

ROYAL BANK OF SCOTLAND GROUP PLC  
Form 6-K  
August 05, 2011

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 August 5, 2011

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000  
Edinburgh EH12 1HQ

(Address of principal executive offices)

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

Form 20-F  X

Form 40-F  \_\_\_

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

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

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

Yes  \_\_\_

No  X

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

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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)

## Risk management: Credit risk

Credit risk is the risk of financial loss due to the failure of customers or counterparties to meet payment obligations. The quantum and nature of credit risk assumed across the Group's different businesses varies considerably, while the overall credit risk outcome usually exhibits a high degree of correlation with the macroeconomic environment.

## Loans and advances to customers by industry and geography

The table below shows loans and advances to customers excluding reverse repos and assets of disposal groups.

|  | 30 June 2011 |                    |             | 31 March 2011 |                    |             | 31 December 2010 |                    |             |
|--|--------------|--------------------|-------------|---------------|--------------------|-------------|------------------|--------------------|-------------|
|  | Core<br>£m   | Non-<br>Core<br>£m | Total<br>£m | Core<br>£m    | Non-<br>Core<br>£m | Total<br>£m | Core<br>£m       | Non-<br>Core<br>£m | Total<br>£m |
| Central and local government               | 6,574        | 1,507              | 8,081       | 5,650         | 1,514              | 7,164       | 6,781            | 1,671              | 8,452       |
| Finance                                    | 47,545       | 5,038              | 52,583      | 47,797        | 7,559              | 55,356      | 46,910           | 7,651              | 54,561      |
| Residential mortgages                      | 144,400      | 5,509              | 149,909     | 142,920       | 5,678              | 148,598     | 140,359          | 6,142              | 146,501     |
| Personal lending                           | 32,224       | 3,229              | 35,453      | 32,362        | 3,482              | 35,844      | 33,581           | 3,891              | 37,472      |
| Property                                   | 44,539       | 42,862             | 87,401      | 45,038        | 43,866             | 88,904      | 42,455           | 47,651             | 90,106      |
| Construction                               | 8,525        | 3,070              | 11,595      | 9,011         | 3,231              | 12,242      | 8,680            | 3,352              | 12,032      |
| Manufacturing                              | 24,068       | 6,293              | 30,361      | 24,621        | 6,295              | 30,916      | 25,797           | 6,520              | 32,317      |
| Service industries and business activities |              |                    |             |               |                    |             |                  |                    |             |
| - retail, wholesale and repairs            | 22,123       | 2,598              | 24,721      | 22,185        | 2,802              | 24,987      | 21,974           | 3,191              | 25,165      |
| - transport and storage                    | 15,243       | 6,449              | 21,692      | 15,402        | 7,090              | 22,492      | 15,946           | 8,195              | 24,141      |
| - health, education and recreation         | 16,707       | 1,547              | 18,254      | 16,391        | 1,460              | 17,851      | 17,456           | 1,865              | 19,321      |
| - hotels and restaurants                   | 8,028        | 1,452              | 9,480       | 8,090         | 1,452              | 9,542       | 8,189            | 1,492              | 9,681       |
| - utilities                                | 7,487        | 2,010              | 9,497       | 7,679         | 2,016              | 9,695       | 7,098            | 2,110              | 9,208       |
| - other                                    | 25,128       | 4,966              | 30,094      | 22,876        | 5,892              | 28,768      | 24,464           | 5,530              | 29,994      |
| Agriculture, forestry and fishing          | 3,791        | 123                | 3,914       | 3,741         | 130                | 3,871       | 3,758            | 135                | 3,893       |
| Finance leases and instalment credit       | 8,353        | 7,920              | 16,273      | 8,061         | 8,119              | 16,180      | 8,321            | 8,529              | 16,850      |
| Interest accruals                          | 715          | 176                | 891         | 673           | 193                | 866         | 831              | 278                | 1,109       |
| Gross loans                                | 415,450      | 94,749             | 510,199     | 412,497       | 100,779            | 513,276     | 412,600          | 108,203            | 520,803     |
| Loan impairment                            | (8,621)      | (12,006)           | (20,627)    | (8,287)       | (10,841)           | (19,128)    | (7,740)          | (10,315)           | (18,055)    |

provisions

|           |         |        |         |         |        |         |         |        |         |
|-----------|---------|--------|---------|---------|--------|---------|---------|--------|---------|
| Net loans | 406,829 | 82,743 | 489,572 | 404,210 | 89,938 | 494,148 | 404,860 | 97,888 | 502,748 |
|-----------|---------|--------|---------|---------|--------|---------|---------|--------|---------|

Key points

- Gross loans reduced by £10.6 billion in the first half of the year, of which £3.1 billion was in the second quarter, principally due to disposals and restructuring and run-offs in Non-Core, partially offset by increased mortgage lending in UK Retail.
- Unsecured lending decreased in the first half of the year, predominantly in UK Retail.
- Property lending decreased during the first half of the year in line with the continued focus on lower risk secured lending.
- The decrease in transport and storage primarily reflects decreases in shipping and aviation.

Risk and balance sheet management (continued)

Risk management: Credit risk (continued)

Loans and advances to customers by industry and geography (continued)

The table below analyses loans and advances to customers excluding reverse repos and assets of disposal groups by geography (by location of office).

|  | 30 June 2011 |                    |             | 31 March 2011 |                    |             | 31 December 2010 |                    |             |
|--|--------------|--------------------|-------------|---------------|--------------------|-------------|------------------|--------------------|-------------|
|  | Core<br>£m   | Non-<br>Core<br>£m | Total<br>£m | Core<br>£m    | Non-<br>Core<br>£m | Total<br>£m | Core<br>£m       | Non-<br>Core<br>£m | Total<br>£m |
| UK   |              |                    |             |               |                    |             |                  |                    |             |
| Central and local<br>government  | 5,945        | 91                 | 6,036       | 5,144         | 104                | 5,248       | 5,728            | 173                | 5,901       |
| Finance  | 28,657       | 3,734              | 32,391      | 27,510        | 5,910              | 33,420      | 27,995           | 6,023              | 34,018      |
| Residential<br>mortgages   | 103,689      | 1,570              | 105,259     | 102,462       | 1,632              | 104,094     | 99,928           | 1,665              | 101,593     |
| Personal lending   | 22,205       | 358                | 22,563      | 22,278        | 451                | 22,729      | 23,035           | 585                | 23,620      |
| Property<br>Construction   | 36,584       | 27,182             | 63,766      | 36,419        | 28,322             | 64,741      | 34,970           | 30,492             | 65,462      |
| Manufacturing  | 6,839        | 2,104              | 8,943       | 7,271         | 2,282              | 9,553       | 7,041            | 2,310              | 9,351       |
| Service industries<br>and<br>business activities<br>- retail, wholesale<br>and repairs | 10,155       | 1,447              | 11,602      | 10,810        | 1,498              | 12,308      | 12,300           | 1,510              | 13,810      |
|  | 12,255       | 1,615              | 13,870      | 12,762        | 1,676              | 14,438      | 12,554           | 1,853              | 14,407      |
|  | 7,905        | 3,844              | 11,749      | 8,354         | 4,390              | 12,744      | 8,105            | 5,015              | 13,120      |

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|                                      |         |        |         |         |        |         |         |        |         |
|--------------------------------------|---------|--------|---------|---------|--------|---------|---------|--------|---------|
| - transport and storage              |         |        |         |         |        |         |         |        |         |
| - health, education and recreation   | 12,678  | 835    | 13,513  | 12,572  | 951    | 13,523  | 13,502  | 1,039  | 14,541  |
| - hotels and restaurants             | 6,399   | 775    | 7,174   | 6,500   | 792    | 7,292   | 6,558   | 808    | 7,366   |
| - utilities                          | 3,418   | 908    | 4,326   | 3,705   | 1,088  | 4,793   | 3,101   | 1,035  | 4,136   |
| - other                              | 13,555  | 2,199  | 15,754  | 13,406  | 2,603  | 16,009  | 14,445  | 1,991  | 16,436  |
| Agriculture, forestry and fishing    | 2,955   | 55     | 3,010   | 2,935   | 61     | 2,996   | 2,872   | 67     | 2,939   |
| Finance leases and instalment credit | 5,578   | 7,161  | 12,739  | 5,565   | 7,431  | 12,996  | 5,589   | 7,785  | 13,374  |
| Interest accruals                    | 365     | 21     | 386     | 371     | 48     | 419     | 415     | 98     | 513     |
|                                      | 279,182 | 53,899 | 333,081 | 278,064 | 59,239 | 337,303 | 278,138 | 62,449 | 340,587 |

|  |        |        |        |        |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Europe                                     |        |        |        |        |        |        |        |        |        |
| Central and local government               | 397    | 862    | 1,259  | 220    | 899    | 1,119  | 365    | 1,017  | 1,382  |
| Finance                                    | 2,642  | 719    | 3,361  | 3,768  | 821    | 4,589  | 2,642  | 1,019  | 3,661  |
| Residential mortgages                      | 20,224 | 640    | 20,864 | 19,892 | 684    | 20,576 | 19,473 | 621    | 20,094 |
| Personal lending                           | 2,234  | 572    | 2,806  | 2,276  | 587    | 2,863  | 2,270  | 600    | 2,870  |
| Property                                   | 5,483  | 12,790 | 18,273 | 5,304  | 12,711 | 18,015 | 5,139  | 12,636 | 17,775 |
| Construction                               | 1,163  | 864    | 2,027  | 1,246  | 851    | 2,097  | 1,014  | 873    | 1,887  |
| Manufacturing                              | 5,669  | 4,253  | 9,922  | 6,167  | 4,139  | 10,306 | 5,853  | 4,181  | 10,034 |
| Service industries and business activities |        |        |        |        |        |        |        |        |        |
| - retail, wholesale and repairs            | 4,058  | 767    | 4,825  | 4,074  | 847    | 4,921  | 4,126  | 999    | 5,125  |
| - transport and storage                    | 5,330  | 970    | 6,300  | 4,932  | 1,013  | 5,945  | 5,625  | 1,369  | 6,994  |
| - health, education and recreation         | 1,373  | 445    | 1,818  | 1,383  | 355    | 1,738  | 1,442  | 496    | 1,938  |
| - hotels and restaurants                   | 1,065  | 597    | 1,662  | 1,051  | 556    | 1,607  | 1,055  | 535    | 1,590  |
| - utilities                                | 1,536  | 654    | 2,190  | 1,425  | 591    | 2,016  | 1,412  | 623    | 2,035  |
| - other                                    | 4,807  | 1,850  | 6,657  | 3,246  | 2,286  | 5,532  | 3,877  | 2,050  | 5,927  |
| Agriculture, forestry and fishing          | 789    | 68     | 857    | 774    | 69     | 843    | 849    | 68     | 917    |
| Finance leases and instalment credit       | 264    | 620    | 884    | 265    | 688    | 953    | 370    | 744    | 1,114  |
| Interest accruals                          | 135    | 98     | 233    | 76     | 85     | 161    | 143    | 101    | 244    |
|  | 57,169 | 26,769 | 83,938 | 56,099 | 27,182 | 83,281 | 55,655 | 27,932 | 83,587 |

## Risk and balance sheet management (continued)

## Risk management: Credit risk (continued)

## Loans and advances to customers by industry and geography (continued)

|                        | 30 June 2011 |                    |             | 31 March 2011 |                    |             | 31 December 2010 |                    |             |
|------------------------|--------------|--------------------|-------------|---------------|--------------------|-------------|------------------|--------------------|-------------|
|                        | Core<br>£m   | Non-<br>Core<br>£m | Total<br>£m | Core<br>£m    | Non-<br>Core<br>£m | Total<br>£m | Core<br>£m       | Non-<br>Core<br>£m | Total<br>£m |
| US                     |              |                    |             |               |                    |             |                  |                    |             |
| Central and local      |              |                    |             |               |                    |             |                  |                    |             |
| government             | 164          | 15                 | 179         | 169           | 38                 | 207         | 263              | 53                 | 316         |
| Finance                | 9,820        | 444                | 10,264      | 9,635         | 495                | 10,130      | 9,522            | 587                | 10,109      |
| Residential mortgages  | 20,020       | 3,093              | 23,113      | 20,084        | 3,243              | 23,327      | 20,548           | 3,653              | 24,201      |
| Personal lending       | 6,315        | 2,299              | 8,614       | 6,327         | 2,444              | 8,771       | 6,816            | 2,704              | 9,520       |
| Property               | 2,228        | 1,626              | 3,854       | 2,574         | 1,768              | 4,342       | 1,611            | 3,318              | 4,929       |
| Construction           | 445          | 68                 | 513         | 420           | 63                 | 483         | 442              | 78                 | 520         |
| Manufacturing          | 6,113        | 64                 | 6,177       | 5,614         | 80                 | 5,694       | 5,459            | 143                | 5,602       |
| Service industries and |              |                    |             |               |                    |             |                  |                    |             |
| business activities    |              |                    |             |               |                    |             |                  |                    |             |
| - retail, wholesale    |              |                    |             |               |                    |             |                  |                    |             |
| and repairs            | 4,644        | 144                | 4,788       | 4,366         | 199                | 4,565       | 4,264            | 237                | 4,501       |
| - transport and        |              |                    |             |               |                    |             |                  |                    |             |
| storage                | 1,725        | 1,297              | 3,022       | 1,723         | 1,337              | 3,060       | 1,786            | 1,408              | 3,194       |
| - health, education    |              |                    |             |               |                    |             |                  |                    |             |
| and                    |              |                    |             |               |                    |             |                  |                    |             |
| recreation             | 2,396        | 107                | 2,503       | 2,319         | 138                | 2,457       | 2,380            | 313                | 2,693       |
| - hotels and           |              |                    |             |               |                    |             |                  |                    |             |
| restaurants            | 455          | 71                 | 526         | 487           | 90                 | 577         | 486              | 136                | 622         |
| - utilities            | 960          | 27                 | 987         | 1,001         | 32                 | 1,033       | 1,117            | 53                 | 1,170       |
| - other                | 4,195        | 425                | 4,620       | 3,809         | 465                | 4,274       | 4,042            | 577                | 4,619       |
| Agriculture, forestry  |              |                    |             |               |                    |             |                  |                    |             |
| and                    |              |                    |             |               |                    |             |                  |                    |             |
| fishing                | 25           | -                  | 25          | 26            | -                  | 26          | 31               | -                  | 31          |
| Finance leases and     |              |                    |             |               |                    |             |                  |                    |             |
| instalment credit      | 2,456        | -                  | 2,456       | 2,188         | -                  | 2,188       | 2,315            | -                  | 2,315       |
| Interest accruals      | 179          | 57                 | 236         | 179           | 59                 | 238         | 183              | 73                 | 256         |
|                        | 62,140       | 9,737              | 71,877      | 60,921        | 10,451             | 71,372      | 61,265           | 13,333             | 74,598      |
| RoW                    |              |                    |             |               |                    |             |                  |                    |             |
| Central and local      |              |                    |             |               |                    |             |                  |                    |             |
| government             | 68           | 539                | 607         | 117           | 473                | 590         | 425              | 428                | 853         |
| Finance                | 6,426        | 141                | 6,567       | 6,884         | 333                | 7,217       | 6,751            | 22                 | 6,773       |
| Residential mortgages  | 467          | 206                | 673         | 482           | 119                | 601         | 410              | 203                | 613         |
| Personal lending       | 1,470        | -                  | 1,470       | 1,481         | -                  | 1,481       | 1,460            | 2                  | 1,462       |

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|   |        |       |        |        |       |        |        |       |        |
|---|--------|-------|--------|--------|-------|--------|--------|-------|--------|
| Property                                      | 244    | 1,264 | 1,508  | 741    | 1,065 | 1,806  | 735    | 1,205 | 1,940  |
| Construction                                  | 78     | 34    | 112    | 74     | 35    | 109    | 183    | 91    | 274    |
| Manufacturing                                 | 2,131  | 529   | 2,660  | 2,030  | 578   | 2,608  | 2,185  | 686   | 2,871  |
| Service industries and<br>business activities |        |       |        |        |       |        |        |       |        |
| - retail, wholesale<br>and repairs            | 1,166  | 72    | 1,238  | 983    | 80    | 1,063  | 1,030  | 102   | 1,132  |
| - transport and<br>storage                    | 283    | 338   | 621    | 393    | 350   | 743    | 430    | 403   | 833    |
| - health, education<br>and<br>recreation      | 260    | 160   | 420    | 117    | 16    | 133    | 132    | 17    | 149    |
| - hotels and<br>restaurants                   | 109    | 9     | 118    | 52     | 14    | 66     | 90     | 13    | 103    |
| - utilities                                   | 1,573  | 421   | 1,994  | 1,548  | 305   | 1,853  | 1,468  | 399   | 1,867  |
| - other                                       | 2,571  | 492   | 3,063  | 2,415  | 538   | 2,953  | 2,100  | 912   | 3,012  |
| Agriculture, forestry<br>and<br>fishing       | 22     | -     | 22     | 6      | -     | 6      | 6      | -     | 6      |
| Finance leases and<br>instalment credit       | 55     | 139   | 194    | 43     | -     | 43     | 47     | -     | 47     |
| Interest accruals                             | 36     | -     | 36     | 47     | 1     | 48     | 90     | 6     | 96     |
|   | 16,959 | 4,344 | 21,303 | 17,413 | 3,907 | 21,320 | 17,542 | 4,489 | 22,031 |

Risk and balance sheet management (continued)

Risk management: Credit risk: REIL and PPL

The table below analyses the Group's risk elements in lending (REIL) and potential problem loans (PPL) and takes no account of the value of any security held which could reduce the eventual loss should it occur, nor of any provisions.

|                    | 30 June 2011 |                    |             | 31 March 2011 |                    |             | 31 December 2010 |                    |             |
|--------------------|--------------|--------------------|-------------|---------------|--------------------|-------------|------------------|--------------------|-------------|
|                    | Core<br>£m   | Non-<br>Core<br>£m | Total<br>£m | Core<br>£m    | Non-<br>Core<br>£m | Total<br>£m | Core<br>£m       | Non-<br>Core<br>£m | Total<br>£m |
| Impaired loans (1) |              |                    |             |               |                    |             |                  |                    |             |
| - UK               | 9,229        | 7,812              | 17,041      | 9,175         | 7,147              | 16,322      | 8,575            | 7,835              | 16,410      |
| - Overseas         | 6,326        | 16,268             | 22,594      | 5,932         | 15,878             | 21,810      | 4,936            | 14,355             | 19,291      |
|                    | 15,555       | 24,080             | 39,635      | 15,107        | 23,025             | 38,132      | 13,511           | 22,190             | 35,701      |

Accruing loans past  
due  
90 days or more  
(2)

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|   |        |        |        |        |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| - UK  | 1,487  | 583    | 2,070  | 1,545  | 752    | 2,297  | 1,434  | 939    | 2,373  |
| - Overseas                                  | 415    | 230    | 645    | 366    | 246    | 612    | 262    | 262    | 524    |
|   | 1,902  | 813    | 2,715  | 1,911  | 998    | 2,909  | 1,696  | 1,201  | 2,897  |
| Total REIL                                  | 17,457 | 24,893 | 42,350 | 17,018 | 24,023 | 41,041 | 15,207 | 23,391 | 38,598 |
| PPL (3)                                     | 354    | 127    | 481    | 324    | 202    | 526    | 473    | 160    | 633    |
| Total REIL and PPL                          | 17,811 | 25,020 | 42,831 | 17,342 | 24,225 | 41,567 | 15,680 | 23,551 | 39,231 |
| REIL as a % of gross loans and advances (4) | 4.2%   | 26.1%  | 8.3%   | 4.1%   | 23.0%  | 7.9%   | 3.7%   | 20.7%  | 7.3%   |
| Provisions as a % of REIL                   | 50%    | 48%    | 49%    | 49%    | 45%    | 47%    | 51%    | 44%    | 47%    |

Notes:

- (1) Loans against which an impairment provision is held.
- (2) Loans where an impairment event has taken place but no impairment provision recognised. This category is used for fully collateralised non-revolving credit facilities.
- (3) Loans for which an impairment event has occurred but no impairment provision is necessary. This category is used for advances and revolving credit facilities where the past due concept is not applicable.
- (4) Gross loans and advances to customers including disposal groups and excluding reverse repurchase agreements.

Key points

- REIL increased by £3.8 billion in the first half of the year and by £1.3 billion in the second quarter, predominantly in Non-Core and Ulster Bank.
- Ulster Bank (Core and Non-Core) was the predominant contributor to the increase in REIL with an increase of £3.2 billion, principally property lending (commercial real estate up £2.2 billion and mortgages up £0.4 billion).
- Ulster Bank (Core and Non-Core) provision coverage ratio increased to 51% from 44% at 31 December 2010 reflecting provisions relating to development land in the second quarter following re-assessment of collateral values. This contributed to the higher Group provision coverage ratio at 30 June 2011, which now stands at 49% compared with 47% at the year end and at 31 March 2011.

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

Risk and balance sheet management (continued)

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Risk management: Credit risk: Loans, REIL and impairment provisions

Movement in REIL and PPL

The table below details the movement in REIL and PPL for the half year ended 30 June 2011.

|      |     |       |
|------|-----|-------|
| REIL | PPL | Total |
|------|-----|-------|

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|  | Non-Core   |            |             | Non-Core   |            |             | Non-Core   |            |             |
|--|------------|------------|-------------|------------|------------|-------------|------------|------------|-------------|
|  | Core<br>£m | Core<br>£m | Total<br>£m | Core<br>£m | Core<br>£m | Total<br>£m | Core<br>£m | Core<br>£m | Total<br>£m |
| At 1 January 2011                          | 15,207     | 23,391     | 38,598      | 473        | 160        | 633         | 15,680     | 23,551     | 39,231      |
| Intra-group transfers                      | 369        | (369)      | -           | -          | -          | -           | 369        | (369)      | -           |
| Currency translation and other adjustments | 68         | 98         | 166         | 1          | 4          | 5           | 69         | 102        | 171         |
| Additions                                  | 3,119      | 2,866      | 5,985       | 305        | 152        | 457         | 3,424      | 3,018      | 6,442       |
| Transfers                                  | 137        | 39         | 176         | (137)      | (39)       | (176)       | -          | -          | -           |
| Disposals, restructurings and repayments   | (1,342)    | (1,426)    | (2,768)     | (318)      | (75)       | (393)       | (1,660)    | (1,501)    | (3,161)     |
| Amounts written-off                        | (540)      | (576)      | (1,116)     | -          | -          | -           | (540)      | (576)      | (1,116)     |
| At 31 March 2011                           | 17,018     | 24,023     | 41,041      | 324        | 202        | 526         | 17,342     | 24,225     | 41,567      |
| Intra-group transfers                      | 12         | (12)       | -           | -          | -          | -           | 12         | (12)       | -           |
| Currency translation and other adjustments | 111        | 376        | 487         | (5)        | (1)        | (6)         | 106        | 375        | 481         |
| Additions                                  | 2,492      | 3,094      | 5,586       | 137        | 22         | 159         | 2,629      | 3,116      | 5,745       |
| Transfers                                  | 21         | 20         | 41          | (21)       | (20)       | (41)        | -          | -          | -           |
| Disposals, restructurings and repayments   | (1,719)    | (2,272)    | (3,991)     | (81)       | (76)       | (157)       | (1,800)    | (2,348)    | (4,148)     |
| Amounts written-off                        | (478)      | (336)      | (814)       | -          | -          | -           | (478)      | (336)      | (814)       |
| At 30 June 2011                            | 17,457     | 24,893     | 42,350      | 354        | 127        | 481         | 17,811     | 25,020     | 42,831      |
|  | REIL       |            |             | PPL        |            |             | Total      |            |             |
|  | Core<br>£m | Core<br>£m | Total<br>£m | Core<br>£m | Core<br>£m | Total<br>£m | Core<br>£m | Core<br>£m | Total<br>£m |
| At 1 January 2011                          | 15,207     | 23,391     | 38,598      | 473        | 160        | 633         | 15,680     | 23,551     | 39,231      |
| Intra-group transfers                      | 381        | (381)      | -           | -          | -          | -           | 381        | (381)      | -           |
| Currency translation and other adjustments | 179        | 474        | 653         | (4)        | 3          | (1)         | 175        | 477        | 652         |
| Additions                                  | 5,611      | 5,960      | 11,571      | 442        | 174        | 616         | 6,053      | 6,134      | 12,187      |
| Transfers                                  | 158        | 59         | 217         | (158)      | (59)       | (217)       | -          | -          | -           |
| Disposals, restructurings and repayments   | (3,061)    | (3,698)    | (6,759)     | (399)      | (151)      | (550)       | (3,460)    | (3,849)    | (7,309)     |
|  | (1,018)    | (912)      | (1,930)     | -          | -          | -           | (1,018)    | (912)      | (1,930)     |



Amounts  
written-off

At 30 June 2011 17,457 24,893 42,350 354 127 481 17,811 25,020 42,831

Disposals, restructurings and repayments include £1,569 million of transfers to the performing book in H1 2011.

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

#### Risk and balance sheet management (continued)

#### Risk management: Credit risk: Loans, REIL and impairment provisions (continued)

##### Restructuring and forbearance

Corporate loan restructuring completed during H1 2011 was £1.0 billion.

During H1 2011, the flow of mortgage loans subject to forbearance arrangements in UK Retail was £289 million representing 0.3% of the book. In Ulster Bank £1.8 billion (31 December 2010 - £1.2 billion) of mortgage loans were subject to forbearance arrangements at 30 June 2011, 78% of these arrangements are in the performing book.

##### Movement in loan impairment provisions

The following table shows the movement in impairment provisions for loans and advances to customers and banks.

|  | 30 June 2011 |                |                          | Quarter ended<br>31 March 2011 |                |             | 30 June 2010 |                |             |
|--|--------------|----------------|--------------------------|--------------------------------|----------------|-------------|--------------|----------------|-------------|
|  | Core<br>£m   | Non-Core<br>£m | RFS<br>MI<br>Total<br>£m | Core<br>£m                     | Non-Core<br>£m | Total<br>£m | Core<br>£m   | Non-Core<br>£m | Total<br>£m |
| At beginning of period                       | 8,416        | 10,842         | - 19,258                 | 7,866                          | 10,316         | 18,182      | 7,397        | 9,430          | 16,827      |
| Transfers to disposal groups                 | -            | 9              | - 9                      | -                              | (9)            | (9)         | -            | (38)           | (38)        |
| Intra-group transfers                        | -            | -              | - -                      | 177                            | (177)          | -           | -            | -              | -           |
| Currency translation and other adjustments   | 33           | 145            | - 178                    | 56                             | 95             | 151         | (309)        | (66)           | (375)       |
| Disposals                                    | -            | -              | 11 11                    | -                              | -              | -           | -            | (17)           | (17)        |
| Amounts written-off                          | (504)        | (474)          | - (978)                  | (514)                          | (438)          | (952)       | (562)        | (2,122)        | (2,684)     |
| Recoveries of amounts previously written-off | 41           | 126            | - 167                    | 39                             | 80             | 119         | 59           | 21             | 80          |
| Charge to income statement                   |              |                |                          |                                |                |             |              |                |             |
| - continued                                  | 810          | 1,427          | - 2,237                  | 852                            | 1,046          | 1,898       | 1,096        | 1,383          | 2,479       |
| - discontinued                               | -            | -              | (11) (11)                | -                              | -              | -           | -            | -              | -           |
| Unwind of discount                           | (44)         | (68)           | - (112)                  | (60)                           | (71)           | (131)       | (48)         | (58)           | (106)       |

At end of period      8,752    12,007    - 20,759      8,416    10,842 19,258      7,633    8,533 16,166

|  | 30 June 2011 |                |          |             | Half year ended |                |           |          |             |
|--|--------------|----------------|----------|-------------|-----------------|----------------|-----------|----------|-------------|
|  |              |                | RFS      |             | 30 June 2010    |                |           |          |             |
|  | Core<br>£m   | Non-Core<br>£m | MI<br>£m | Total<br>£m | Core<br>£m      | Non-Core<br>£m | RFS<br>£m | MI<br>£m | Total<br>£m |
| At beginning of period                       | 7,866        | 10,316         | -        | 18,182      | 6,921           | 8,252          | 2,110     |          | 17,283      |
| Transfers to disposal groups                 | -            | -              | -        | -           | -               | (67)           | -         |          | (67)        |
| Intra-group transfers                        | 177          | (177)          | -        | -           | -               | -              | -         |          | -           |
| Currency translation and other adjustments   | 89           | 240            | -        | 329         | (279)           | 119            | -         |          | (160)       |
| Disposals                                    | -            | -              | 11       | 11          | -               | (17)           | (2,152)   |          | (2,169)     |
| Amounts written-off                          | (1,018)      | (912)          | -        | (1,930)     | (1,063)         | (2,718)        | -         |          | (3,781)     |
| Recoveries of amounts previously written-off | 80           | 206            | -        | 286         | 104             | 46             | -         |          | 150         |
| Charge to income statement                   |              |                |          |             |                 |                |           |          |             |
| - continuing                                 | 1,662        | 2,473          | -        | 4,135       | 2,046           | 3,035          | -         |          | 5,081       |
| - discontinued                               | -            | -              | (11)     | (11)        | -               | -              | 42        |          | 42          |
| Unwind of discount                           | (104)        | (139)          | -        | (243)       | (96)            | (117)          | -         |          | (213)       |
| At end of period                             | 8,752        | 12,007         | -        | 20,759      | 7,633           | 8,533          | -         |          | 16,166      |

#### Risk and balance sheet management (continued)

#### Risk management: Credit risk: Loans, REIL and impairment provisions (continued)

#### Movement in loan impairment provisions (continued)

#### Key points

- Ulster Bank (Core and Non-Core) was the main contributor to impairment losses with a total half year charge of £2.5 billion (Core - £0.7 billion; Non-Core - £1.8 billion), 61% of the total Group impairment charge of £4.1 billion. The Ulster Bank (Core and Non-Core) charge includes the impact of a re-assessment of collateral values relating to development land.
- The other main contributor to the Q2 2011 Non-Core impairment charge was impairments in respect of a small number of large corporates.
- Provision balance has increased by £2.6 billion in the first half of 2011 from £18.2 billion to £20.8 billion, as impairments are running twice the rate of write-offs.

#### Impairment provisions on loans and advances

30 June 2011

31 March 2011

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|                          | 31 December 2010 |                    |             |            |                    |             |            |                    |             |
|--------------------------|------------------|--------------------|-------------|------------|--------------------|-------------|------------|--------------------|-------------|
|                          | Core<br>£m       | Non-<br>Core<br>£m | Total<br>£m | Core<br>£m | Non-<br>Core<br>£m | Total<br>£m | Core<br>£m | Non-<br>Core<br>£m | Total<br>£m |
| Latent loss              | 1,568            | 786                | 2,354       | 1,583      | 963                | 2,546       | 1,653      | 997                | 2,650       |
| Collectively<br>assessed | 4,510            | 1,100              | 5,610       | 4,375      | 1,112              | 5,487       | 4,139      | 1,157              | 5,296       |
| Individually<br>assessed | 2,543            | 10,120             | 12,663      | 2,329      | 8,766              | 11,095      | 1,948      | 8,161              | 10,109      |
| Customer loans           | 8,621            | 12,006             | 20,627      | 8,287      | 10,841             | 19,128      | 7,740      | 10,315             | 18,055      |
| Bank loans               | 131              | 1                  | 132         | 129        | 1                  | 130         | 126        | 1                  | 127         |
| Total provisions         | 8,752            | 12,007             | 20,759      | 8,416      | 10,842             | 19,258      | 7,866      | 10,316             | 18,182      |
| % of loans (1)           | 2.1%             | 12.6%              | 4.0%        | 2.0%       | 10.4%              | 3.7%        | 1.9%       | 9.1%               | 3.4%        |

Note:

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

Risk and balance sheet management (continued)

Risk management: Credit risk: Loans, REIL and impairment provisions (continued)

Impairment charge

|   | Quarter ended |                |             |               |                |             |
|---|---------------|----------------|-------------|---------------|----------------|-------------|
|   | 30 June 2011  |                |             | 31 March 2011 |                |             |
|   | Core<br>£m    | Non-Core<br>£m | Total<br>£m | Core<br>£m    | Non-Core<br>£m | Total<br>£m |
| Latent loss   | (16)          | (172)          | (188)       | (116)         | 9              | (107)       |
| Collectively assessed   | 465           | 126            | 591         | 584           | 136            | 720         |
| Individually assessed   | 361           | 1,473          | 1,834       | 384           | 901            | 1,285       |
| Customer loans  | 810           | 1,427          | 2,237       | 852           | 1,046          | 1,898       |
| Securities - sovereign debt<br>impairment and<br>related interest rate hedge<br>adjustments | 842           | -              | 842         | -             | -              | -           |
| Securities - other  | 43            | (16)           | 27          | 20            | 29             | 49          |
| Charge to income statement  | 1,695         | 1,411          | 3,106       | 872           | 1,075          | 1,947       |
| Charge relating to customer loans<br>as a %   | 0.8%          | 6.0%           | 1.8%        | 0.8%          | 4.0%           | 1.5%        |

of gross customer loans (1)

|   | Half year ended |                |             |              |                |             |
|---|-----------------|----------------|-------------|--------------|----------------|-------------|
|   | 30 June 2011    |                |             | 30 June 2010 |                |             |
|   | Core<br>£m      | Non-Core<br>£m | Total<br>£m | Core<br>£m   | Non-Core<br>£m | Total<br>£m |
| Latent loss   | (132)           | (163)          | (295)       | (69)         | 24             | (45)        |
| Collectively assessed   | 1,049           | 262            | 1,311       | 1,249        | 344            | 1,593       |
| Individually assessed   | 745             | 2,374          | 3,119       | 866          | 2,667          | 3,533       |
| Customer loans  | 1,662           | 2,473          | 4,135       | 2,046        | 3,035          | 5,081       |
| Securities - sovereign debt<br>impairment and<br>related interest rate hedge<br>adjustments | 842             | -              | 842         | -            | -              | -           |
| Securities - other  | 63              | 13             | 76          | 22           | 59             | 81          |
| Charge to income statement  | 2,567           | 2,486          | 5,053       | 2,068        | 3,094          | 5,162       |
| Charge relating to customer loans<br>as a %<br>of gross customer loans (1)                  | 0.8%            | 5.2%           | 1.6%        | 1.0%         | 4.8%           | 1.8%        |

Note:

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

## Key points

- Non-Core latent loss in Q2 2011 principally reflects the release of Ulster Bank's provision relating to development land booked in Q1 2011, substituted with individually assessed impairment charge in Q2 2011.
- The H1 2011 impairment charge was marginally lower than for H1 2010. The decrease in loan impairments of £0.9 billion was substantially offset by impairments of AFS Greek sovereign bonds.

## Risk and balance sheet management (continued)

## Risk management: Credit risk: Debt securities

The table below analyses debt securities by issuer and measurement classification with short positions netted against debt securities. However such netting is not reflected in the Group's balance sheet under IFRS.

|              | Central and local government |          | Financial   |                    | ABS    | Corporate | Total   |
|--------------|------------------------------|----------|-------------|--------------------|--------|-----------|---------|
|              | UK<br>£m                     | US<br>£m | Other<br>£m | institutions<br>£m |        |           |         |
| 30 June 2011 | 8,035                        | 14,608   | 51,434      | 12,099             | 25,636 | 6,357     | 118,169 |

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|                            |         |          |          |         |         |         |          |
|----------------------------|---------|----------|----------|---------|---------|---------|----------|
| Held-for-trading<br>(HFT)  |         |          |          |         |         |         |          |
| DFV                        | 1       | -        | 192      | 10      | 1       | 9       | 213      |
| Available-for-sale         | 11,399  | 16,600   | 37,546   | 7,951   | 43,207  | 1,965   | 118,668  |
| Loans and receivables      | 11      | -        | -        | 367     | 5,813   | 404     | 6,595    |
|                            | 19,446  | 31,208   | 89,172   | 20,427  | 74,657  | 8,735   | 243,645  |
| Short positions (HFT)      | (3,864) | (15,841) | (25,064) | (5,450) | (1,041) | (2,134) | (53,394) |
|                            | 15,582  | 15,367   | 64,108   | 14,977  | 73,616  | 6,601   | 190,251  |
| Available-for-sale         |         |          |          |         |         |         |          |
| Gross unrealised<br>gains  | 363     | 474      | 422      | 71      | 1,300   | 62      | 2,692    |
| Gross unrealised<br>losses | (3)     | -        | (119)    | (29)    | (3,179) | (6)     | (3,336)  |
| 31 March 2011              |         |          |          |         |         |         |          |
| Held-for-trading           | 5,422   | 19,079   | 51,792   | 7,461   | 23,907  | 5,478   | 113,139  |
| DFV                        | 1       | -        | 199      | 16      | 114     | 2       | 332      |
| Available-for-sale         | 8,474   | 15,621   | 34,325   | 7,988   | 42,884  | 1,836   | 111,128  |
| Loans and receivables      | 11      | -        | -        | 391     | 5,951   | 432     | 6,785    |
|                            | 13,908  | 34,700   | 86,316   | 15,856  | 72,856  | 7,748   | 231,384  |
| Short positions (HFT)      | (4,852) | (12,715) | (22,463) | (3,421) | (1,014) | (2,684) | (47,149) |
|                            | 9,056   | 21,985   | 63,853   | 12,435  | 71,842  | 5,064   | 184,235  |
| Available-for-sale         |         |          |          |         |         |         |          |
| Gross unrealised<br>gains  | 207     | 202      | 346      | 38      | 1,102   | 65      | 1,960    |
| Gross unrealised<br>losses | (24)    | (44)     | (820)    | (31)    | (3,201) | (33)    | (4,153)  |
| 31 December 2010           |         |          |          |         |         |         |          |
| Held-for-trading           | 5,097   | 15,956   | 43,224   | 7,548   | 21,988  | 5,056   | 98,869   |
| DFV                        | 1       | -        | 262      | 16      | 119     | 4       | 402      |
| Available-for-sale         | 8,377   | 17,890   | 33,122   | 7,849   | 42,515  | 1,377   | 111,130  |
| Loans and receivables      | 11      | -        | -        | 419     | 6,203   | 446     | 7,079    |
|                            | 13,486  | 33,846   | 76,608   | 15,832  | 70,825  | 6,883   | 217,480  |
| Short positions (HFT)      | (4,200) | (11,398) | (18,909) | (3,622) | (1,335) | (1,553) | (41,017) |
|                            | 9,286   | 22,448   | 57,699   | 12,210  | 69,490  | 5,330   | 176,463  |
| Available-for-sale         |         |          |          |         |         |         |          |
| Gross unrealised<br>gains  | 349     | 341      | 700      | 60      | 1,057   | 88      | 2,595    |
| Gross unrealised<br>losses | (10)    | (1)      | (618)    | (32)    | (3,396) | (40)    | (4,097)  |

## Risk and balance sheet management (continued)

## Risk management: Credit risk: Debt securities (continued)

## Key points

- Held-for-trading bonds increased in H1 2011 by £19.3 billion, with increases in G10 and Australian government bonds. The increase in asset-backed securities (ABS) included £4.1 billion in GBM Mortgage trading primarily in US agency pass-through notes, reflecting strong investor appetite.
- The Group has continued to add to its liquidity resources through the purchase of around £7.5 billion of top quality AFS government bonds during Q2 2011. These purchases for the Group's liquidity portfolio have been focussed in the highest quality securities and most liquid markets. The growth in these liquidity reserves provides the Group with an opportunity to manage market risk and improve returns.

The table below analyses debt securities by issuer and external ratings.

|                      | Central and local government |          |             | Financial          |        | ABS   | Corporate | Total | % of total |
|----------------------|------------------------------|----------|-------------|--------------------|--------|-------|-----------|-------|------------|
|                      | UK<br>£m                     | US<br>£m | Other<br>£m | institutions<br>£m | £m     |       |           |       |            |
| 30 June 2011         |                              |          |             |                    |        |       |           |       |            |
| AAA                  | 19,446                       | 31,208   | 55,063      | 7,759              | 55,669 | 435   | 169,580   | 70    |            |
| AA to AA+            | -                            | -        | 5,290       | 3,300              | 5,668  | 678   | 14,936    | 6     |            |
| A to AA-             | -                            | -        | 23,843      | 5,191              | 3,991  | 1,797 | 34,822    | 14    |            |
| BBB- to A-           | -                            | -        | 3,229       | 1,848              | 3,501  | 2,442 | 11,020    | 5     |            |
| Non-investment grade | -                            | -        | 1,687       | 931                | 4,579  | 2,340 | 9,537     | 4     |            |
| Unrated              | -                            | -        | 60          | 1,398              | 1,249  | 1,043 | 3,750     | 1     |            |
|                      | 19,446                       | 31,208   | 89,172      | 20,427             | 74,657 | 8,735 | 243,645   | 100   |            |
| 31 March 2011        |                              |          |             |                    |        |       |           |       |            |
| AAA                  | 13,908                       | 34,700   | 51,272      | 2,701              | 52,867 | 171   | 155,619   | 67    |            |
| AA to AA+            | -                            | -        | 6,428       | 3,341              | 7,031  | 640   | 17,440    | 7     |            |
| A to AA-             | -                            | -        | 22,778      | 4,832              | 3,187  | 1,366 | 32,163    | 14    |            |
| BBB- to A-           | -                            | -        | 3,351       | 1,897              | 3,799  | 1,883 | 10,930    | 5     |            |
| Non-investment grade | -                            | -        | 1,946       | 1,300              | 4,805  | 3,413 | 11,464    | 5     |            |
| Unrated              | -                            | -        | 541         | 1,785              | 1,167  | 275   | 3,768     | 2     |            |
|                      | 13,908                       | 34,700   | 86,316      | 15,856             | 72,856 | 7,748 | 231,384   | 100   |            |
| 31 December 2010     |                              |          |             |                    |        |       |           |       |            |
| AAA                  | 13,486                       | 33,846   | 44,784      | 3,084              | 51,235 | 153   | 146,588   | 67    |            |
| AA to AA+            | -                            | -        | 18,025      | 3,261              | 6,335  | 554   | 28,175    | 13    |            |
| A to AA-             | -                            | -        | 9,138       | 4,352              | 3,244  | 1,141 | 17,875    | 8     |            |
| BBB- to A-           | -                            | -        | 2,843       | 1,489              | 3,385  | 1,869 | 9,586     | 5     |            |

|                      |        |        |        |        |        |       |         |     |
|----------------------|--------|--------|--------|--------|--------|-------|---------|-----|
| Non-investment grade | -      | -      | 1,766  | 2,245  | 4,923  | 2,311 | 11,245  | 5   |
| Unrated              | -      | -      | 52     | 1,401  | 1,703  | 855   | 4,011   | 2   |
|                      | 13,486 | 33,846 | 76,608 | 15,832 | 70,825 | 6,883 | 217,480 | 100 |

## Key points

- The proportion of AAA rated debt securities increased to 70% primarily due to a move towards higher quality government bonds as well as demand for US agency pass-through notes.
- Non-investment grade and unrated bonds were 5% of the portfolio compared with 7% at the end of Q1 2011 and 2010 year end.

## Risk and balance sheet management (continued)

## Risk management: Credit risk: Asset-backed securities

## RMBS (1)

|                      | G10 Covered |       | Non-  |            | CMBS      |          |          | Other   |       | Total  |
|----------------------|-------------|-------|-------|------------|-----------|----------|----------|---------|-------|--------|
|                      | government  | bond  | Prime | conforming | Sub-prime | (2) CDOs | (3) CLOs | (4) ABS |       |        |
| 30 June 2011         | £m          | £m    | £m    | £m         | £m        | £m       | £m       | £m      | £m    | £m     |
| AAA                  | 34,399      | 7,345 | 4,835 | 1,587      | 295       | 1,991    | 389      | 2,116   | 2,712 | 55,669 |
| AA to AA+            | 1,401       | 381   | 451   | 96         | 138       | 435      | 539      | 1,356   | 871   | 5,668  |
| A to AA-             | 144         | 385   | 239   | 76         | 280       | 1,238    | 389      | 448     | 792   | 3,991  |
| BBB- to A-           | -           | 61    | 138   | 301        | 86        | 398      | 171      | 582     | 1,764 | 3,501  |
| Non-investment grade | -           | -     | 758   | 727        | 308       | 408      | 1,900    | 259     | 219   | 4,579  |
| Unrated              | -           | -     | 108   | 23         | 101       | 14       | 97       | 484     | 422   | 1,249  |
|                      | 35,944      | 8,172 | 6,529 | 2,810      | 1,208     | 4,484    | 3,485    | 5,245   | 6,780 | 74,657 |
| 31 March 2011        |             |       |       |            |           |          |          |         |       |        |
| AAA                  | 32,067      | 7,200 | 4,140 | 1,684      | 273       | 1,922    | 424      | 2,269   | 2,888 | 52,867 |
| AA to AA+            | 1,547       | 475   | 653   | 96         | 218       | 744      | 565      | 1,617   | 1,116 | 7,031  |
| A to AA-             | -           | 197   | 118   | 73         | 246       | 979      | 358      | 345     | 871   | 3,187  |
| BBB- to A-           | -           | 157   | 162   | 299        | 84        | 390      | 185      | 578     | 1,944 | 3,799  |
| Non-investment grade | -           | -     | 760   | 917        | 246       | 439      | 1,847    | 344     | 252   | 4,805  |
| Unrated              | -           | -     | 25    | 28         | 143       | 2        | 76       | 673     | 220   | 1,167  |
|                      | 33,614      | 8,029 | 5,858 | 3,097      | 1,210     | 4,476    | 3,455    | 5,826   | 7,291 | 72,856 |
| 31 December 2010     |             |       |       |            |           |          |          |         |       |        |
| AAA                  | 28,835      | 7,107 | 4,355 | 1,754      | 317       | 2,789    | 444      | 2,490   | 3,144 | 51,235 |
| AA to AA+            | 1,529       | 357   | 147   | 144        | 116       | 392      | 567      | 1,786   | 1,297 | 6,335  |

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|                      |        |       |       |       |       |       |       |       |       |        |
|----------------------|--------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| A to AA-             | -      | 408   | 67    | 60    | 212   | 973   | 296   | 343   | 885   | 3,244  |
| BBB- to A-           | -      | -     | 82    | 316   | 39    | 500   | 203   | 527   | 1,718 | 3,385  |
| Non-investment grade | -      | -     | 900   | 809   | 458   | 296   | 1,863 | 332   | 265   | 4,923  |
| Unrated              | -      | -     | 196   | 52    | 76    | -     | 85    | 596   | 698   | 1,703  |
|                      | 30,364 | 7,872 | 5,747 | 3,135 | 1,218 | 4,950 | 3,458 | 6,074 | 8,007 | 70,825 |

Notes:

- (1) Residential mortgage-backed securities.
- (2) Commercial mortgage-backed securities.
- (3) Collateralised debt obligations.
- (4) Collateralised loan obligations.

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

Risk and balance sheet management (continued)

Risk management: Credit risk: Available-for-sale debt securities and reserves

The table below analyses available-for-sale (AFS) debt securities by issuer and related AFS reserves, gross and net of tax, for countries exceeding £0.5 billion, together with the total of those individually less than £0.5 billion.

|               | 30 June 2011                       |           |                 |             |                            |                          | 31 March 2011                      |           |                 |             |                          |  |
|---------------|------------------------------------|-----------|-----------------|-------------|----------------------------|--------------------------|------------------------------------|-----------|-----------------|-------------|--------------------------|--|
|               | Central and local government<br>£m | ABS<br>£m | Other (1)<br>£m | Total<br>£m | AFS reserves (gross)<br>£m | AFS reserves (net)<br>£m | Central and local government<br>£m | ABS<br>£m | Other (1)<br>£m | Total<br>£m | AFS reserves (net)<br>£m |  |
| US            | 16,600                             | 20,707    | 521             | 37,828      | 131                        | 265                      | 15,670                             | 20,961    | 731             | 37,362      | (133)                    |  |
| UK            | 11,399                             | 4,286     | 2,066           | 17,751      | 182                        | (148)                    | 8,500                              | 4,134     | 2,052           | 14,686      | (134)                    |  |
| Germany       | 14,218                             | 1,160     | 477             | 15,855      | (38)                       | (35)                     | 12,584                             | 1,298     | 500             | 14,382      | (217)                    |  |
| Netherlands   | 5,323                              | 7,366     | 782             | 13,471      | (66)                       | 40                       | 3,977                              | 7,096     | 774             | 11,847      | (8)                      |  |
| France        | 5,503                              | 628       | 1,171           | 7,302       | (36)                       | (22)                     | 4,195                              | 579       | 1,000           | 5,774       | (42)                     |  |
| Spain         | 91                                 | 7,018     | 51              | 7,160       | (1,243)                    | (921)                    | 91                                 | 6,912     | 78              | 7,081       | (863)                    |  |
| Japan         | 4,240                              | -         | 6               | 4,246       | 1                          | 1                        | 4,204                              | -         | 3               | 4,207       | -                        |  |
| Australia     | -                                  | 599       | 2,141           | 2,740       | (17)                       | (20)                     | -                                  | 467       | 2,421           | 2,888       | (27)                     |  |
| Singapore     | 1,144                              | -         | 213             | 1,357       | -                          | -                        | 798                                | -         | 206             | 1,004       | -                        |  |
| Italy         | 955                                | 240       | 16              | 1,211       | (105)                      | (79)                     | 928                                | 238       | 24              | 1,190       | (67)                     |  |
| Supranational | -                                  | -         | 960             | 960         | 26                         | 25                       | -                                  | -         | 489             | 489         | 4                        |  |
| Denmark       | 694                                | -         | 206             | 900         | (3)                        | (3)                      | 690                                | -         | 251             | 941         | (7)                      |  |
| India         | 642                                | -         | 175             | 817         | (8)                        | (5)                      | 657                                | -         | 156             | 813         | (3)                      |  |
| Belgium       | 770                                | 36        | 8               | 814         | (52)                       | (39)                     | 742                                | 35        | 8               | 785         | (32)                     |  |
| Greece        | 733                                | -         | -               | 733         | -                          | -                        | 936                                | -         | -               | 936         | (476)                    |  |
| Switzerland   | 535                                | -         | 173             | 708         | 12                         | 10                       | 749                                | -         | 161             | 910         | 8                        |  |
| Austria       | 283                                | 162       | 150             | 595         | (34)                       | (27)                     | 267                                | 50        | 143             | 460         | (19)                     |  |
| Sweden        | 79                                 | 257       | 253             | 589         | -                          | -                        | 77                                 | 250       | 219             | 546         | -                        |  |



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|                     |        |        |       |         |         |         |        |        |       |         |         |
|---------------------|--------|--------|-------|---------|---------|---------|--------|--------|-------|---------|---------|
| Hong Kong           | 544    | -      | 1     | 545     | -       | -       | 797    | -      | 12    | 809     | -       |
| South Korea         | 129    | 271    | -     | 400     | 1       | 1       | 229    | 383    | -     | 612     | 1       |
| Republic of Ireland | 93     | 160    | 128   | 381     | (100)   | (75)    | 101    | 161    | 375   | 637     | (67)    |
| Other               | 1,570  | 317    | 418   | 2,305   | (91)    | (71)    | 2,228  | 320    | 221   | 2,769   | (43)    |
|                     | 65,545 | 43,207 | 9,916 | 118,668 | (1,440) | (1,103) | 58,420 | 42,884 | 9,824 | 111,128 | (2,125) |

Note:

(1) Relates to financial institutes and corporates.

Risk and balance sheet management (continued)

Risk management: Credit risk: Derivatives

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

| Asset quality                                     | Probability of default range | 30 June 2011        |                     |                      |                    |                       | Total<br>£m | 31                  | 31                     |
|---|------------------------------|---------------------|---------------------|----------------------|--------------------|-----------------------|-------------|---------------------|------------------------|
|   |                              | 0-3<br>months<br>£m | 3-6<br>months<br>£m | 6-12<br>months<br>£m | 1-5<br>years<br>£m | Over 5<br>years<br>£m |             | March<br>2011<br>£m | December<br>2010<br>£m |
| AQ1   | 0% - 0.034%                  | 23,480              | 10,823              | 16,883               | 114,941            | 190,904               | 357,031     | 323,302             | 408,489                |
| AQ2   | 0.034% - 0.048%              | 648                 | 154                 | 366                  | 1,666              | 2,766                 | 5,600       | 5,365               | 2,659                  |
| AQ3   | 0.048% - 0.095%              | 1,523               | 461                 | 741                  | 3,293              | 4,890                 | 10,908      | 10,780              | 3,317                  |
| AQ4   | 0.095% - 0.381%              | 776                 | 138                 | 429                  | 2,434              | 2,847                 | 6,624       | 6,349               | 3,391                  |
| AQ5   | 0.381% - 1.076%              | 602                 | 164                 | 251                  | 2,290              | 3,626                 | 6,933       | 6,396               | 4,860                  |
| AQ6   | 1.076% - 2.153%              | 1,574               | 57                  | 121                  | 963                | 880                   | 3,595       | 3,991               | 1,070                  |
| AQ7   | 2.153% - 6.089%              | 194                 | 25                  | 55                   | 511                | 1,287                 | 2,072       | 1,880               | 857                    |
| AQ8   | 6.089% - 17.222%             | 3                   | 1                   | 10                   | 108                | 532                   | 654         | 786                 | 403                    |
| AQ9   | 17.222% - 100%               | 20                  | 10                  | 24                   | 192                | 240                   | 486         | 995                 | 450                    |
| AQ10  | 100%                         | 184                 | 7                   | 36                   | 468                | 274                   | 969         | 1,204               | 1,581                  |
|   |                              | 29,004              | 11,840              | 18,916               | 126,866            | 208,246               | 394,872     | 361,048             | 427,077                |
| Counterparty mtm netting                          |                              |                     |                     |                      |                    |                       | (323,455)   | (290,462)           | (330,397)              |
| Cash collateral held against derivative exposures |                              |                     |                     |                      |                    |                       | (27,500)    | (25,363)            | (31,096)               |
| Net exposure                                      |                              |                     |                     |                      |                    |                       | 43,917      | 45,223              | 65,584                 |

At 30 June 2011, the Group also held collateral in the form of securities of £4.2 billion (31 March 2011 - £3.3 billion; 31 December 2010 - £2.9 billion) against derivative positions.

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

| Contract type                  | 30 June 2011 |                   | 31 March 2011 |                   | 31 December 2010 |                   |
|--------------------------------|--------------|-------------------|---------------|-------------------|------------------|-------------------|
|                                | Assets<br>£m | Liabilities<br>£m | Assets<br>£m  | Liabilities<br>£m | Assets<br>£m     | Liabilities<br>£m |
| Interest rate contracts        | 283,966      | 269,638           | 259,006       | 250,515           | 311,731          | 299,209           |
| Exchange rate contracts        | 72,682       | 78,095            | 73,552        | 79,045            | 83,253           | 89,375            |
| Credit derivatives             | 32,507       | 30,877            | 22,704        | 21,689            | 26,872           | 25,344            |
| Equity and commodity contracts | 5,717        | 9,199             | 5,786         | 9,376             | 5,221            | 10,039            |
|                                | 394,872      | 387,809           | 361,048       | 360,625           | 427,077          | 423,967           |

### Key points

#### 30 June 2011 compared with 31 March 2011

- Net exposure, after taking account of position and collateral netting arrangements reduced marginally in Q2 2011, despite an increase in derivative carrying values.
- Interest rate contracts increased due to lower over-the-counter contract compression trades, reductions in interest rate yields and depreciation of sterling against the euro. This was partially offset by the effect of the appreciation of sterling against the US dollar. All major five year interest rate indices (sterling, euro, and US dollar), moved down, decreasing by approximately 45, 26, and 39 basis points respectively.

### Risk and balance sheet management (continued)

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#### Risk management: Credit risk: Derivatives (continued)

##### Key points (continued)

#### 30 June 2011 compared with 31 March 2011 (continued)

- Exchange rate contracts decreased due to the trading fluctuations and movements in forward rates and volume.
- Credit derivative fair values increased by £9.8 billion, primarily as a result of de-risking of Non-Core where hedging trades resulted in higher assets and liabilities. Widening credit spreads also contributed to the increase in Non-Core.

#### 30 June 2011 compared with 31 December 2010

- Net exposure, after taking account of position and collateral netting arrangements, reduced by 33%, primarily reflecting reductions in derivative carrying values.
- The main driver of the £28 billion decrease in interest rate assets reflected greater use of over-the-counter contract compression trades during H1 2011 overall and appreciation of sterling against the US dollar, as the majority of interest rate contracts are US dollar denominated. This was partially offset by a reduction in clearing house netting, downward shifts in US interest rate yields and increased net new business.
- Exchange rate contracts decreased due to trading fluctuations and movements in forward rates and volume.

- Credit derivatives increased by £5.6 billion, primarily as a result of de-risking of Non-Core where hedging trades put in place in Q2 2011 resulted in higher assets and liabilities. Widening credit spreads also increased carrying values in Non-Core's Structured Credit Products.

## Risk and balance sheet management (continued)

## Risk management: Credit risk: Derivatives (continued)

The Group's exposures to monolines and CDPCs by credit rating are summarised below, ratings are based on the lower of S&P and Moody's. All of these exposures are in Non-Core.

| Monoline insurers       | Notional:<br>protected<br>assets<br>£m | Fair value:<br>reference<br>protected<br>assets<br>£m | Gross<br>exposure<br>£m | Credit<br>valuation<br>adjustment<br>(CVA)<br>£m | Hedges<br>£m | Net<br>exposure<br>£m |
|-------------------------|--|---|-------------------------|--|--------------|-----------------------|
| 30 June 2011            |  |   |                         |  |              |                       |
| A to AA-                | 5,547                                  | 4,936   | 611                     | 166  | -            | 445                   |
| Non-investment<br>grade | 7,079                                  | 4,047   | 3,032                   | 2,155  | 68           | 809                   |
|                         | 12,626                                 | 8,983   | 3,643                   | 2,321  | 68           | 1,254                 |
| Of which:               |  |   |                         |  |              |                       |
| CMBS                    | 3,853                                  | 2,131   | 1,722                   | 1,285  |              |                       |
| CDOs                    | 1,086                                  | 230   | 856                     | 596  |              |                       |
| CLOs                    | 4,946                                  | 4,561   | 385                     | 107  |              |                       |
| Other ABS               | 2,241                                  | 1,739   | 502                     | 250  |              |                       |
| Other                   | 500                                    | 322   | 178                     | 83   |              |                       |
|                         | 12,626                                 | 8,983   | 3,643                   | 2,321  |              |                       |
| 31 March 2011           |  |   |                         |  |              |                       |
| A to AA-                | 5,759                                  | 5,121   | 638                     | 194  | -            | 444                   |
| Non-investment<br>grade | 8,123                                  | 5,246   | 2,877                   | 1,984  | 69           | 824                   |
|                         | 13,882                                 | 10,367  | 3,515                   | 2,178  | 69           | 1,268                 |
| Of which:               |  |   |                         |  |              |                       |
| CMBS                    | 3,859                                  | 2,316   | 1,543                   | 1,132  |              |                       |
| CDOs                    | 1,092                                  | 245   | 847                     | 569  |              |                       |
| CLOs                    | 6,183                                  | 5,747   | 436                     | 139  |              |                       |
| Other ABS               | 2,260                                  | 1,734   | 526                     | 260  |              |                       |
| Other                   | 488                                    | 325   | 163                     | 78   |              |                       |

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|                      |        |        |       |       |    |       |
|----------------------|--------|--------|-------|-------|----|-------|
|                      | 13,882 | 10,367 | 3,515 | 2,178 |    |       |
| 31 December 2010     |        |        |       |       |    |       |
| A to AA-             | 6,336  | 5,503  | 833   | 272   | -  | 561   |
| Non-investment grade | 8,555  | 5,365  | 3,190 | 2,171 | 71 | 948   |
|                      | 14,891 | 10,868 | 4,023 | 2,443 | 71 | 1,509 |
| Of which:            |        |        |       |       |    |       |
| CMBS                 | 4,149  | 2,424  | 1,725 | 1,253 |    |       |
| CDOs                 | 1,133  | 256    | 877   | 593   |    |       |
| CLOs                 | 6,724  | 6,121  | 603   | 210   |    |       |
| Other ABS            | 2,393  | 1,779  | 614   | 294   |    |       |
| Other                | 492    | 288    | 204   | 93    |    |       |
|                      | 14,891 | 10,868 | 4,023 | 2,443 |    |       |

Key points

30 June 2011 compared with 31 March 2011

- The gross exposure to monolines increased primarily due to lower prices of underlying reference instruments.
- The CVA increased reflecting the increase in exposure and widened credit spreads.

Risk and balance sheet management (continued)

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Risk management: Credit risk: Derivatives (continued)

30 June 2011 compared with 31 December 2010

- The exposure to monolines decreased primarily due to higher prices of underlying reference instruments. The trades with monolines are predominantly US dollar denominated. The strengthening of sterling against the US dollar further decreased the exposure.
- The CVA decreased on a total basis, with a reduction in exposure but partially offset by the impact of wider credit spreads.

|                      | Notional:<br>protected<br>assets<br>£m | Fair value:                            |     | Gross<br>exposure<br>£m | Credit<br>valuation<br>adjustment<br>£m | Net<br>exposure<br>£m |
|----------------------|--|--|-----|-------------------------|---|-----------------------|
|                      |  | reference<br>protected<br>assets<br>£m |     |                         |   |                       |
| CDPCs                |  |  |     |                         |   |                       |
| 30 June 2011         |  |  |     |                         |   |                       |
| AAA                  | 205                                    | 205                                    | -   | -                       | -                                       |                       |
| A to AA-             | 622                                    | 607                                    | 15  | 4                       | 11                                      |                       |
| Non-investment grade | 19,724                                 | 18,759                                 | 965 | 427                     | 538                                     |                       |
| Unrated              | 3,927                                  | 3,712                                  | 215 | 101                     | 114                                     |                       |

|                      |        |        |       |     |     |
|----------------------|--------|--------|-------|-----|-----|
|                      | 24,478 | 23,283 | 1,195 | 532 | 663 |
| 31 March 2011        |        |        |       |     |     |
| AAA                  | 206    | 206    | -     | -   | -   |
| A to AA-             | 623    | 607    | 16    | 5   | 11  |
| Non-investment grade | 19,686 | 18,793 | 893   | 362 | 531 |
| Unrated              | 3,964  | 3,772  | 192   | 78  | 114 |
|                      | 24,479 | 23,378 | 1,101 | 445 | 656 |
| 31 December 2010     |        |        |       |     |     |
| AAA                  | 213    | 212    | 1     | -   | 1   |
| A to AA-             | 644    | 629    | 15    | 4   | 11  |
| Non-investment grade | 20,066 | 19,050 | 1,016 | 401 | 615 |
| Unrated              | 4,165  | 3,953  | 212   | 85  | 127 |
|                      | 25,088 | 23,844 | 1,244 | 490 | 754 |

#### Key points

##### 30 June 2011 compared with 31 March 2011

- Exposure to CDPCs increased primarily driven by wider credit spreads on the underlying reference loans and bonds, partially offset by a decrease in the relative value of senior tranches compared with that of underlying reference portfolios.
- The CVA increased in line with the increased exposure.

##### 30 June 2011 compared with 31 December 2010

- Exposure to CDPCs reduced, primarily driven by a decrease in the relative value of senior tranches compared with that of the underlying reference portfolios. This was partially offset by wider credit spreads on the underlying reference instruments. The trades with CDPCs are predominantly US and Canadian dollar denominated. The strengthening of sterling against these currencies also contributed to the decrease in exposure.
- The increase in CVA was primarily driven by an increase in the estimated cost of hedging expected underlying portfolio default losses in excess of the capital available in each vehicle. The level of CVA on CDPC exposures is estimated by reference to cost of hedging as above and recent market events affecting CDPCs, including commutation activity.

#### Risk and balance sheet management (continued)

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##### Risk management: Credit risk: Cross border exposures

Cross border exposures consist of loans and advances gross of provisions and other financial instruments, such as debt securities and derivatives, including non-local currency claims of overseas on local residents. The geographical analysis is based on the country of domicile of the borrower or guarantor of ultimate risk. Cross border exposures exclude exposure to local residents in local currency.

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The table below sets out the Group's cross border exposures greater than 0.5% of the Group's total assets at 30 June 2011. Short positions have been netted against cross border exposures. However such netting is not reflected in the Group's balance sheet under IFRS. None of these countries have experienced repayment difficulties that have so far required restructuring of outstanding debt. On 21 July 2011 proposals to restructure Greek government debt were announced by the Heads of State or Government of the Euro area and EU institutions. These proposals include a voluntary programme of debt exchange and a buyback plan developed by the Greek government.

|                        | 30 June 2011     |             |             |             |                          |                                    | 31 December 2010 |             |             |             |                          |                                    |
|------------------------|------------------|-------------|-------------|-------------|--------------------------|------------------------------------|------------------|-------------|-------------|-------------|--------------------------|------------------------------------|
|                        | Government<br>£m | Banks<br>£m | Other<br>£m | Total<br>£m | Short<br>positions<br>£m | Net of<br>short<br>positions<br>£m | Government<br>£m | Banks<br>£m | Other<br>£m | Total<br>£m | Short<br>positions<br>£m | Net of<br>short<br>positions<br>£m |
| US                     | 22,912           | 9,721       | 39,259      | 71,892      | 19,484                   | 52,408                             | 21,201           | 14,382      | 36,813      | 72,396      | 14,240                   | 58,156                             |
| France                 | 18,905           | 18,956      | 6,635       | 44,496      | 6,069                    | 38,427                             | 17,293           | 16,007      | 6,756       | 40,056      | 4,285                    | 35,771                             |
| Germany                | 21,741           | 6,595       | 8,320       | 36,656      | 5,391                    | 31,265                             | 22,962           | 6,276       | 10,467      | 39,705      | 4,685                    | 35,020                             |
| Netherlands            | 4,303            | 5,186       | 11,778      | 21,267      | 1,287                    | 19,980                             | 2,900            | 3,055       | 10,824      | 16,779      | 951                      | 15,828                             |
| Japan                  | 5,421            | 7,789       | 5,777       | 18,987      | 3,336                    | 15,651                             | 7,983            | 6,962       | 7,542       | 22,487      | 409                      | 22,078                             |
| Spain                  | 1,247            | 4,911       | 11,242      | 17,400      | 2,402                    | 14,998                             | 1,401            | 4,248       | 11,589      | 17,238      | 1,357                    | 15,881                             |
| Italy                  | 8,501            | 1,671       | 1,846       | 12,018      | 5,337                    | 6,681                              | 6,409            | 1,083       | 2,188       | 9,680       | 3,183                    | 6,497                              |
| Switzerland            | 4,313            | 4,024       | 3,309       | 11,646      | 18                       | 11,628                             | 4                | 1,714       | 2,944       | 4,662       | 12                       | 4,650                              |
| Republic of<br>Ireland | 186              | 3,094       | 2,376       | 5,656       | 82                       | 5,574                              | 199              | 3,789       | 3,101       | 7,089       | 131                      | 6,958                              |

Set out below are cross border exposures for selected other eurozone countries:

|          |       |     |     |       |     |       |       |     |       |       |     |       |
|----------|-------|-----|-----|-------|-----|-------|-------|-----|-------|-------|-----|-------|
| Portugal | 189   | 536 | 957 | 1,682 | 113 | 1,569 | 197   | 985 | 472   | 1,654 | 121 | 1,533 |
| Greece   | 1,032 | 48  | 840 | 1,920 | 29  | 1,891 | 1,015 | 228 | 1,175 | 2,418 | 37  | 2,381 |

Risk and balance sheet management (continued)

Risk management: Credit risk: Country risk\*

Country exposures are managed under the Group's country risk framework. This includes active management of exposures that have either been identified as exhibiting signs of actual or potential stress using the Group's country watchlist process or where it is considered appropriate to actively control exposure levels. Limit controls are applied on a risk-differentiated basis. Granular portfolio reviews are undertaken with a view to adjusting the risk profile and to align to the Group's country risk appetite in light of the evolving economic and political developments.

A re-appraisal of sovereign default risk among the most vulnerable eurozone economies has resulted in intensified management responses. This included frequent, comprehensive and detailed reviews of exposures to each of these countries, including increased vigilance in counterparty monitoring, leading to several divestments and limit reductions to ensure the Group's exposure remains within defined risk appetite. Exposure to Irish banks for example is now less than half of the exposure in Q4 2008.

In addition to the macroeconomic and strategic analysis in the regular country risk control process, the Group has undertaken sovereign-related stress tests and a series of broad thematic reviews of possible high-impact scenarios

related to the eurozone crisis, with potential impact and mitigating actions. Investigated themes include sovereign debt restructuring, various eurozone break-up scenarios and a re-examination of potential financial sector support given ongoing public finance and political pressures. These reviews combine operational analysis with strategic commentary to develop detailed contingency plans and identify potential business opportunities.

A dynamic limit setting methodology was introduced with an automatic reduction of trading limits upon evidence of reduced liquidity or increased CDS spreads. This approach has resulted in an effective reduction in sovereign issuer risk limits for the vulnerable eurozone countries.

The table below shows the Group's exposure in terms of credit risk assets, to countries where the exposure to counterparties domiciled in that country exceeded £1 billion and where the country had an external rating of A+ or below from Standard & Poor's, Moody's or Fitch at 30 June 2011, and selected other countries. The numbers are stated gross of mitigating action which may have been taken to reduce or eliminate exposure to country risk events.

Further details for selected eurozone countries are provided in Appendix 3.

\* not reviewed

#### Risk and balance sheet management (continued)

#### Risk management: Credit risk: Country risk\* (continued)

| 30 June 2011        | Central<br>and local<br>government<br>£m | Central<br>banks<br>£m | Lending                                  |                 |                | Total<br>£m | Core<br>£m | Non-<br>Core<br>£m | Derivatives<br>and<br>contingent<br>obligations<br>£m |
|---------------------|--|------------------------|--|-----------------|----------------|-------------|------------|--------------------|---|
|                     |  |                        | Other<br>financial<br>institutions<br>£m | Corporate<br>£m | Personal<br>£m |             |            |                    |   |
| Republic of Ireland | 53                                       | 1,557                  | 459                                      | 20,669          | 20,773         | 43,511      | 32,364     | 11,147             | 2,448   |
| India               | 192                                      | 260                    | 1,170                                    | 2,625           | 16             | 4,263       | 3,975      | 288                | 1,448   |
| Italy               | 7  | 81                     | 1,121                                    | 2,317           | 26             | 3,552       | 1,891      | 1,661              | 2,323   |
| China               | 14                                       | 223                    | 1,431                                    | 647             | 34             | 2,349       | 2,177      | 172                | 1,697   |
| South Korea         | -  | 12                     | 1,078                                    | 710             | 2              | 1,802       | 1,786      | 16                 | 394   |
| Turkey              | 207                                      | 36                     | 312                                      | 1,216           | 13             | 1,784       | 1,221      | 563                | 556   |
| Russia              | -  | 49                     | 815                                      | 808             | 65             | 1,737       | 1,610      | 127                | 248   |
| Brazil              | -  | -                      | 1,001                                    | 301             | 4              | 1,306       | 1,185      | 121                | 88  |
| Mexico              | -  | 8                      | 249                                      | 1,036           | 1              | 1,294       | 872        | 422                | 198   |
| Romania             | 34                                       | 183                    | 48                                       | 477             | 401            | 1,143       | 17         | 1,126              | 125   |
| Poland              | 41                                       | 5                      | 52                                       | 723             | 5              | 826         | 744        | 82                 | 372   |
| Indonesia           | 83                                       | 57                     | 233                                      | 264             | 133            | 770         | 632        | 138                | 321   |
| Portugal            | 45                                       | -                      | 48                                       | 585             | 5              | 683         | 327        | 356                | 555   |

Additional selected countries

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|         |     |    |       |       |     |       |       |       |       |
|---------|-----|----|-------|-------|-----|-------|-------|-------|-------|
| Spain   | 20  | 13 | 1,197 | 6,842 | 405 | 8,477 | 4,022 | 4,455 | 2,372 |
| Belgium | 172 | 11 | 1,182 | 983   | 19  | 2,367 | 1,855 | 512   | 2,342 |
| Japan   | 401 | -  | 1,028 | 756   | 24  | 2,209 | 1,561 | 648   | 1,907 |
| Greece  | 10  | 9  | 36    | 421   | 15  | 491   | 341   | 150   | 220   |

31 December  
2010

|             |     |       |       |        |        |        |        |        |       |
|-------------|-----|-------|-------|--------|--------|--------|--------|--------|-------|
| Republic of |     |       |       |        |        |        |        |        |       |
| Ireland     | 61  | 2,119 | 900   | 19,881 | 20,228 | 43,189 | 32,431 | 10,758 | 3,496 |
| India       | 262 | -     | 1,614 | 2,590  | 273    | 4,739  | 4,085  | 654    | 1,249 |
| Italy       | 45  | 78    | 1,086 | 2,483  | 27     | 3,719  | 1,817  | 1,902  | 2,312 |
| China       | 17  | 298   | 1,240 | 753    | 64     | 2,372  | 2,136  | 236    | 1,572 |
| South Korea | -   | 276   | 1,039 | 555    | 2      | 1,872  | 1,822  | 50     | 643   |
| Turkey      | 282 | 68    | 485   | 1,365  | 12     | 2,212  | 1,520  | 692    | 547   |
| Russia      | -   | 110   | 251   | 1,181  | 58     | 1,600  | 1,475  | 125    | 216   |
| Brazil      | -   | -     | 825   | 315    | 5      | 1,145  | 1,025  | 120    | 120   |
| Mexico      | -   | 8     | 149   | 999    | 1      | 1,157  | 854    | 303    | 148   |
| Romania     | 36  | 178   | 42    | 426    | 446    | 1,128  | 7      | 1,121  | 142   |
| Poland      | -   | 168   | 13    | 655    | 6      | 842    | 736    | 106    | 381   |
| Indonesia   | 84  | 42    | 262   | 293    | 131    | 812    | 657    | 155    | 273   |
| Portugal    | 86  | -     | 63    | 611    | 6      | 766    | 450    | 316    | 537   |

Additional selected countries

|         |       |    |     |       |     |       |       |       |       |
|---------|-------|----|-----|-------|-----|-------|-------|-------|-------|
| Spain   | 19    | 5  | 258 | 6,962 | 407 | 7,651 | 3,130 | 4,521 | 2,447 |
| Belgium | 102   | 14 | 473 | 893   | 327 | 1,809 | 1,307 | 502   | 2,546 |
| Japan   | 1,379 | -  | 685 | 809   | 24  | 2,897 | 2,105 | 792   | 2,000 |
| Greece  | 14    | 36 | 49  | 188   | 16  | 303   | 173   | 130   | 214   |

Note:

(1) Credit risk assets consist of:

Lending: cash and balances at central banks, loans and advances to banks and customers (including overdraft facilities, instalment credit and finance leases). Undrawn commitments are excluded;  
Derivative exposures are measured at mark-to-market and net of liabilities where a master netting arrangement is enforceable;  
Contingent obligations, primarily letters of credit and guarantees. Undrawn commitments are excluded.

\* not reviewed

Risk and balance sheet management (continued)

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Risk management: Credit risk: Country risk\* (continued)

Key points



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- Exposure shows a mixed picture for the selected countries during the first half of 2011. Currency movements increased euro denominated lending by 4.6% and reduced US dollar denominated exposures by 3.5%. There were reductions in lending to governments, central banks and corporate clients whereas exposure to banks increased. Non-Core exposures fell, except in a few countries where drawings took place under committed facilities. Appendix 3 provides further commentary and details on selected eurozone countries, including held-for-trading and available-for-sale holdings.
- Japan - lending exposure at £2.2 billion reduced by £0.7 billion since 31 December 2010 driven by a reduction in government lending.
- North Africa and the Middle East - exposure reduced during the first half of 2011. Of the countries experiencing varying degrees of social and political unrest. Lending exposure to Bahrain and Egypt was £197 million and £77 million respectively. Exposure to Libya and Syria is negligible.

\* not reviewed

Risk and balance sheet management (continued)

Risk management: Credit risk: Commercial real estate\*

The commercial real estate lending portfolio totalled £84.6 billion at 30 June 2011, a 5.9% decrease since 31 December 2010 (£89.9 billion). The Non-Core portion of the portfolio totalled £42.7 billion (50.5% of the portfolio) at 30 June 2011 (31 December 2010 - £47.7 billion, or 53.0% of the portfolio) and includes exposures in Ulster Bank Group as discussed on page 159. The analysis below excludes RRM and contingent obligations.

| By division  | 30 June 2011     |                   |             | 31 March 2011    |                   |             | 31 December 2010 |                   |             |
|--------------|------------------|-------------------|-------------|------------------|-------------------|-------------|------------------|-------------------|-------------|
|              | Investment<br>£m | Development<br>£m | Total<br>£m | Investment<br>£m | Development<br>£m | Total<br>£m | Investment<br>£m | Development<br>£m | Total<br>£m |
| Core         |                  |                   |             |                  |                   |             |                  |                   |             |
| UK           |                  |                   |             |                  |                   |             |                  |                   |             |
| Corporate(1) | 25,472           | 5,839             | 31,311      | 26,514           | 6,124             | 32,638      | 24,879           | 5,819             | 30,698      |
| Ulster Bank  | 4,338            | 955               | 5,293       | 4,272            | 1,015             | 5,287       | 4,284            | 1,090             | 5,374       |
| US Retail &  |                  |                   |             |                  |                   |             |                  |                   |             |
| Commercial   | 4,009            | 98                | 4,107       | 4,083            | 87                | 4,170       | 4,322            | 93                | 4,415       |
| GBM          | 775              | 402               | 1,177       | 1,030            | 417               | 1,447       | 1,131            | 644               | 1,775       |
|              | 34,594           | 7,294             | 41,888      | 35,899           | 7,643             | 43,542      | 34,616           | 7,646             | 42,262      |
| Non-Core     |                  |                   |             |                  |                   |             |                  |                   |             |
| UK           |                  |                   |             |                  |                   |             |                  |                   |             |
| Corporate    | 4,765            | 2,504             | 7,269       | 5,372            | 2,701             | 8,073       | 7,591            | 3,263             | 10,854      |
| Ulster Bank  | 4,076            | 9,002             | 13,078      | 3,947            | 8,881             | 12,828      | 3,854            | 8,760             | 12,614      |
| US Retail &  |                  |                   |             |                  |                   |             |                  |                   |             |
| Commercial   | 1,101            | 49                | 1,150       | 1,234            | 55                | 1,289       | 1,325            | 70                | 1,395       |

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|     |        |        |        |        |        |        |        |        |        |
|-----|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| GBM | 20,823 | 399    | 21,222 | 21,707 | 523    | 20,230 | 22,405 | 417    | 22,822 |
|     | 30,765 | 11,954 | 42,719 | 32,260 | 12,160 | 44,420 | 35,175 | 12,510 | 47,685 |
|     | 65,359 | 19,248 | 84,607 | 68,159 | 19,803 | 87,962 | 69,791 | 20,156 | 89,947 |

Note:

(1) The increase in Core UK Corporate exposures in Q1 2011 reflected Non-Core returning commercial real estate assets, in preparation for the sale of the RBS England and Wales branch-based business to Santander.

\* not reviewed

Risk and balance sheet management (continued)

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

| By geography                    | Investment       |                   | Development      |                   | Total<br>£m |
|---------------------------------|------------------|-------------------|------------------|-------------------|-------------|
|                                 | Commercial<br>£m | Residential<br>£m | Commercial<br>£m | Residential<br>£m |             |
| 30 June 2011                    |                  |                   |                  |                   |             |
| UK (excluding Northern Ireland) | 31,116           | 6,696             | 1,356            | 7,763             | 46,931      |
| Ireland (ROI & NI) (1)          | 5,424            | 1,210             | 2,762            | 6,701             | 16,097      |
| Western Europe                  | 10,887           | 1,565             | 13               | 87                | 12,552      |
| US                              | 5,880            | 1,196             | 79               | 108               | 7,263       |
| RoW                             | 1,361            | 24                | 149              | 230               | 1,764       |
|                                 | 54,668           | 10,691            | 4,359            | 14,889            | 84,607      |
| 31 March 2011                   |                  |                   |                  |                   |             |
| UK (excluding Northern Ireland) | 32,221           | 7,195             | 1,405            | 8,184             | 49,005      |
| Ireland (ROI & NI) (1)          | 5,153            | 1,143             | 2,848            | 6,556             | 15,700      |
| Western Europe                  | 12,273           | 712               | 8                | 70                | 13,063      |
| US                              | 6,696            | 1,252             | 234              | 97                | 8,279       |
| RoW                             | 1,490            | 24                | 141              | 260               | 1,915       |
|                                 | 57,833           | 10,326            | 4,636            | 15,167            | 87,962      |
| 31 December 2010                |                  |                   |                  |                   |             |
| UK (excluding Northern Ireland) | 32,979           | 7,255             | 1,520            | 8,296             | 50,050      |
| Ireland (ROI & NI) (1)          | 5,056            | 1,148             | 2,785            | 6,578             | 15,567      |
| Western Europe                  | 12,262           | 707               | 25               | 46                | 13,040      |
| US                              | 7,405            | 1,332             | 69               | 175               | 8,981       |
| RoW                             | 1,622            | 25                | 138              | 524               | 2,309       |

59,324      10,467      4,537      15,619      89,947

Note:

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

\* not reviewed

Risk and balance sheet management (continued)

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

| By geography                    | Investment |                | Development |                | Total<br>£m |
|---------------------------------|------------|----------------|-------------|----------------|-------------|
|                                 | Core<br>£m | Non-Core<br>£m | Core<br>£m  | Non-Core<br>£m |             |
| <b>30 June 2011</b>             |            |                |             |                |             |
| UK (excluding Northern Ireland) | 26,564     | 11,248         | 6,023       | 3,096          | 46,931      |
| Ireland (ROI & NI)              | 3,364      | 3,270          | 858         | 8,605          | 16,097      |
| Western Europe                  | 431        | 12,021         | 55          | 45             | 12,552      |
| US                              | 4,059      | 3,017          | 131         | 56             | 7,263       |
| RoW                             | 176        | 1,209          | 227         | 152            | 1,764       |
|                                 | 34,594     | 30,765         | 7,294       | 11,954         | 84,607      |
| <b>31 March 2011</b>            |            |                |             |                |             |
| UK (excluding Northern Ireland) | 27,658     | 11,758         | 6,320       | 3,269          | 49,005      |
| Ireland (ROI & NI)              | 3,189      | 3,107          | 899         | 8,505          | 15,700      |
| Western Europe                  | 378        | 12,607         | 50          | 28             | 13,063      |
| US                              | 4,396      | 3,552          | 121         | 210            | 8,279       |
| RoW                             | 278        | 1,236          | 253         | 148            | 1,915       |
|                                 | 35,899     | 32,261         | 7,643       | 12,159         | 87,962      |
| <b>31 December 2010</b>         |            |                |             |                |             |
| UK (excluding Northern Ireland) | 26,168     | 14,066         | 5,997       | 3,819          | 50,050      |
| Ireland (ROI & NI)              | 3,159      | 3,044          | 963         | 8,401          | 15,567      |
| Western Europe                  | 409        | 12,560         | 25          | 46             | 13,040      |
| US                              | 4,636      | 4,101          | 173         | 71             | 8,981       |
| RoW                             | 244        | 1,404          | 488         | 173            | 2,309       |
|                                 | 34,616     | 35,175         | 7,646       | 12,510         | 89,947      |

| By sub-sector (1) | UK<br>(excl NI)<br>£m | Ireland<br>(ROI &<br>NI)<br>£m | Western<br>Europe<br>£m | US<br>£m | RoW<br>£m | Total<br>£m |
|-------------------|-----------------------|--------------------------------|-------------------------|----------|-----------|-------------|
| 30 June 2011      |                       |                                |                         |          |           |             |
| Residential       | 14,449                | 9,046                          | 1,650                   | 1,304    | 254       | 26,703      |
| Office            | 7,766                 | 462                            | 4,446                   | 552      | 806       | 14,032      |
| Retail            | 9,671                 | 956                            | 2,618                   | 268      | 296       | 13,809      |
| Industrial        | 4,589                 | 183                            | 675                     | 53       | 51        | 5,551       |
| Mixed/other       | 10,456                | 5,450                          | 3,163                   | 5,086    | 357       | 24,512      |
|                   | 46,931                | 16,097                         | 12,552                  | 7,263    | 1,764     | 84,607      |
| 31 December 2010  |                       |                                |                         |          |           |             |
| Residential       | 15,551                | 7,726                          | 753                     | 1,507    | 549       | 26,086      |
| Office            | 8,551                 | 1,402                          | 4,431                   | 675      | 891       | 15,950      |
| Retail            | 10,607                | 3,985                          | 1,933                   | 1,029    | 479       | 18,033      |
| Industrial        | 4,928                 | 674                            | 711                     | 80       | 106       | 6,499       |
| Mixed/other       | 10,413                | 1,780                          | 5,212                   | 5,690    | 284       | 23,379      |
|                   | 50,050                | 15,567                         | 13,040                  | 8,981    | 2,309     | 89,947      |

Note:

(1) Excludes RRM and contingent obligations.

\* not reviewed

#### Risk and balance sheet management (continued)

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#### Risk management: Credit risk: Commercial real estate\* (continued)

##### Key points

- The decrease in the commercial real estate portfolio over the last six months has occurred primarily in the UK. The growth shown in Ireland is due to foreign exchange rate movements. The asset mix has remained broadly unchanged since the end of 2010.
- Of the total portfolio at 30 June 2011, £39.0 billion (31 December 2010 - £46.3 billion) is managed within the Group's standard credit risk processes, £6.2 billion (31 December 2010 - £9.2 billion) is receiving heightened credit oversight under the Group watchlist process ("watch") and £39.5 billion (31 December 2010 - £34.4 billion) is managed within Global Restructuring Group (GRG). The increase in the portfolio managed by GRG is primarily driven by Ulster Bank Group.
- Ulster Bank (Core and Non-Core) commercial real estate lending of £18.4 billion had a provision of £6.0 billion at 30 June 2011.

- Short-term lending to property developers without firm long-term financing in place is characterised as speculative. Speculative lending at origination continues to represent less than 1% of the portfolio.
- Tighter risk appetite criteria for new business origination were implemented during 2010. Whilst there has been some recovery in the value of prime properties in the UK, the Group observes that it has been inconsistent. To date this recovery has not fed through into lower quality properties in the UK and has not been evident in other regions, notably the eurozone and Republic of Ireland.
- The commercial real estate market will remain challenging in key markets and new business will be accommodated by running-off existing exposure. Liquidity in the market remains tight and so the Group's focus remains on re-financing and supporting the existing client base.

\* not reviewed

Risk and balance sheet management (continued)

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Risk management: Credit risk: Retail assets\*

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

|                               | 30 June<br>2011 | 31<br>December<br>2010 |
|-------------------------------|-----------------|------------------------|
|                               | £m              | £m                     |
| Personal credit risk assets   |                 |                        |
| UK Retail                     |                 |                        |
| - mortgages                   | 95,955          | 92,592                 |
| - cards, loans and overdrafts | 16,941          | 18,072                 |
| Ulster Bank                   |                 |                        |
| - mortgages                   | 21,778          | 21,162                 |
| - other personal              | 1,605           | 1,017                  |
| Citizens                      |                 |                        |
| - mortgages                   | 23,513          | 24,575                 |
| - auto and cards              | 5,575           | 6,062                  |
| - other (1)                   | 3,070           | 3,455                  |
| Other (2)                     | 16,409          | 18,123                 |
|                               | 184,846         | 185,058                |

Notes:

- (1) Mainly student loans and recreational vehicles/marine.  
 (2) Personal exposures in other divisions.

## Residential mortgages\*

The table below details the distribution of residential mortgages by indexed LTV. Ulster Bank Group is discussed on page 159.

|                                 | UK Retail       |                        | Citizens        |                        |
|---------------------------------|-----------------|------------------------|-----------------|------------------------|
|                                 | 30 June<br>2011 | 31<br>December<br>2010 | 30 June<br>2011 | 31<br>December<br>2010 |
| Distribution by average LTV (1) | %               | %                      | %               | %                      |
| <= 50%                          | 37.9            | 38.5                   | 26.9            | 25.8                   |
| > 50% and <= 70%                | 22.4            | 23.2                   | 18.1            | 17.3                   |
| > 70% and <= 90%                | 26.4            | 26.2                   | 26.6            | 27.4                   |
| > 90%                           | 13.3            | 12.1                   | 28.4            | 29.5                   |
| Total portfolio average LTV     | 59.0            | 58.2                   | 75.3            | 75.3                   |
| Average LTV on new originations | 54.9            | 64.2                   | 65.0            | 64.8                   |

Note:

(1) LTV averages are calculated by transaction volume.

\* not reviewed

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 Risk and balance sheet management (continued)
 

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## Risk management: Credit risk: Retail assets - Residential mortgages\* (continued)

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

|               | 31              |                  |
|---------------|-----------------|------------------|
|               | 30 June<br>2011 | December<br>2010 |
| UK Retail (1) | 1.7             | 1.7              |
| Citizens      | 1.2             | 1.4              |

Note:

(1) UK Retail arrears analysis covers all mortgage brands except the One Account Current Account Mortgage and some small legacy portfolios and so represents 92% of the total UK Retail mortgage portfolio. The One Account accounts for the vast majority of the remainder (c.£8 billion of assets, c.8% of the total) and had 1.0% of accounts 90 days continually in excess of limit as at 30 June 2011 (31 March 2011 - 0.9%).

## UK Retail residential mortgages

#### Key points

- The UK Retail mortgage portfolio totalled £96.0 billion at 30 June 2011, an increase of 3.6% from 31 December 2010, due to continued strong sales growth and lower redemption rates relative to before the financial crisis. Of the total portfolio, 98.4% is designated as Core business with the primary brands being the Royal Bank of Scotland, NatWest, the One Account and First Active. Non-Core comprises Direct Line Mortgages. The assets are prime mortgage lending and include 6.8% (£6.5 billion) of exposure to residential buy-to-let. There is a small legacy self certification book (0.3% of total assets), which was withdrawn from sale in 2004.
- Gross new mortgage lending in H1 2011 remained strong at £7.8 billion. The average LTV for new business during H1 2011 was 54.9% compared with 64.2% in FY 2010. The maximum LTV available to new customers remains at 90%. Based on the Halifax House Price index at March 2011, the book average indexed LTV has increased marginally to 59.0% from 58.2% at 31 December 2010, influenced by the fall in house prices with the proportion of balances with an LTV over 100% at 30 June 2011 at 7.8%, up from 6.9% at 31 December 2010.
- The arrears rate (more than 3 payments in arrears, excluding repossessions and shortfalls post property sale) has remained broadly stable since late 2009 at 1.7%.
- The mortgage impairment charge was £116 million for the half year ended 30 June 2011 (Q1 2011 - £61 million; Q2 2011 - £55 million) an increase of 36.7% from H2 2010. A significant part of this relates to adjustments reflecting reduced expectations of recovery on prior period defaulted debt and provisions relating to mortgages in forbearance. Default and arrears rates remain sensitive to economic developments and are currently supported by the low interest rate environment and strong book growth with recent business yet to mature.
- A number of initiatives aimed at supporting customers experiencing temporary financial difficulties remain in place. Forbearance/re-negotiation activities include offering reduced or deferred payment terms on a temporary basis for a period of up to twelve months, during which arrears continue to accrue on the account, as well as term extensions beyond the originally planned repayment date, and also re-capitalisations from the non-performing book back to performing. It is Group policy not to initiate repossession proceedings for at least six months after arrears are evident. The number of properties repossessed in H1 2011 was 715 which is broadly in line with the 2010 average.

\* not reviewed

#### Risk and balance sheet management (continued)

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#### Risk management: Credit risk: Retail assets - Residential mortgages\* (continued)

#### Citizens residential real estate

#### Key points

- Citizens total residential real estate portfolio totalled \$37.8 billion at 30 June 2011 (31 December 2010 - \$38.2 billion). The residential real estate portfolio comprises \$10.1 billion (Core - \$9.0 billion; Non-Core - \$1.1 billion) of first lien residential mortgages and \$27.7 billion (Core - \$23.4 billion; Non-Core - \$4.3 billion) of home equity loans and lines (first and second lien). Home equity Core consists of 46% first lien position while Non-Core consists of 98% second lien position. The Core business comprises 86% of the portfolio and Non-Core comprising 14%, with the serviced by others (SBO) portfolio being the largest component (74%) of the Non-Core portfolio.
- Citizens continues to focus on the 'footprint states' in New England, Mid Atlantic and Mid West targeting low risk products and maintaining conservative risk policies. At 30 June 2011, the portfolio consisted of \$31.8 billion (84% of the total portfolio) in these footprint states.

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The current weighted average LTV of the residential real estate portfolio remained flat at 75.3% at 31 December 2010 and 30 June 2011. The current weighted average LTV of the residential real estate portfolio excluding SBO is 70.0%.

- The arrears rate decreased from 1.4% at 31 December 2010 to 1.2% at 30 June 2011. Delinquency rates have stabilised in recent months for both residential mortgages and home equity loans and lines. Citizens participate in the US Government Home Modification Program alongside other bank-sponsored initiatives, which has helped customers.
- The SBO portfolio consists of purchased pools of home equity loans and lines (96% second lien) with current LTV (108% at 30 June 2011) and geographic profiles (73% outside of Citizens footprint) resulting in an annualised charge-off rate of 9.7% in H1 2011. The SBO book has been closed to new purchases since the third quarter of 2007 and is in run-off, with exposure down from \$4.5 billion at 31 December 2010 to \$4.0 billion at 30 June 2011. The arrears rate of the SBO portfolio has decreased from 2.7% at 31 December 2010 to 2.2% at 30 June 2011 due to more effective account servicing and collections.

\* not reviewed

Risk and balance sheet management (continued)

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Risk management: Credit risk: Retail assets - Personal lending\*

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

|                         | 30 June 2011                        |   | 31 December 2010                    |   |
|-------------------------|-------------------------------------|---|-------------------------------------|---|
|                         | Average<br>loans and<br>receivables | Impairment<br>charge<br>as a % of<br>loans and<br>receivables | Average<br>loans and<br>receivables | Impairment<br>charge<br>as a % of<br>loans and<br>receivables |
| Personal lending        | £m                                  | %   | £m                                  | %   |
| UK Retail cards (1)     | 5,719                               | 3.0   | 6,025                               | 5.0   |
| UK Retail loans (1)     | 8,400                               | 2.4   | 9,863                               | 4.8   |
|                         | \$m                                 | %   | \$m                                 | %   |
| Citizens cards (2)      | 1,461                               | 5.8   | 1,555                               | 9.9   |
| Citizens auto loans (2) | 7,589                               | 0.1   | 8,133                               | 0.6   |

Notes:

(1)



The ratios for UK Retail assets refers to the impairment charges for the full year 2010 and annualised for June 2011.

(2) The ratios for Citizens refers to charge-offs, net of recoveries realised in the period.

#### Key points

- The UK personal lending portfolio, of which 98.1% is in Core businesses, comprises credit cards, unsecured loans and overdrafts and totalled £16.9 billion at 30 June 2011 (31 December 2010 - £18.1 billion), a decrease of 6.6% due to continued subdued loan recruitment activity and a continuing general market trend of customers repaying unsecured loan balances, and with cards and current account balances remaining stable. The Non-Core portfolio consists of the direct finance loan portfolios (Direct Line, Lombard, Mint and Churchill), and totalled £0.3 billion at 30 June 2011 (31 December 2010 - £0.4 billion).
- Risk appetite continues to be actively managed across all products. Support continues for customers experiencing financial difficulties through "breathing space initiatives" on all unsecured products, whereby a thirty day period is given to allow customers to establish a debt repayment plan. During this time the Group suspends collection activity. A further extension of thirty days can be granted if progress is made and discussions are continuing. Investment in collection and recovery processes continues, addressing both continued support for the Group's customers and the management of impairments.
- UK Retail benefited from a combination of risk appetite tightening and a more favourable economic environment, impairment losses on unsecured lending have reduced from £395 million in H2 2010 to £287 million in H1 2011 with underlying default trends having now broadly stabilised. Impairments will remain sensitive to the external environment.
- Industry benchmarks for cards arrears remain stable, with the Group continuing to perform favourably.
- Outstanding balances for the Citizens credit card portfolio totalled US\$1.43 billion at 30 June 2011. Core assets comprised 88% of the portfolio.

\* not reviewed

#### Risk and balance sheet management (continued)

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

#### Overview

Ulster Bank Group accounts for 10.2% of the Group's total gross customer loans (31 March 2011 - 10.1%; 31 December 2010 - 9.9%) and 8.8% of the Group's Core gross customer loans (31 March 2011 - 9.0%; 31 December 2010 - 8.9%). The H1 2011 impairment charge was £2,540 million (H1 2010 - £1,722 million) with commercial real estate and mortgage sectors accounting for £1,860 million (73%) and £311 million (12%) of the total H1 2011 impairment charge respectively. The remainder of the impairment charge is attributable to the other corporate and personal unsecured portfolios. Provision coverage of REIL increased from 43.8% at 31 December 2010 to 51.4% at H1 2011.

The impairment charge of £1,246 million for Q2 2011 was £48 million lower than Q1 2011. There was a decrease in the value of loans defaulting and a moderation of mortgage credit loss metrics in the quarter, however, these were offset by deteriorating collateral values in our commercial real estate portfolios. Overall high unemployment coupled with higher taxation and less liquidity in the economy, continues to depress housing market confidence and consumer

spending, which resulted in the elevated impairment charge in the portfolios during the quarter.

#### Core

The H1 2011 impairment charge was £730 million (H1 2010 - £499 million) with the mortgage sector accounting for £311 million (43%) of the total. Impairment losses for Q2 2011 were £269 million (Q1 2011 - £461 million) reflecting the difficult economic environment in Ireland with elevated default levels across both mortgage and other corporate non-property portfolios. High unemployment, lower incomes and increased taxation together with pressure on borrowers with a dependence on consumer spending have resulted in higher corporate and mortgage loan losses.

Ulster Bank Group is assisting customers in this difficult environment. Forbearance policies which are deployed through the 'Flex' initiative are aimed at assisting customers in financial difficulty.

#### Non-Core

The H1 2011 impairment charge was £1,810 million (H1 2010 - £1,223 million) with the commercial real estate sector accounting for £1,697 million (94%) of the total. The impairment charge increased from £833 million for Q1 2011 to £977 million for Q2 2011, primarily reflecting the deterioration in security values in the development property portfolio, particularly those projects which have very low expectation of being completed in the medium-term.

#### Risk and balance sheet management (continued)

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

#### Loans, REIL and impairments by sector

| 30 June 2011                      | Gross<br>loans<br>(1)<br>£m | REIL<br>£m | Provisions<br>£m | REIL<br>as a %            |                                      | Provisions<br>as a % of |                                    | H1<br>Impairment<br>charge<br>£m | H1<br>Amounts<br>written-off<br>£m |
|-----------------------------------|-----------------------------|------------|------------------|---------------------------|--------------------------------------|-------------------------|------------------------------------|----------------------------------|------------------------------------|
|                                   |                             |            |                  | of<br>gross<br>loans<br>% | Provisions<br>as a % of<br>REIL<br>% | gross<br>loans<br>%     | gross<br>Impairment<br>charge<br>% |                                  |                                    |
| <b>Core</b>                       |                             |            |                  |                           |                                      |                         |                                    |                                  |                                    |
| Mortgages                         | 21,778                      | 2,014      | 769              | 9.2                       | 38.2                                 | 3.5                     | 311                                | 4                                |                                    |
| Personal<br>unsecured             | 1,605                       | 201        | 181              | 12.5                      | 90.0                                 | 11.3                    | 33                                 | 15                               |                                    |
| <b>Commercial<br/>real estate</b> |                             |            |                  |                           |                                      |                         |                                    |                                  |                                    |
| - investment                      | 4,338                       | 838        | 331              | 19.3                      | 39.5                                 | 7.6                     | 115                                | -                                |                                    |
| - development                     | 955                         | 241        | 120              | 25.2                      | 49.8                                 | 12.6                    | 48                                 | -                                |                                    |
| Other corporate                   | 8,699                       | 1,822      | 1,000            | 20.9                      | 54.9                                 | 11.5                    | 223                                | 2                                |                                    |
|                                   | 37,375                      | 5,116      | 2,401            | 13.7                      | 46.9                                 | 6.4                     | 730                                | 21                               |                                    |
| <b>Non-Core</b>                   |                             |            |                  |                           |                                      |                         |                                    |                                  |                                    |
| <b>Commercial<br/>real estate</b> |                             |            |                  |                           |                                      |                         |                                    |                                  |                                    |
| - investment                      | 4,076                       | 2,662      | 1,231            | 65.3                      | 46.2                                 | 30.2                    | 384                                | -                                |                                    |

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|                        |        |        |       |      |      |      |       |    |
|------------------------|--------|--------|-------|------|------|------|-------|----|
| - development          | 9,002  | 7,847  | 4,367 | 87.2 | 55.7 | 48.5 | 1,313 | -  |
| Other corporate        | 1,811  | 1,226  | 661   | 67.7 | 53.9 | 36.5 | 113   | 2  |
|                        | 14,889 | 11,735 | 6,259 | 78.8 | 53.3 | 42.0 | 1,810 | 2  |
| Ulster Bank Group      |        |        |       |      |      |      |       |    |
| Mortgages              | 21,778 | 2,014  | 769   | 9.2  | 38.2 | 3.5  | 311   | 4  |
| Personal unsecured     | 1,605  | 201    | 181   | 12.5 | 90.0 | 11.3 | 33    | 15 |
| Commercial real estate |        |        |       |      |      |      |       |    |
| - investment           | 8,414  | 3,500  | 1,562 | 41.6 | 44.6 | 18.6 | 499   | -  |
| - development          | 9,957  | 8,088  | 4,487 | 81.2 | 55.5 | 45.1 | 1,361 | -  |
| Other corporate        | 10,510 | 3,048  | 1,661 | 29.0 | 54.5 | 15.8 | 336   | 4  |
|                        | 52,264 | 16,851 | 8,660 | 32.2 | 51.4 | 16.6 | 2,540 | 23 |

Note:

(1) Funded loans.

Risk and balance sheet management (continued)

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

Loans, REIL and impairments by sector (continued)

|                        | Gross loans | REIL  | Provisions | REIL as a % of gross loans | Provisions as a % of gross loans | Q1 Impairment charge | Q1 Amounts written-off |
|------------------------|-------------|-------|------------|----------------------------|----------------------------------|----------------------|------------------------|
| 31 March 2011          | £m          | £m    | £m         | %                          | %                                | £m                   | £m                     |
| Core                   |             |       |            |                            |                                  |                      |                        |
| Mortgages              | 21,495      | 1,780 | 676        | 8.3                        | 38.0                             | 233                  | 2                      |
| Personal unsecured     | 1,499       | 193   | 164        | 12.9                       | 85.0                             | 11                   | 8                      |
| Commercial real estate |             |       |            |                            |                                  |                      |                        |
| - investment           | 4,272       | 773   | 282        | 18.1                       | 36.5                             | 73                   | -                      |
| - development          | 1,015       | 210   | 99         | 20.7                       | 47.1                             | 24                   | -                      |
| Other corporate        | 8,886       | 1,682 | 890        | 18.9                       | 52.9                             | 120                  | 1                      |
|                        | 37,167      | 4,638 | 2,111      | 12.5                       | 45.5                             | 461                  | 11                     |

Non-Core

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|                        |        |        |       |      |      |      |       |    |
|------------------------|--------|--------|-------|------|------|------|-------|----|
| Commercial real estate |        |        |       |      |      |      |       |    |
| - investment           | 3,947  | 2,449  | 1,060 | 62.0 | 43.3 | 26.9 | 223   | -  |
| - development          | 8,881  | 7,588  | 3,524 | 85.4 | 46.4 | 39.7 | 503   | -  |
| Other corporate        | 1,995  | 1,186  | 658   | 59.4 | 55.5 | 33.0 | 107   | -  |
|                        | 14,823 | 11,223 | 5,242 | 75.7 | 46.7 | 35.4 | 833   | -  |
| Ulster Bank Group      |        |        |       |      |      |      |       |    |
| Mortgages              | 21,495 | 1,780  | 676   | 8.3  | 38.0 | 3.1  | 233   | 2  |
| Personal unsecured     | 1,499  | 193    | 164   | 12.9 | 85.0 | 10.9 | 11    | 8  |
| Commercial real estate |        |        |       |      |      |      |       |    |
| - investment           | 8,219  | 3,222  | 1,342 | 39.2 | 41.7 | 16.3 | 296   | -  |
| - development          | 9,896  | 7,798  | 3,623 | 78.8 | 46.5 | 36.6 | 527   | -  |
| Other corporate        | 10,881 | 2,868  | 1,548 | 26.4 | 54.0 | 14.2 | 227   | 1  |
|                        | 51,990 | 15,861 | 7,353 | 30.5 | 46.4 | 14.1 | 1,294 | 11 |

Risk and balance sheet management (continued)

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

Loans, REIL and impairments by sector (continued)

|                        | Gross loans | REIL  | Provisions | REIL as a % of gross loans | Provisions as a % of gross loans | Q4 Impairment charge | Q4 Amounts written-off |
|------------------------|-------------|-------|------------|----------------------------|----------------------------------|----------------------|------------------------|
| 31 December 2010       | £m          | £m    | £m         | %                          | %                                | £m                   | £m                     |
| Core                   |             |       |            |                            |                                  |                      |                        |
| Mortgages              | 21,162      | 1,566 | 439        | 7.4                        | 28.0                             | 159                  | 3                      |
| Personal unsecured     | 1,282       | 185   | 158        | 14.4                       | 85.4                             | 13                   | 6                      |
| Commercial real estate |             |       |            |                            |                                  |                      |                        |
| - investment           | 4,284       | 598   | 332        | 14.0                       | 55.5                             | 79                   | -                      |
| - development          | 1,090       | 65    | 37         | 6.0                        | 56.9                             | (10)                 | -                      |
| Other corporate        | 9,039       | 1,205 | 667        | 13.3                       | 55.4                             | 135                  | 1                      |
|                        | 36,857      | 3,619 | 1,633      | 9.8                        | 45.1                             | 376                  | 10                     |

|                 |        |        |       |      |      |      |       |    |
|-----------------|--------|--------|-------|------|------|------|-------|----|
| Non-Core        |        |        |       |      |      |      |       |    |
| Commercial      |        |        |       |      |      |      |       |    |
| real estate     |        |        |       |      |      |      |       |    |
| - investment    | 3,854  | 2,391  | 1,000 | 62.0 | 41.8 | 25.9 | 206   | -  |
| - development   | 8,760  | 6,341  | 2,783 | 72.4 | 43.9 | 31.8 | 596   | -  |
| Other corporate | 1,970  | 1,310  | 561   | 66.5 | 42.8 | 28.5 | (19)  | -  |
|                 | 14,584 | 10,042 | 4,344 | 68.9 | 43.3 | 29.8 | 783   | -  |
| Ulster Bank     |        |        |       |      |      |      |       |    |
| Group           |        |        |       |      |      |      |       |    |
| Mortgages       | 21,162 | 1,566  | 439   | 7.4  | 28.0 | 2.1  | 159   | 3  |
| Personal        |        |        |       |      |      |      |       |    |
| unsecured       | 1,282  | 185    | 158   | 14.4 | 85.4 | 12.3 | 13    | 6  |
| Commercial      |        |        |       |      |      |      |       |    |
| real estate     |        |        |       |      |      |      |       |    |
| - investment    | 8,138  | 2,989  | 1,332 | 36.7 | 44.6 | 16.4 | 285   | -  |
| - development   | 9,850  | 6,406  | 2,820 | 65.0 | 44.0 | 28.6 | 586   | -  |
| Other corporate | 11,009 | 2,515  | 1,228 | 22.8 | 48.8 | 11.2 | 116   | 1  |
|                 | 51,441 | 13,661 | 5,977 | 26.6 | 43.8 | 11.6 | 1,159 | 10 |

## Key points

- The increase in REIL in H1 2011 reflects continuing difficult conditions in both the commercial and residential sectors in the Republic of Ireland. Of the REIL at 30 June 2011, 70% was in Non-Core (31 December 2010 - 74%).
- Sequential quarter comparison shows Core impairment of £269 million down from £461 million in Q1 2011, reflecting a lower impairment charge on the mortgage portfolio in Q2 2011. Non-Core impairments in Q2 2011 were £977 million compared with £833 million in Q1 2011 as collateral values in the development property portfolio deteriorated.
- The majority of the Non-Core development lending book (87%) is REIL with a 56% provision coverage.
- Mortgages show REIL as a % of gross lending of 9.2% at 30 June 2011 compared with 8.3% at 31 March 2011 and 7.4% at 31 December 2010.

## Risk and balance sheet management (continued)

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

## Residential mortgages\*

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

30 June 31 March

|   | 2011 | 2011 | 31       |
|---|------|------|----------|
|   |      |      | December |
|   |      |      | 2010     |
| By average LTV (1)                                | %    | %    | %        |
| <= 50%  | 35.1 | 34.7 | 35.9     |
| > 50% and <= 70%                                  | 13.0 | 13.0 | 13.5     |
| > 70% and <= 90%                                  | 13.0 | 13.0 | 13.5     |
| > 90%   | 38.9 | 39.3 | 37.1     |
| Total portfolio average LTV                       | 74.5 | 73.7 | 71.2     |
| Average LTV on new originations during the period | 65.0 | 69.0 | 75.9     |

Note:

(1) LTV averages calculated by transaction volume.

#### Key points\*

- The residential mortgage portfolio across Ulster Bank Group totalled £21.8 billion at 30 June 2011 - with 90% in the Republic of Ireland and 10% in Northern Ireland. At constant exchange rates, the portfolio remained at similar levels to 31 December 2010 (£22.0 billion) with little growth due to very low new business volumes.
- The 90 days arrears rate (by volume) increased due to the continued challenging economic environment. At 30 June 2011, the arrears rate was 7.4% (by volume) compared with 6.0% at 31 December 2010 and 6.6% at 31 March 2011. The impairment charge for Q2 2011 was £78 million compared with £233 million for Q1 2011. Repossession levels are higher than 2010 but remain modest with a total of 98 properties in H1 2011 repossessed (76 for full year 2010). 78% of repossessions during H1 2011 were through voluntary surrender or abandonment of the property.
- Ulster Bank Group has a number of initiatives in place aimed at increasing the level of support to customers experiencing temporary financial difficulties.

\* not reviewed

#### Risk and balance sheet management (continued)

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

##### Commercial real estate\*

The commercial real estate lending portfolio in Ulster Bank Group increased marginally during the quarter to £18.4 billion at 30 June 2011, primarily due to exchange rate movements. The Non-Core portion of the portfolio totalled £13.1 billion (71% of the portfolio). Of the total Ulster Bank Group commercial real estate portfolio 25% relates to Northern Ireland, 63% to the Republic of Ireland and 12% to the rest of the UK.

| Exposure by geography | Development |             | Investment |             | Total |
|-----------------------|-------------|-------------|------------|-------------|-------|
|                       | Commercial  | Residential | Commercial | Residential |       |
|                       | £m          | £m          | £m         | £m          | £m    |
|                       |             |             |            |             |       |

|                                 |       |       |       |       |        |
|---------------------------------|-------|-------|-------|-------|--------|
| 30 June 2011                    |       |       |       |       |        |
| Ireland (ROI & NI)              | 2,762 | 6,701 | 5,378 | 1,210 | 16,051 |
| UK (excluding Northern Ireland) | 104   | 358   | 1,702 | 112   | 2,276  |
| RoW                             | 4     | 28    | 8     | 4     | 44     |
|                                 | 2,870 | 7,087 | 7,088 | 1,326 | 18,371 |
| 31 March 2011                   |       |       |       |       |        |
| Ireland (ROI & NI)              | 2,848 | 6,556 | 5,090 | 1,143 | 15,637 |
| UK (excluding Northern Ireland) | 112   | 362   | 1,835 | 129   | 2,438  |
| RoW                             | -     | 18    | 22    | -     | 40     |
|                                 | 2,960 | 6,936 | 6,947 | 1,272 | 18,115 |
| 31 December 2010                |       |       |       |       |        |
| Ireland (ROI & NI)              | 2,785 | 6,578 | 5,072 | 1,098 | 15,533 |
| UK (excluding Northern Ireland) | 110   | 359   | 1,831 | 115   | 2,415  |
| RoW                             | -     | 18    | 22    | -     | 40     |
|                                 | 2,895 | 6,955 | 6,925 | 1,213 | 17,988 |

## Note:

(1) The above table does not include rate risk management or contingent obligations.

## Key point\*

- Commercial real estate remains the primary driver of the increase in the defaulted loan book for Ulster Bank. The outlook remains challenging with limited liquidity in the marketplace to support re-financing. Ongoing reviews of the portfolio have led to a greater portion of the portfolio moving to specialised management in the Global Restructuring Group.

\* not reviewed

## 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: 5 August 2011

THE ROYAL BANK OF  
SCOTLAND GROUP plc  
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill  
Title: Deputy Secretary