mix in terms of geography, sub-sector and investment versus development remained broadly unchanged.
- Most of the decrease was in Non-Core and was due to repayments, asset sales, and write-offs. The Non-Core portfolio totalled £26.4 billion (42% of the portfolio) at 31 December 2012 (31 December 2011 - £34.3 billion or 46% of the portfolio).
- The growth in Markets was caused by an increase in the inventory of US commercial real estate loans earmarked for securitisation as commercial mortgage-backed securities (CMBS). CMBS warehouse activity is tightly controlled with limits on maximum portfolio size and holding period, and marked-to-market on a daily basis.
- With the exception of exposure in Spain and Ireland, the Group had minimal commercial real estate exposure in the peripheral eurozone countries. Exposure in Spain was predominantly in the Non-Core portfolio and totalled £1.6 billion (31 December 2011 - £2.3 billion), of which 31% (31 December 2011 - 55%) was in default. The majority of the portfolio is managed by GRG. The Spanish portfolio has already been subject to material provisions, which are regularly assessed by reference to re-appraised asset values. Asset values vary significantly by type and geographic location. Refer to the Ulster Bank Group (Core and Non-Core) section on page 234 for details on the exposure in Ireland.
- The UK portfolio is focused on London and the South East at approximately 43% (31 December 2011 - 44%) with the remainder spread across other UK Regions.
- Speculative lending, defined by the Group as short-term lending to property developers without sufficient pre-let revenue at origination to support investment financing after practical completion, represented less than 1% of the portfolio at 31 December 2012. The Group's appetite for originating speculative commercial real estate lending is very limited and any such business requires senior management approval.

- The commercial real estate sector is expected to remain challenging in key markets and new business will be accommodated from run-off of existing Core exposure. Over £5.5 billion of loans in UK Corporate (Core and Non-Core) have been repaid over the last 12 months whilst the risk profile of the remaining performing book has remained relatively unchanged.

Risk and balance sheet management (continued)

Credit risk: Key credit portfolios: Commercial real estate (continued)

| Maturity profile of portfolio | UK Corporate £m | Ulster Bank £m | US Retail & Commercial £m | International Banking £m | Markets £m | Total £m |
|-------------------------------|--------------------|-------------------|------------------------------|-----------------------------|---------------|-------------|
| 31 December 2012 | | | | | | |
| Core | | | | | | |
| < 1 year (1) | 8,639 | 3,000 | 797 | 216 | 59 | 12,711 |
| 1-2 years | 3,999 | 284 | 801 | 283 | 130 | 5,497 |
| 2-3 years | 3,817 | 215 | 667 | 505 | - | 5,204 |
| > 3 years | 9,597 | 805 | 1,595 | 160 | 498 | 12,655 |
| Not classified (2) | 543 | - | - | - | - | 543 |
| Total | 26,595 | 4,304 | 3,860 | 1,164 | 687 | 36,610 |
| Non-Core | | | | | | |
| < 1 year (1) | 2,071 | 9,498 | 138 | 4,628 | - | 16,335 |
| 1-2 years | 192 | 1,240 | 79 | 3,714 | - | 5,225 |
| 2-3 years | 99 | 38 | 43 | 1,137 | - | 1,317 |
| > 3 years | 1,058 | 214 | 132 | 1,935 | - | 3,339 |
| Not classified (2) | 214 | - | - | - | - | 214 |
| Total | 3,634 | 10,990 | 392 | 11,414 | - | 26,430 |
| 31 December 2011 | | | | | | |
| Core | | | | | | |
| < 1 year (1) | 8,268 | 3,030 | 1,056 | 142 | - | 12,496 |
| 1-2 years | 5,187 | 391 | 638 | 218 | 60 | 6,494 |
| 2-3 years | 3,587 | 117 | 765 | 230 | 133 | 4,832 |
| > 3 years | 10,871 | 1,225 | 1,846 | 581 | 9 | 14,532 |
| Not classified (2) | 2,211 | - | - | - | - | 2,211 |
| Total | 30,124 | 4,763 | 4,305 | 1,171 | 202 | 40,565 |
| Non-Core | | | | | | |
| < 1 year (1) | 3,224 | 11,089 | 293 | 7,093 | - | 21,699 |
| 1-2 years | 508 | 692 | 163 | 3,064 | - | 4,427 |
| 2-3 years | 312 | 177 | 152 | 1,738 | - | 2,379 |
| > 3 years | 1,636 | 392 | 321 | 3,126 | - | 5,475 |
| Not classified (2) | 297 | - | - | 4 | - | 301 |

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| | | | | | | |
|-------|-------|--------|-----|--------|---|--------|
| Total | 5,977 | 12,350 | 929 | 15,025 | - | 34,281 |
|-------|-------|--------|-----|--------|---|--------|

Notes:

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

Key points

- The overall maturity profile has remained relatively unchanged over the last 12 months.
- Non-Core exposure maturing in under one year has reduced from £21.7 billion in 2011 to £16.3 billion in 2012.
- The majority of Ulster Bank's commercial real estate portfolio was categorised as under 1 year, owing to the high level of non-performing assets in the portfolio as Ulster Bank includes most renegotiated facilities as on demand.
- Refinancing risk remains a focus of management attention and is assessed throughout the credit risk management life cycle.

Risk and balance sheet management (continued)

Credit risk: Key credit portfolios: Commercial real estate (continued)

| Portfolio by AQ band | AQ1-AQ2 £m | AQ3-AQ4 £m | AQ5-AQ6 £m | AQ7-AQ8 £m | AQ9 £m | AQ10 £m | Total £m |
|----------------------|---------------|---------------|---------------|---------------|-----------|------------|-------------|
| 31 December 2012 | | | | | | | |
| Core | 767 | 6,011 | 16,592 | 6,575 | 1,283 | 5,382 | 36,610 |
| Non-Core | 177 | 578 | 3,680 | 3,200 | 1,029 | 17,766 | 26,430 |
| | 944 | 6,589 | 20,272 | 9,775 | 2,312 | 23,148 | 63,040 |
| 31 December 2011 | | | | | | | |
| Core | 1,094 | 6,714 | 19,054 | 6,254 | 3,111 | 4,338 | 40,565 |
| Non-Core | 680 | 1,287 | 5,951 | 3,893 | 2,385 | 20,085 | 34,281 |
| | 1,774 | 8,001 | 25,005 | 10,147 | 5,496 | 24,423 | 74,846 |

Key points

- There has been an overall decrease in AQ10 during the year with reductions in Non-Core partially offset by increases in Ulster Bank and UK Corporate. The increase in defaulted exposure in UK Corporate is a result of a small number of significant individual cases. The high proportion of the portfolio in the AQ10 band was driven by exposures in Non-Core (Ulster Bank and International Banking) and Core (Ulster Bank). The AQ1-AQ9 profile remained relatively unchanged.
- Of the total portfolio of £63.0 billion at 31 December 2012, £28.1 billion (31 December 2011 - £34.7 billion) was managed within the Group's standard credit processes and £5.1 billion (31 December 2011 - £5.9 billion) was receiving varying degrees of heightened credit management under the Group's Watchlist process. A further £29.8 billion (31 December 2011 - £34.3 billion) was managed within GRG and included Watchlist and

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non-performing exposures. The decrease in the portfolio managed by GRG was driven by Non-Core reductions.

Risk and balance sheet management (continued)

Credit risk: Key credit portfolios: Commercial real estate (continued)

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

| Loan-to-value | Ulster Bank | | | Rest of the Group | | | Group | | |
|---------------------------------|-------------|----------------|--------|-------------------|----------------|--------|------------|----------------|--------|
| | Performing | Non-performing | Total | Performing | Non-performing | Total | Performing | Non-performing | Total |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| 31 December 2012 | | | | | | | | | |
| <= 50% | 183 | 24 | 207 | 7,210 | 281 | 7,491 | 7,393 | 305 | 7,698 |
| > 50% and <= 70% | 326 | 102 | 428 | 12,161 | 996 | 13,157 | 12,487 | 1,098 | 13,585 |
| > 70% and <= 90% | 462 | 250 | 712 | 6,438 | 1,042 | 7,480 | 6,900 | 1,292 | 8,192 |
| > 90% and <= 100% | 466 | 141 | 607 | 1,542 | 2,145 | 3,687 | 2,008 | 2,286 | 4,294 |
| > 100% and <= 110% | 103 | 596 | 699 | 1,019 | 1,449 | 2,468 | 1,122 | 2,045 | 3,167 |
| > 110% and <= 130% | 326 | 630 | 956 | 901 | 1,069 | 1,970 | 1,227 | 1,699 | 2,926 |
| > 130% and <= 150% | 274 | 878 | 1,152 | 322 | 913 | 1,235 | 596 | 1,791 | 2,387 |
| > 150% | 963 | 7,290 | 8,253 | 595 | 1,962 | 2,557 | 1,558 | 9,252 | 10,810 |
| Total with LTVs | 3,103 | 9,911 | 13,014 | 30,188 | 9,857 | 40,045 | 33,291 | 19,768 | 53,059 |
| Minimal security (1) | 7 | 1,461 | 1,468 | 3 | 13 | 16 | 10 | 1,474 | 1,484 |
| Other (2) | 97 | 715 | 812 | 6,494 | 1,191 | 7,685 | 6,591 | 1,906 | 8,497 |
| Total | 3,207 | 12,087 | 15,294 | 36,685 | 11,061 | 47,746 | 39,892 | 23,148 | 63,040 |
| Total portfolio average LTV (3) | | | | | | | | | |
| | 131% | 286% | 249% | 65% | 125% | 80% | 71% | 206% | 122% |
| 31 December 2011 | | | | | | | | | |
| <= 50% | 272 | 32 | 304 | 7,091 | 332 | 7,423 | 7,363 | 364 | 7,727 |
| > 50% and <= 70% | 479 | 127 | 606 | 14,105 | 984 | 15,089 | 14,584 | 1,111 | 15,695 |
| | 808 | 332 | 1,140 | 10,042 | 1,191 | 11,233 | 10,850 | 1,523 | 12,373 |

| | | | | | | | | | |
|---------------------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| > 70% and <= 90% | | | | | | | | | |
| > 90% and <= 100% | 438 | 201 | 639 | 2,616 | 1,679 | 4,295 | 3,054 | 1,880 | 4,934 |
| > 100% and <= 110% | 474 | 390 | 864 | 1,524 | 1,928 | 3,452 | 1,998 | 2,318 | 4,316 |
| > 110% and <= 130% | 527 | 1,101 | 1,628 | 698 | 1,039 | 1,737 | 1,225 | 2,140 | 3,365 |
| > 130% and <= 150% | 506 | 1,066 | 1,572 | 239 | 912 | 1,151 | 745 | 1,978 | 2,723 |
| > 150% | 912 | 7,472 | 8,384 | 433 | 2,082 | 2,515 | 1,345 | 9,554 | 10,899 |
| Total with LTVs | 4,416 | 10,721 | 15,137 | 36,748 | 10,147 | 46,895 | 41,164 | 20,868 | 62,032 |
| Minimal security (1) | 72 | 1,086 | 1,158 | - | - | - | 72 | 1,086 | 1,158 |
| Other (2) | 193 | 625 | 818 | 8,994 | 1,844 | 10,838 | 9,187 | 2,469 | 11,656 |
| Total | 4,681 | 12,432 | 17,113 | 45,742 | 11,991 | 57,733 | 50,423 | 24,423 | 74,846 |
| Total portfolio average LTV (3) | 120% | 264% | 222% | 69% | 129% | 82% | 75% | 203% | 116% |

Notes:

- (1) In 2012, the Group reclassified loans with limited or non-physical security (defined as LTV>1,000%) as minimal security, for which a majority are commercial real estate development loans in Ulster Bank. Total portfolio average LTV is quoted net of loans with minimal security given that the anticipated recovery rate is less than 10%. Provisions are marked against these loans where required to reflect asset quality and recovery profile. 2011 presentation has been revised.
- (2) Other performing loans of £6.6 billion (2011 - £9.2 billion) include general corporate lending, typically unsecured, to commercial real estate companies, and major UK homebuilders. The credit quality of these exposures is consistent with that of the performing portfolio overall. Other non-performing loans of £1.9 billion (2011 - £2.5 billion) are subject to the Group's standard provisioning policies.
- (3) Weighted average by exposure.

Risk and balance sheet management (continued)

Credit risk: Key credit portfolios: Commercial real estate (continued)

Key points

- 81% of the commercial real estate portfolio categorised as LTV > 100% was in Ulster Bank Group (Core - 15%; Non-Core - 43%) and International Banking (Non-Core - 23%). A majority of the portfolios are managed within GRG and are subject to review at least quarterly. Significant levels of provisions have been taken against these portfolios. Provisions as a percentage of REIL for the Ulster Bank Group commercial real estate portfolio were 58% at 31 December 2012 (31 December 2011 - 53%).
- The average interest coverage ratios for UK Corporate (Core and Non-Core) and International Banking (Non-Core) were 2.96x and 1.30x respectively, at 31 December 2012 (31 December 2011 - 2.71x and 1.25x, respectively). The US Retail & Commercial portfolio is managed on the basis of debt service coverage, which includes scheduled principal amortisation. The average debt service coverage for this portfolio was 1.34x at 31

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December 2012 (31 December 2011 - 1.24x). As a number of different approaches are used within the Group and across geographies to calculate interest coverage ratios, they may not be comparable for different portfolio types and organisations.

Residential mortgages

The majority of the Group's secured lending exposures are in the UK, Ireland and the US. The analysis below includes both Core and Non-Core.

| | 31 December 2012 £m | 31 December 2011 £m |
|------------------|------------------------------|------------------------------|
| UK Retail | 99,062 | 96,388 |
| Ulster Bank | 19,162 | 20,020 |
| RBS Citizens (1) | 21,538 | 24,153 |
| | 139,762 | 140,561 |

Note:

(1) 2011 has been revised to include legacy serviced by others portfolio.

Risk and balance sheet management (continued)

Credit risk: Key credit portfolios: Residential mortgages (continued)

The table below shows LTVs for the Group's residential mortgage portfolio split between performing (AQ1-AQ9) and non-performing (AQ10), with the average calculated on a weighted value basis. Loan balances are as at the end of the year whereas property values are calculated using property index movements since the last formal valuation.

| Loan-to-value | UK Retail | | | Ulster Bank | | | RBS Citizens (1) | | |
|---------------------|------------------|--------------------------|-------------|------------------|--------------------------|-------------|------------------|--------------------------|-------------|
| | Performing £m | Non- performing £m | Total £m | Performing £m | Non- performing £m | Total £m | Performing £m | Non- performing £m | Total £m |
| 31 December 2012 | | | | | | | | | |
| <= 50% | 22,306 | 327 | 22,633 | 2,182 | 274 | 2,456 | 4,167 | 51 | 4,218 |
| > 50% and <= 70% | 27,408 | 457 | 27,865 | 1,635 | 197 | 1,832 | 4,806 | 76 | 4,882 |
| > 70% and <= 90% | 34,002 | 767 | 34,769 | 2,019 | 294 | 2,313 | 6,461 | 114 | 6,575 |
| > 90% and <= 100% | 7,073 | 366 | 7,439 | 1,119 | 156 | 1,275 | 2,011 | 57 | 2,068 |
| > 100% and <= 110% | 3,301 | 290 | 3,591 | 1,239 | 174 | 1,413 | 1,280 | 43 | 1,323 |
| > 110% and <= 130% | 1,919 | 239 | 2,158 | 2,412 | 397 | 2,809 | 1,263 | 42 | 1,305 |
| > 130% and <= 150% | 83 | 26 | 109 | 2,144 | 474 | 2,618 | 463 | 14 | 477 |
| > 150% | - | - | - | 3,156 | 1,290 | 4,446 | 365 | 14 | 379 |

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| | | | | | | | | | |
|---|--------|-------|--------|--------|-------|--------|--------|-----|--------|
| Total with LTVs | 96,092 | 2,472 | 98,564 | 15,906 | 3,256 | 19,162 | 20,816 | 411 | 21,227 |
| Other (2) | 486 | 12 | 498 | - | - | - | 292 | 19 | 311 |
| Total | 96,578 | 2,484 | 99,062 | 15,906 | 3,256 | 19,162 | 21,108 | 430 | 21,538 |
| Total portfolio average LTV (3) | 66% | 80% | 67% | 108% | 132% | 112% | 75% | 86% | 75% |
| Average LTV on new originations during the year | | | 65% | | | 74% | | | 64% |
| 31 December 2011 | | | | | | | | | |
| <= 50% | 21,537 | 285 | 21,822 | 2,568 | 222 | 2,790 | 4,745 | 49 | 4,794 |
| > 50% and <= 70% | 25,598 | 390 | 25,988 | 1,877 | 157 | 2,034 | 4,713 | 78 | 4,791 |
| > 70% and <= 90% | 33,738 | 671 | 34,409 | 2,280 | 223 | 2,503 | 6,893 | 125 | 7,018 |
| > 90% and <= 100% | 7,365 | 343 | 7,708 | 1,377 | 128 | 1,505 | 2,352 | 66 | 2,418 |
| > 100% and <= 110% | 3,817 | 276 | 4,093 | 1,462 | 130 | 1,592 | 1,517 | 53 | 1,570 |
| > 110% and <= 130% | 1,514 | 199 | 1,713 | 2,752 | 322 | 3,074 | 1,536 | 53 | 1,589 |
| > 130% and <= 150% | 60 | 15 | 75 | 2,607 | 369 | 2,976 | 626 | 28 | 654 |
| > 150% | - | - | - | 2,798 | 748 | 3,546 | 588 | 27 | 615 |
| Total with LTVs | 93,629 | 2,179 | 95,808 | 17,721 | 2,299 | 20,020 | 22,970 | 479 | 23,449 |
| Other (2) | 567 | 13 | 580 | - | - | - | 681 | 23 | 704 |
| Total | 94,196 | 2,192 | 96,388 | 17,721 | 2,299 | 20,020 | 23,651 | 502 | 24,153 |
| Total portfolio average LTV (3) | 67% | 80% | 67% | 104% | 125% | 106% | 76% | 91% | 77% |
| Average LTV on new originations during the year | | | 63% | | | 74% | | | 63% |

Notes:

- (1) Includes residential mortgages and home equity loans and lines (refer to page 230 for a breakdown of balances).
- (2) Where no indexed LTV is held.
- (3) Average LTV weighted by value is arrived at by calculating the LTV on each individual mortgage and applying a weighting based on the value of each mortgage.
- (4) Excludes mortgage lending in Wealth. This portfolio totalled £8.8 billion (31 December 2011 - £8.3 billion) and continues to perform in line with expectations with minimal provision of £248 million.

Risk and balance sheet management (continued)

Credit risk: Key credit portfolios: Residential mortgages (continued)

Key points

UK Retail

- The UK Retail mortgage portfolio totalled approximately £99.1 billion at 31 December 2012, an increase of 2.8% from 31 December 2011.
- The assets are mostly prime mortgages and include £7.9 billion, 8% (2011 - £6.9 billion) of residential buy-to-let lending. There is a small legacy portfolio of self-certified mortgages (0.2% of the total mortgage portfolio). Self-certified mortgages were withdrawn in 2004. The interest rate product mix is approximately one third fixed rate with the remainder on variable rate products including those on managed rates.
- UK Retail's mortgage business is subject to prudent underwriting standards. These include an affordability test using a stressed interest rate, credit scoring with different pass marks depending on the loan to value ratio (LTV) as well as a range of specific criteria, for example, LTV thresholds. Changes over the last few years include: a reduction in maximum LTV for prime residential mortgage lending from 100% to 95% in the first quarter of 2008 and from 95% to 90% in the third quarter of 2008 and a tightening of credit scoring pass marks: credit score thresholds were increased in the third quarter of 2009 and again in the third quarter of 2010. In the first quarter of 2011, new scorecards were introduced alongside a further tightening of thresholds, these were tightened still further in the second quarter of 2012.
- Gross new mortgage lending remained strong at £14 billion. The average of individual LTV on new originations was 65.2% weighted by value of lending (31 December 2011 - 63.0%) and 61.3% by volume (31 December 2011 - 58.4%). The ratio of total lending to total property valuations was 56.3% (31 December 2011 - 52.9%). Average LTV by volume is arrived at by calculating the LTV on each individual mortgage with no weighting applied in the calculation of the average. The ratio approach is the sum of all lending divided by the value of all properties held as security against the lending.
- The maximum LTV available to new customers remains at 90%, except for those buying properties under the government-sponsored, and indemnity backed, new build schemes that were launched during the year, where the maximum LTV is 95%. These schemes aim to support the mortgage market, particularly first time buyers, and completions under the scheme totalled £35 million during the year.
- Based on the Halifax Price Index at September 2012, the portfolio average indexed LTV by weighted value of debt outstanding was 66.8% (31 December 2011 - 67.2%) and 58.1% by volume (31 December 2011 - 57.8%). The ratio of total outstanding balances to total indexed property valuations is 48.5% (31 December 2011 - 48.4%).
- The arrears rate (more than three payments in arrears, excluding repossessions and shortfalls post property sale) improved marginally to 1.5% at 31 December 2012 from 1.6% at 31 December 2011. The number of properties repossessed in 2012 was 1,426 compared with 1,671 in 2011. Arrears rates remain sensitive to economic

developments and are currently benefiting from low interest rate environment.

- The mortgage impairment charge was £92 million for 2012 compared with £182 million in 2011 primarily due to lower loss rate adjustments on the non-performing back book, and a stable underlying rate of defaults.

Risk and balance sheet management (continued)

Credit risk: Key credit portfolios: Residential mortgages (continued)

Key points

UK Retail (continued)

- 25.6% of the residential owner occupied UK Retail mortgage book is on interest only terms down from 27.3% in 2011. A further 9.1% are on mixed repayments split between a combination of interest only and capital repayments (31 December 2011 - 9.6%). UK Retail withdrew interest only repayment products from sale to residential owner occupied customers with effect from 1 December 2012. Interest only repayment remains an option on buy-to-let mortgages. At 1.6%, the percentage of accounts more than 3 payments in arrears was similar to the 1.4% observed on capital repayment mortgages.

Ulster Bank

- Ulster Bank's residential mortgage portfolio totalled £19.2 billion at 31 December 2012, with 88% in the Republic of Ireland and 12% in Northern Ireland. At constant exchange rates, the portfolio decreased 2% from 31 December 2011 as a result of natural amortisation and limited growth due to low market demand.
- The assets include £2.3 billion of exposure (12%) of residential buy-to-let loans. The interest rate product mix is approximately 91% on a variable rate product (including tracker products) and 9% on a fixed rate.
- 16% of the total portfolio is on interest only which reflects legacy policy and is no longer available to residential mortgage customers on a permanent basis. Interest only is permitted on a temporary basis under the suite of forbearance treatments available within Ulster Bank (refer to page 206 for further information). Interest only repayment remains an option for private customers within Northern Ireland on an exception basis.
- Average LTVs increased from 31 December 2011 to 31 December 2012, on a value basis, as a result of decreases in the Central Statistics Office house price index (4%) impacting the Ulster Bank portfolio. The average individual LTV on new originations was stable in 2012 at 74% (weighted by value of lending) and 69.4% by volume (2011 - 67.3%). The volume of business remains very low. The maximum LTV available to Ulster Bank customers is 90% with the exception of a specific Northern Ireland scheme which permits LTVs of up to 95%, in which Ulster Bank's exposure is capped at 85% LTV.
- Refer to the Ulster Bank Group (Core and Non-Core) section on page 233 for commentary on mortgage REIL and repossessions.

Risk and balance sheet management (continued)

Credit risk: Key credit portfolios: Residential mortgages (continued)

Key points (continued)

RBS Citizens

·

RBS Citizens mortgage portfolio totalled £21.5 billion at 31 December 2012, a reduction of 11% from 2011 (£24.2 billion). The Core business comprises 89% of the portfolio.

- The portfolio comprises £6.2 billion (Core - £5.8 billion; Non-Core - £0.4 billion) of residential mortgages, of which 1% are in second lien position. There is also £15.3 billion (Core - £13.3 billion; Non-Core - £2.0 billion) of home equity loans and lines. Home equity Core consists of 47% in first lien position while Non-Core consists of 95% in second lien position.
- RBS Citizens lending originates predominantly in the 'footprint states' of New England, Mid Atlantic and Mid West regions. At 31 December 2012, £17.9 billion (83% of the total portfolio) was within footprint.
- The Non-Core portfolio comprises 11% of the mortgage portfolio with the serviced by others (SBO) portfolio being the largest component (75%). The SBO portfolio consists of purchased pools of home equity loans and lines. The full year charge-off rate was 7.4% for 2012 (excluding one-time events, the charge-off rate was 6.8%), which represents a year-on-year improvement (2011 - 8.6%). It is characterised by out-of-footprint geographies, high (95%) second lien concentration, and high LTV exposure (111% weighted average LTV at 31 December 2012). The SBO book has been closed to new purchases since the third quarter of 2007 and is in run-off, with exposure down from £2.3 billion at 31 December 2011 to £1.8 billion at 31 December 2012. The arrears rate of the SBO portfolio has decreased from 2.3% at 31 December 2011 to 1.9% at 31 December 2012 due primarily to portfolio liquidation (highest risk borrowers have been charged-off), as well as more effective account servicing and collections.
- The current weighted average LTV of the mortgage portfolio decreased from 77% at 31 December 2011 to 75% at 31 December 2012, driven by increases in the Case-Shiller home price index from the third quarter of 2011 to the third quarter of 2012. The current weighted average LTV of the mortgage portfolio, excluding SBO, is 71%.

Risk and balance sheet management (continued)

Credit risk: Key credit portfolios (continued)

Ulster Bank Group (Core and Non-Core)

Overview

At 31 December 2012, Ulster Bank Group accounted for 10% of the Group's total gross loans to customers (31 December 2011 - 10%) and 8% of the Group's Core gross loans to customers (31 December 2011 - 8%). Ulster Bank's financial performance continues to be overshadowed by the challenging economic climate in Ireland, with impairments remaining elevated as high unemployment, coupled with higher taxation and limited liquidity in the economy, continues to depress the property market and domestic spending.

The impairment charge of £2,340 million for 2012 (31 December 2011 - £3,717 million) was driven by a combination of new defaulting customers and higher provisions on existing defaulted cases due primarily to deteriorating security values. Provisions as a percentage of risk elements in lending increased from 53% in 2011, to 57% in 2012, predominantly as a result of the deterioration in the value of the Non-Core commercial real estate development portfolio. Ulster Bank impairment provisions take into account recovery strategies for its commercial real estate portfolio, as currently there is very limited liquidity in Irish commercial and development property.

Core

The impairment charge for the year of £1,364 million (31 December 2011 - £1,384 million) reflects the difficult economic climate in Ireland, with elevated default levels across both mortgage and other corporate portfolios. The mortgage sector accounted for £646 million (47%) of the total 2012 impairment charge.

Non-Core

The impairment charge for the year was £976 million, a decrease of £1,357 million (31 December 2011 - £2,333 million), with the commercial real estate sector accounting for £899 million (92%) of the total 2012 impairment charge.

Risk and balance sheet management (continued)

Credit risk: Key credit portfolios: Ulster Bank Group (Core and Non-Core) (continued)

| Sector analysis | Gross loans £m | REIL £m | Provisions £m | Credit metrics | | | Impairment charge £m | Amounts written-off £m |
|------------------------|-------------------|------------|------------------|----------------------------|---------------------------|----------------------------------|-------------------------|---------------------------|
| | | | | REIL as a % of gross loans | Provisions as a % of REIL | Provisions as a % of gross loans | | |
| | | | | % | % | % | | |
| 31 December 2012 | | | | | | | | |
| Core | | | | | | | | |
| Mortgages | 19,162 | 3,147 | 1,525 | 16.4 | 48 | 8.0 | 646 | 22 |
| Commercial real estate | | | | | | | | |
| - investment | 3,575 | 1,551 | 593 | 43.4 | 38 | 16.6 | 221 | - |
| - development | 729 | 369 | 197 | 50.6 | 53 | 27.0 | 55 | 2 |
| Other corporate | 7,772 | 2,259 | 1,394 | 29.1 | 62 | 17.9 | 389 | 15 |
| Other lending | 1,414 | 207 | 201 | 14.6 | 97 | 14.2 | 53 | 33 |
| | 32,652 | 7,533 | 3,910 | 23.1 | 52 | 12.0 | 1,364 | 72 |
| Non-Core | | | | | | | | |
| Commercial real estate | | | | | | | | |
| - investment | 3,383 | 2,800 | 1,433 | 82.8 | 51 | 42.4 | 288 | 15 |
| - development | 7,607 | 7,286 | 4,720 | 95.8 | 65 | 62.0 | 611 | 103 |
| Other corporate | 1,570 | 1,230 | 711 | 78.3 | 58 | 45.3 | 77 | 23 |
| | 12,560 | 11,316 | 6,864 | 90.1 | 61 | 54.6 | 976 | 141 |
| Ulster Bank Group | | | | | | | | |
| Mortgages | 19,162 | 3,147 | 1,525 | 16.4 | 48 | 8.0 | 646 | 22 |
| Commercial real estate | | | | | | | | |
| - investment | 6,958 | 4,351 | 2,026 | 62.5 | 47 | 29.1 | 509 | 15 |
| - development | 8,336 | 7,655 | 4,917 | 91.8 | 64 | 59.0 | 666 | 105 |
| Other corporate | 9,342 | 3,489 | 2,105 | 37.3 | 60 | 22.5 | 466 | 38 |
| Other lending | 1,414 | 207 | 201 | 14.6 | 97 | 14.2 | 53 | 33 |
| | 45,212 | 18,849 | 10,774 | 41.7 | 57 | 23.8 | 2,340 | 213 |

Risk and balance sheet management (continued)

Credit risk: Key credit portfolios: Ulster Bank Group (Core and Non-Core) (continued)

| Sector analysis | Gross loans £m | REIL £m | Provisions £m | Credit metrics | | | Impairment charge £m | Amounts written-off £m |
|------------------------|-------------------|------------|------------------|----------------------------|---------------------------|----------------------------------|-------------------------|---------------------------|
| | | | | REIL as a % of gross loans | Provisions as a % of REIL | Provisions as a % of gross loans | | |
| | £m | £m | £m | % | % | % | £m | £m |
| 31 December 2011 | | | | | | | | |
| Core | | | | | | | | |
| Mortgages | 20,020 | 2,184 | 945 | 10.9 | 43 | 4.7 | 570 | 11 |
| Commercial real estate | | | | | | | | |
| - investment | 3,882 | 1,014 | 413 | 26.1 | 41 | 10.6 | 225 | - |
| - development | 881 | 290 | 145 | 32.9 | 50 | 16.5 | 99 | 16 |
| Other corporate | 7,736 | 1,834 | 1,062 | 23.7 | 58 | 13.7 | 434 | 72 |
| Other lending | 1,533 | 201 | 184 | 13.1 | 92 | 12.0 | 56 | 25 |
| | 34,052 | 5,523 | 2,749 | 16.2 | 50 | 8.1 | 1,384 | 124 |
| Non-Core | | | | | | | | |
| Commercial real estate | | | | | | | | |
| - investment | 3,860 | 2,916 | 1,364 | 75.5 | 47 | 35.3 | 609 | 1 |
| - development | 8,490 | 7,536 | 4,295 | 88.8 | 57 | 50.6 | 1,551 | 32 |
| Other corporate | 1,630 | 1,159 | 642 | 71.1 | 55 | 39.4 | 173 | 16 |
| | 13,980 | 11,611 | 6,301 | 83.1 | 54 | 45.1 | 2,333 | 49 |
| Ulster Bank Group | | | | | | | | |
| Mortgages | 20,020 | 2,184 | 945 | 10.9 | 43 | 4.7 | 570 | 11 |
| Commercial real estate | | | | | | | | |
| - investment | 7,742 | 3,930 | 1,777 | 50.8 | 45 | 23.0 | 834 | 1 |
| - development | 9,371 | 7,826 | 4,440 | 83.5 | 57 | 47.4 | 1,650 | 48 |
| Other corporate | 9,366 | 2,993 | 1,704 | 32.0 | 57 | 18.2 | 607 | 88 |
| Other lending | 1,533 | 201 | 184 | 13.1 | 92 | 12.0 | 56 | 25 |
| | 48,032 | 17,134 | 9,050 | 35.7 | 53 | 18.8 | 3,717 | 173 |

Key points

- Core REIL increased by £2.0 billion during the year, which reflects continued difficult conditions in both the commercial and residential property sectors in Ireland.
- Core mortgage REIL accounted for £1.0 billion of the overall increase, the trend reflecting continued deterioration of macroeconomic factors. However, the number of properties repossessed in 2012 was 127 (81 on a voluntary basis) compared with 161 (123 on a voluntary basis) in 2011.

- Core corporate REIL accounted for £1.0 billion of the overall increase, the movement driven by a small number of renegotiated arrangements for higher value real estate customers.
- Core coverage increased from 50% to 52% as a result of additional impairment charges on the non-performing book due to further deterioration in collateral values. Core coverage is diluted due to the increased REIL relating to corporate renegotiations with lower provision requirements; adjusting for these cases Core coverage would be 56%.
- Non-Core REIL decreased by £0.3 billion reflecting lower defaults as well as recoveries, write-offs of £0.2 billion.
- At 31 December 2012, 60% of REIL was in Non-Core (31 December 2011 - 68%). The majority of Non-Core commercial real estate development portfolio is non-performing with provision coverage of 65%.

Risk and balance sheet management (continued)

Credit risk: Key credit portfolios: Ulster Bank Group (Core and Non-Core) (continued)

Geographical analysis: Commercial real estate

The commercial real estate lending portfolio for Ulster Bank Group (Core and Non-Core) totalled £15.3 billion at 31 December 2012, of which £11.0 billion or 72% was in Non-Core. The geographic split of the total Ulster Bank Group commercial real estate portfolio, based on the location of the underlying security, remained similar to 31 December 2011, with 63% in the Republic of Ireland, 26% in Northern Ireland, 11% in the UK (excluding Northern Ireland).

| Exposure by geography | Investment | | Development | | Total £m |
|-----------------------|------------------|-------------------|------------------|-------------------|-------------|
| | Commercial £m | Residential £m | Commercial £m | Residential £m | |
| 31 December 2012 | | | | | |
| ROI | 3,546 | 779 | 1,603 | 3,653 | 9,581 |
| NI | 1,083 | 210 | 631 | 2,059 | 3,983 |
| UK (excluding NI) | 1,239 | 86 | 82 | 290 | 1,697 |
| RoW | 14 | 1 | 8 | 10 | 33 |
| | 5,882 | 1,076 | 2,324 | 6,012 | 15,294 |
| 31 December 2011 | | | | | |
| ROI | 3,775 | 853 | 1,911 | 4,095 | 10,634 |
| NI | 1,322 | 279 | 680 | 2,222 | 4,503 |
| UK (excluding NI) | 1,371 | 111 | 95 | 336 | 1,913 |
| RoW | 27 | 4 | - | 32 | 63 |
| | 6,495 | 1,247 | 2,686 | 6,685 | 17,113 |

Key points

- Commercial real estate continues to be the primary sector driving the Ulster Bank Group non-performing loan book. A reduction over the year of £1.8 billion primarily reflects Ulster Bank's continuing strategy to reduce concentration risk to this sector.

- The outlook for the property sector remains challenging. While there may be some signs of stabilisation in main urban centres, the outlook continues to be negative for secondary property locations on the island of Ireland.
- During the year, Ulster Bank experienced further migration of commercial real estate exposures to its problem management framework, where various measures may be agreed to assist customers whose loans are performing but who are experiencing temporary financial difficulties. For further details on Wholesale renegotiations refer to page 202.

Residential mortgages

The mortgage lending portfolio analysis by country of location of the underlying security is set out below.

| | 31 December 2012 £m | 31 December 2011 £m |
|-----|------------------------------|------------------------------|
| ROI | 16,873 | 17,767 |
| NO | 2,289 | 2,253 |
| | 19,162 | 20,020 |

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: 28 February 2013

THE ROYAL BANK OF
SCOTLAND GROUP plc
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill

Title: Deputy Secretary