ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
May 06, 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 May 6, 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 geography and industry

The table below analyses loans and advances to customers excluding reverse repos and disposal groups.

| | 31 March 2011 | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | Core | Non-Core | Total | Core | Non-Core | Total |
| | £m | £m | £m | £m | £m | £m |
| Central and local government | 5,650 | 1,514 | 7,164 | 6,781 | 1,671 | 8,452 |
| Finance | 47,797 | 7,559 | 55,356 | 46,910 | 7,651 | 54,561 |
| Residential mortgages | 142,920 | 5,678 | 148,598 | 140,359 | 6,142 | 146,501 |
| Personal lending | 32,362 | 3,482 | 35,844 | 33,581 | 3,891 | 37,472 |
| Property | 45,038 | 43,866 | 88,904 | 42,455 | 47,651 | 90,106 |
| Construction | 9,011 | 3,231 | 12,242 | 8,680 | 3,352 | 12,032 |
| Manufacturing | 24,621 | 6,295 | 30,916 | 25,797 | 6,520 | 32,317 |
| Service industries and business activities | 92,623 | 20,712 | 113,335 | 95,127 | 22,383 | 117,510 |
| Agriculture, forestry and fishing | 3,741 | 130 | 3,871 | 3,758 | 135 | 3,893 |
| Finance leases and instalment credit | 8,061 | 8,119 | 16,180 | 8,321 | 8,529 | 16,850 |
| Interest accruals | 673 | 193 | 866 | 831 | 278 | 1,109 |
| Gross loans | 412,497 | 100,779 | 513,276 | 412,600 | 108,203 | 520,803 |
| Loan impairment provisions | (8,287) | (10,841) | (19,128) | (7,740) | (10,315) | (18,055) |
| Net loans | 404,210 | 89,938 | 494,148 | 404,860 | 97,888 | 502,748 |

Key points

- Gross loans reduced by £7.5 billion in the quarter principally due to disposals, run-offs and transfers in Non-Core, partially offset by increased mortgage lending in UK Retail.

- The movement between Non-Core and Core property-related lending primarily reflected Non-Core returning loans to UK Corporate in preparation for the sale of the RBS England and Wales branch-based business to Santander.

Risk and balance sheet management (continued)

Risk management: Credit risk

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

| | 31 March 2011 | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | Core | Non-Core | Total | Core | Non-Core | Total |
| | £m | £m | £m | £m | £m | £m |
| UK | | | | | | |
| Central and local government | 5,144 | 104 | 5,248 | 5,728 | 173 | 5,901 |
| Finance | 27,510 | 5,910 | 33,420 | 27,995 | 6,023 | 34,018 |
| Residential mortgages | 102,462 | 1,632 | 104,094 | 99,928 | 1,665 | 101,593 |
| Personal lending | 22,278 | 451 | 22,729 | 23,035 | 585 | 23,620 |
| Property | 36,419 | 28,322 | 64,741 | 34,970 | 30,492 | 65,462 |
| Construction | 7,271 | 2,282 | 9,553 | 7,041 | 2,310 | 9,351 |
| Manufacturing | 10,810 | 1,498 | 12,308 | 12,300 | 1,510 | 13,810 |
| Service industries and business activities | 57,299 | 11,500 | 68,799 | 58,265 | 11,741 | 70,006 |
| Agriculture, forestry and fishing | 2,935 | 61 | 2,996 | 2,872 | 67 | 2,939 |
| Finance leases and instalment credit | 5,565 | 7,431 | 12,996 | 5,589 | 7,785 | 13,374 |
| Interest accruals | 371 | 48 | 419 | 415 | 98 | 513 |
| | 278,064 | 59,239 | 337,303 | 278,138 | 62,449 | 340,587 |
| Europe | | | | | | |
| Central and local government | 220 | 899 | 1,119 | 365 | 1,017 | 1,382 |
| Finance | 3,768 | 821 | 4,589 | 2,642 | 1,019 | 3,661 |
| Residential mortgages | 19,892 | 684 | 20,576 | 19,473 | 621 | 20,094 |
| Personal lending | 2,276 | 587 | 2,863 | 2,270 | 600 | 2,870 |
| Property | 5,304 | 12,711 | 18,015 | 5,139 | 12,636 | 17,775 |
| Construction | 1,246 | 851 | 2,097 | 1,014 | 873 | 1,887 |
| Manufacturing | 6,167 | 4,139 | 10,306 | 5,853 | 4,181 | 10,034 |
| Service industries and business activities | 16,111 | 5,648 | 21,759 | 17,537 | 6,072 | 23,609 |
| Agriculture, forestry and fishing | 774 | 69 | 843 | 849 | 68 | 917 |
| Finance leases and instalment credit | 265 | 688 | 953 | 370 | 744 | 1,114 |
| Interest accruals | 76 | 85 | 161 | 143 | 101 | 244 |
| | 56,099 | 27,182 | 83,281 | 55,655 | 27,932 | 83,587 |

Risk and balance sheet management (continued)

Risk management: Credit risk

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

| | 31 March 2011 | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | Core | Non-Core | Total | Core | Non-Core | Total |
| | £m | £m | £m | £m | £m | £m |
| US | | | | | | |
| Central and local government | 169 | 38 | 207 | 263 | 53 | 316 |
| Finance | 9,635 | 495 | 10,130 | 9,522 | 587 | 10,109 |
| Residential mortgages | 20,084 | 3,243 | 23,327 | 20,548 | 3,653 | 24,201 |
| Personal lending | 6,327 | 2,444 | 8,771 | 6,816 | 2,704 | 9,520 |
| Property | 2,574 | 1,768 | 4,342 | 1,611 | 3,318 | 4,929 |
| Construction | 420 | 63 | 483 | 442 | 78 | 520 |
| Manufacturing | 5,614 | 80 | 5,694 | 5,459 | 143 | 5,602 |
| Service industries and business activities | 13,705 | 2,261 | 15,966 | 14,075 | 2,724 | 16,799 |
| Agriculture, forestry and fishing | 26 | - | 26 | 31 | - | 31 |
| Finance leases and instalment credit | 2,188 | - | 2,188 | 2,315 | - | 2,315 |
| Interest accruals | 179 | 59 | 238 | 183 | 73 | 256 |
| | 60,921 | 10,451 | 71,372 | 61,265 | 13,333 | 74,598 |
| RoW | | | | | | |
| Central and local government | 117 | 473 | 590 | 425 | 428 | 853 |
| Finance | 6,884 | 333 | 7,217 | 6,751 | 22 | 6,773 |
| Residential mortgages | 482 | 119 | 601 | 410 | 203 | 613 |
| Personal lending | 1,481 | - | 1,481 | 1,460 | 2 | 1,462 |
| Property | 741 | 1,065 | 1,806 | 735 | 1,205 | 1,940 |
| Construction | 74 | 35 | 109 | 183 | 91 | 274 |
| Manufacturing | 2,030 | 578 | 2,608 | 2,185 | 686 | 2,871 |
| Service industries and business activities | 5,508 | 1,303 | 6,811 | 5,250 | 1,846 | 7,096 |
| Agriculture, forestry and fishing | 6 | - | 6 | 6 | - | 6 |
| Finance leases and instalment credit | 43 | - | 43 | 47 | - | 47 |
| Interest accruals | 47 | 1 | 48 | 90 | 6 | 96 |
| | 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.

| | 31 March 2011 | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | Core | Non-Core | Total | Core | Non-Core | Total |
| | £m | £m | £m | £m | £m | £m |
| Impaired loans (1) | | | | | | |
| - UK | 8,523 | 7,147 | 15,670 | 7,903 | 7,835 | 15,738 |
| - Overseas | 6,584 | 15,878 | 22,462 | 5,608 | 14,355 | 19,963 |
| | 15,107 | 23,025 | 38,132 | 13,511 | 22,190 | 35,701 |
| Accruing loans past due 90 days or more (2) | | | | | | |
| - UK | 1,545 | 752 | 2,297 | 1,434 | 939 | 2,373 |
| - Overseas | 366 | 246 | 612 | 262 | 262 | 524 |
| | 1,911 | 998 | 2,909 | 1,696 | 1,201 | 2,897 |
| Total REIL | 17,018 | 24,023 | 41,041 | 15,207 | 23,391 | 38,598 |
| PPL (3) | 324 | 202 | 526 | 473 | 160 | 633 |
| Total REIL and PPL | 17,342 | 24,225 | 41,567 | 15,680 | 23,551 | 39,231 |
| REIL as a % of gross loans and advances (4) | 4.1% | 23.0% | 7.9% | 3.7% | 20.7% | 7.3% |
| REIL and PPL as a % of gross loans and advances (4) | 4.2% | 23.2% | 8.0% | 3.8% | 20.8% | 7.4% |
| Provisions as a % of total REIL | 49% | 45% | 47% | 51% | 44% | 47% |
| Provisions as a % of total REIL & PPL | 49% | 45% | 46% | 49% | 44% | 46% |

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 repos.

Risk and balance sheet management (continued)

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 quarter ended 31 March 2011.

| | REIL | | | PPL | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Core £m | Non-Core £m | Total £m | Core £m | Non-Core £m | Total £m | Core £m | Non-Core £m | Total £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 | 81 | (53) | 28 | (137) | (39) | (176) | (56) | (92) | (148) |
| Disposals, restructurings and repayments | (1,286) | (1,334) | (2,620) | (318) | (75) | (393) | (1,604) | (1,409) | (3,013) |
| 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 |

Key points

- REIL increased by £2.4 billion predominantly due to growth in Ulster Bank Group of £2.2 billion (Core - £1.0 billion; Non-Core - £1.2 billion).

- The Group's provision coverage was stable at 47% (see page 100); Core coverage reduced from 51% to 49% and Non-Core coverage increased marginally from 44% to 45%. The Core coverage is typically higher at 49%, due to a greater weighting of unsecured retail products within REIL and the proportion of latent provision on performing portfolios. Lower coverage of Non-Core reflects secured wholesale lending, particularly commercial real estate portfolios.

- The intra-group transfer of REIL relates to Non-Core returning loans to UK Corporate as part of the preparation for the sale of the RBS England and Wales branch-based business to Santander.

Risk and balance sheet management (continued)

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

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

| | Quarter ended | | | | | |
|---|---|---|---|---|---|---|
| | 31 March 2011 | | | 31 December 2010 | | |
| | Core | Non-Core | Total | Core | Non-Core | Total |
| | £m | £m | £m | £m | £m | £m |
| At beginning of period | 7,866 | 10,316 | 18,182 | 7,791 | 9,879 | 17,670 |
| Transfers to disposal groups | - | (9) | (9) | - | (5) | (5) |
| Intra-group transfers | 177 | (177) | - | (217) | 217 | - |
| Currency translation and other adjustments | 56 | 95 | 151 | 147 | (235) | (88) |
| Disposals | - | - | - | - | (3) | (3) |
| Amounts written-off | (514) | (438) | (952) | (745) | (771) | (1,516) |
| Recoveries of amounts previously written-off | 39 | 80 | 119 | 29 | 67 | 96 |
| Charge to income statement | 852 | 1,046 | 1,898 | 912 | 1,243 | 2,155 |
| Unwind of discount | (60) | (71) | (131) | (51) | (76) | (127) |
| At end of period | 8,416 | 10,842 | 19,258 | 7,866 | 10,316 | 18,182 |

Loan impairment provisions on loans and advances

| | 31 March 2011 | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | Core | Non-Core | Total | Core | Non-Core | Total |
| | £m | £m | £m | £m | £m | £m |
| Latent loss | 1,583 | 963 | 2,546 | 1,653 | 997 | 2,650 |
| Collectively assessed | 4,375 | 1,112 | 5,487 | 4,139 | 1,157 | 5,296 |
| Individually assessed | 2,329 | 8,766 | 11,095 | 1,948 | 8,161 | 10,109 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Customer loans | 8,287 | 10,841 | 19,128 | 7,740 | 10,315 | 18,055 |
| Bank loans | 129 | 1 | 130 | 126 | 1 | 127 |
| | | | | | | |
| Total loans | 8,416 | 10,842 | 19,258 | 7,866 | 10,316 | 18,182 |
| | | | | | | |
| % of loans (1) | 2.01% | 10.42% | 3.71% | 1.88% | 9.14% | 3.44% |

Note:
(1) Customer provisions as a % of gross customer loans including disposal groups and excluding reverse repurchase agreements.

Key points
- Loan impairment provisions increased by £1.1 billion, primarily in Ulster Bank Group (Core - £0.5 billion; Non-Core - £0.9 billion) reflecting the deteriorating economic environment in Ireland with lower asset values and consumer spending. Of the increase in Ulster Bank Group, £0.8 billion related to commercial real estate portfolios, £0.3 billion to other corporate lending and £0.2 billion to mortgage lending.

- The decrease in latent loss provision was primarily due to improved book quality and credit metrics in UK Corporate.

Risk and balance sheet management (continued)

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

Impairment charge

| | Quarter ended | | |
|---|---|---|---|
| | 31 March 2011 | 31 December 2010 | 31 March 2010 |
| | £m | £m | £m |
| Latent loss | (107) | (116) | 31 |
| Collectively assessed | 720 | 729 | 841 |
| Individually assessed - customer loans | 1,285 | 1,555 | 1,730 |
| | | | |
| Customer loans | 1,898 | 2,168 | 2,602 |
| Bank loans | - | (13) | - |
| Securities | 49 | (14) | 73 |
| | | | |
| Charge to income statement | 1,947 | 2,141 | 2,675 |
| | | | |
| Charge relating to customer loans as a % of gross customer loans (1) | 1.5% | 1.6% | 1.8% |

Note:

(1) Customer loans excluding reverse repurchase agreements, gross of provisions and including gross loans relating to disposal groups.

Risk and balance sheet management (continued)

Risk management: Credit risk: Debt securities

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

| | Central and local government | | | Banks and building societies | ABS | Corporate | Other | Total |
|---|---|---|---|---|---|---|---|---|
| | UK | US | Other | | | | | |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| 31 March 2011 | | | | | | | | |
| Held-for-trading | 5,422 | 19,079 | 51,792 | 4,356 | 23,907 | 8,045 | 538 | 113,139 |
| DFV (1) | 1 | - | 199 | 3 | 114 | 15 | - | 332 |
| Available-for-sale | 8,474 | 15,621 | 34,325 | 7,767 | 42,884 | 2,033 | 24 | 111,128 |
| Loans and receivables | 11 | - | - | - | 5,951 | 822 | 1 | 6,785 |
| | 13,908 | 34,700 | 86,316 | 12,126 | 72,856 | 10,915 | 563 | 231,384 |
| Short positions | (4,852) | (12,715) | (22,463) | (2,612) | (1,014) | (3,252) | (241) | (47,149) |
| | 9,056 | 21,985 | 63,853 | 9,514 | 71,842 | 7,663 | 322 | 184,235 |
| Available-for-sale | | | | | | | | |
| Gross unrealised gains | 207 | 202 | 346 | 38 | 1,102 | 62 | 3 | 1,960 |
| Gross unrealised losses | (24) | (44) | (820) | (31) | (3,201) | (33) | - | (4,153) |
| 31 December 2010 | | | | | | | | |
| Held-for-trading | 5,097 | 15,956 | 43,224 | 5,778 | 21,988 | 6,590 | 236 | 98,869 |
| DFV (1) | 1 | - | 262 | 3 | 119 | 16 | 1 | 402 |
| Available-for-sale | 8,377 | 17,890 | 33,122 | 7,198 | 42,515 | 2,011 | 17 | 111,130 |
| Loans and receivables | 11 | - | - | 15 | 6,203 | 848 | 2 | 7,079 |
| | 13,486 | 33,846 | 76,608 | 12,994 | 70,825 | 9,465 | 256 | 217,480 |
| Short positions | (4,200) | (11,398) | (18,909) | (1,853) | (1,335) | (3,288) | (34) | (41,017) |
| | 9,286 | 22,448 | 57,699 | 11,141 | 69,490 | 6,177 | 222 | 176,463 |
| Available-for-sale | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Gross unrealised gains | 349 | 341 | 700 | 60 | 1,057 | 87 | 1 | 2,595 |
| Gross unrealised losses | (10) | (1) | (618) | (32) | (3,396) | (37) | (3) | (4,097) |

Note:
(1) Designated as at fair value.

Key point
· Debt securities increased by £13.9 billion, reflecting growth in GBM's held-for-trading positions of £14.3 billion. Short positions increased by £6.1 billion.

Risk and balance sheet management (continued)

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Risk management: Credit risk: Debt securities (continued)

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

| | Central and local government | | | Banks and building societies | ABS | Corporate | Other | Total | % of total |
|---|---|---|---|---|---|---|---|---|---|
| | UK | US | Other | | | | | | |
| | £m | £m | £m | £m | £m | £m | £m | £m | % |
| 31 March 2011 | | | | | | | | | |
| AAA | 13,908 | 34,700 | 51,272 | 2,394 | 52,867 | 478 | - | 155,619 | 67 |
| AA to AA+ | - | - | 6,428 | 3,207 | 7,031 | 599 | 175 | 17,440 | 7 |
| A to AA- | - | - | 22,778 | 4,594 | 3,187 | 1,601 | 3 | 32,163 | 14 |
| BBB- to A- | - | - | 3,351 | 1,219 | 3,799 | 2,453 | 108 | 10,930 | 5 |
| Non-investment grade | - | - | 1,946 | 574 | 4,805 | 4,137 | 2 | 11,464 | 5 |
| Unrated | - | - | 541 | 138 | 1,167 | 1,647 | 275 | 3,768 | 2 |
| | 13,908 | 34,700 | 86,316 | 12,126 | 72,856 | 10,915 | 563 | 231,384 | 100 |
| 31 December 2010 | | | | | | | | | |
| AAA | 13,486 | 33,846 | 44,784 | 2,374 | 51,235 | 846 | 17 | 146,588 | 67 |
| AA to AA+ | - | - | 18,025 | 3,036 | 6,335 | 779 | - | 28,175 | 13 |
| A to AA- | - | - | 9,138 | 4,185 | 3,244 | 1,303 | 5 | 17,875 | 8 |
| BBB- to A- | - | - | 2,843 | 1,323 | 3,385 | 2,029 | 6 | 9,586 | 5 |
| Non-investment grade | - | - | 1,766 | 1,766 | 4,923 | 2,786 | 4 | 11,245 | 5 |
| Unrated | - | - | 52 | 310 | 1,703 | 1,722 | 224 | 4,011 | 2 |
| | 13,486 | 33,846 | 76,608 | 12,994 | 70,825 | 9,465 | 256 | 217,480 | 100 |

Key points

- The proportion of AAA rated securities remained stable at 67% as did non-investment grade and unrated securities at 7%.

- During Q1 2011, Japan was downgraded resulting in the decrease in AA to AA+ and increase in A to AA- other government holdings. Japanese government held-for-trading securities at 31 March 2011 amounted to £8.4 billion (31 December 2010 - £10.7 billion).

Asset-backed securities

| | | | RMBS | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | G10 government | Covered bond | Prime | Non-conforming | Sub-prime | CMBS | CDOs | CLOs | Other ABS | Total |
| 31 March 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| 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 |
| 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 |

Risk and balance sheet management (continued)

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Risk management: Credit risk: Country risk - available-for-sale debt securities

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

| | 31 March 2011 | | | | | 31 December 2010 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Government | ABS | Other | Total | AFS reserves | Government | ABS | Other | Total | AFS reserves |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| US | 15,670 | 20,961 | 737 | 37,368 | (133) | 17,890 | 20,872 | 763 | 39,525 | (116) |
| UK | 8,500 | 4,134 | 2,083 | 14,717 | (134) | 8,377 | 4,002 | 2,284 | 14,663 | (106) |
| Germany | 12,589 | 1,298 | 500 | 14,387 | (217) | 10,653 | 1,360 | 535 | 12,548 | (35) |
| Netherlands | 3,977 | 7,096 | 774 | 11,847 | (8) | 3,469 | 6,773 | 713 | 10,955 | (59) |
| Spain | 91 | 6,912 | 78 | 7,081 | (863) | 88 | 6,773 | 169 | 7,030 | (939) |
| France | 4,195 | 579 | 1,031 | 5,805 | (42) | 5,912 | 575 | 900 | 7,387 | 33 |
| Japan | 4,204 | - | 3 | 4,207 | - | 4,354 | - | 82 | 4,436 | - |
| Australia | - | 467 | 2,421 | 2,888 | (27) | - | 486 | 1,586 | 2,072 | (34) |
| Italy | 928 | 238 | 24 | 1,190 | (67) | 906 | 243 | 24 | 1,173 | (86) |
| Singapore | 798 | - | 206 | 1,004 | - | 649 | - | 209 | 858 | - |
| Denmark | 690 | - | 251 | 941 | (7) | 629 | - | 172 | 801 | 2 |
| Greece | 936 | - | - | 936 | (476) | 895 | - | - | 895 | (517) |
| Switzerland | 749 | - | 161 | 910 | 8 | 657 | - | 156 | 813 | 11 |
| Luxembourg | 431 | 18 | 375 | 824 | 18 | 253 | 78 | 226 | 557 | 20 |
| India | 657 | - | 156 | 813 | (3) | 548 | - | 139 | 687 | 2 |
| Hong Kong | 797 | - | 12 | 809 | - | 905 | - | 8 | 913 | - |
| Belgium | 742 | 35 | 8 | 785 | (32) | 763 | 34 | 243 | 1,040 | (34) |
| Republic of Ireland | 101 | 161 | 375 | 637 | (67) | 104 | 177 | 408 | 689 | (74) |
| South Korea | 229 | 383 | - | 612 | 1 | 261 | 429 | - | 690 | (2) |
| Sweden | 77 | 250 | 219 | 546 | - | 30 | 269 | 165 | 464 | - |
| Other (individually <£0.5 billion) | 2,059 | 352 | 410 | 2,821 | (76) | 2,046 | 444 | 444 | 2,934 | (127) |
| | 58,420 | 42,884 | 9,824 | 111,128 | (2,125) | 59,389 | 42,515 | 9,226 | 111,130 | (2,061) |

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.

| | | 31 March 2011 | | | | | | 31 December 2010 |
|---|---|---|---|---|---|---|---|---|
| Asset quality | Probability of default range | 0-3 months £m | 3-6 months £m | 6-12 months £m | 1-5 years £m | Over 5 years £m | Total £m | Total £m |
| AQ1 | 0% - 0.034% | 25,485 | 11,173 | 16,191 | 102,680 | 167,773 | 323,302 | 408,489 |
| AQ2 | 0.034% - 0.048% | 561 | 141 | 235 | 1,750 | 2,678 | 5,365 | 2,659 |
| AQ3 | 0.048% - 0.095% | 1,678 | 601 | 865 | 2,959 | 4,677 | 10,780 | 3,317 |
| AQ4 | 0.095% - 0.381% | 804 | 218 | 509 | 2,345 | 2,473 | 6,349 | 3,391 |
| AQ5 | 0.381% - 1.076% | 601 | 133 | 272 | 2,100 | 3,290 | 6,396 | 4,860 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| AQ6 | 1.076% - 2.153% | 2,180 | 55 | 126 | 785 | 845 | 3,991 | 1,070 |
| AQ7 | 2.153% - 6.089% | 177 | 63 | 47 | 498 | 1,095 | 1,880 | 857 |
| AQ8 | 6.089% - 17.222% | 2 | 5 | 9 | 121 | 649 | 786 | 403 |
| AQ9 | 17.222% - 100% | 433 | 13 | 38 | 189 | 322 | 995 | 450 |
| AQ10 | 100% | 19 | 56 | 17 | 518 | 594 | 1,204 | 1,581 |
| | | 31,940 | 12,458 | 18,309 | 113,945 | 184,396 | 361,048 | 427,077 |
| Counterparty mtm netting | | | | | | | (290,462) | (330,397) |
| Cash collateral held against derivative exposures | | | | | | | (25,363) | (31,096) |
| Net exposure | | | | | | | 45,223 | 65,584 |

At 31 March 2011, the Group also held collateral in the form of securities of £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.

| | 31 March 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Contract type | £m | £m | £m | £m |
| Exchange rate contracts | 73,552 | 79,045 | 83,253 | 89,375 |
| Interest rate contracts | 259,006 | 250,515 | 311,731 | 299,209 |
| Credit derivatives | 22,704 | 21,689 | 26,872 | 25,344 |
| Equity and commodity contracts | 5,786 | 9,376 | 5,221 | 10,039 |
| | 361,048 | 360,625 | 427,077 | 423,967 |

Key points

- Net exposure, after taking account of mark-to-market and collateral netting arrangements, reduced by 31% to £45.2 billion.
- Exchange rate contracts decreased due to trading fluctuations and movements in forward rates.
- Interest rate contracts decreased due to greater use of over-the-counter contract compression through third party intermediaries, higher interest rate yields and sterling strengthening against the US dollar. These effects were partially offset by reduced use of clearing houses which resulted in the netting benefit declining from 60% to 57%.
- Credit derivative fair values declined mainly due to trade unwinds together with contract compressions and reduction in Non-Core relating to monolines (see below) and other index hedges, as credit spreads tightened across five and ten year maturities. The APS

derivative decreased by £0.5 billion principally reflecting lower covered assets as well as market factors.

· The increase in derivative contracts against AQ3 rated counterparties reflected a combination of rating down grades and new deals.

Risk and balance sheet management (continued)

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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.

| Monoline insurers | Notional: protected assets £m | Fair value: reference protected assets £m | Gross exposure £m | Credit valuation adjustment £m | Hedges £m | Net exposure £m |
|---|---|---|---|---|---|---|
| 31 March 2011 | | | | | | |
| A to AA- | 5,759 | 5,121 | 638 | 194 | - | 444 |
| Non-investment 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 | | |
| | 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 |

| CDPCs | Notional: protected assets £m | Fair value: reference protected assets £m | Gross exposure £m | Credit valuation adjustment £m | Net exposure £m |
|---|---|---|---|---|---|
| 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 |

Risk and balance sheet management (continued)

Risk management: Credit risk: Country risk

Under the Group's country risk framework, country exposures are actively managed both for countries that represent a larger concentration and which, using the Group's country watchlist process, have been identified as exhibiting signs of actual or potential stress.

The table below shows the Group's exposure in terms of credit risk assets, to countries where the total exposure for borrowers domiciled in that country exceed £1 billion; where the country had an external rating of A+ or below from Standard & Poor's, Moody's or Fitch at 31 March 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.

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);

- Rate risk management (RRM); and

- Contingent obligations, primarily letters of credit and guarantees.

Reverse repurchase agreements and issuer risk (primarily debt securities - see page 105) are excluded. Where relevant, and unless otherwise stated, the data reflect the effect of credit mitigation techniques.

| | Lending | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Central and local government | Central bank | Other financial institution | Corporate | Personal | Total | Core | Non-Core | RRM and contingent obligations |
| 31 March 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Republic of Ireland | 53 | 2,087 | 873 | 20,597 | 20,551 | 44,161 | 33,135 | 11,026 | 2,806 |
| Italy | 46 | 82 | 1,268 | 2,857 | 24 | 4,277 | 2,435 | 1,842 | 2,278 |
| India | - | 126 | 1,403 | 2,422 | 222 | 4,173 | 3,645 | 528 | 1,178 |
| China | 17 | 281 | 1,462 | 676 | 89 | 2,525 | 2,282 | 243 | 1,635 |
| Turkey | 241 | 11 | 466 | 1,384 | 13 | 2,115 | 1,440 | 675 | 490 |
| Russia | - | 113 | 505 | 953 | 93 | 1,664 | 1,427 | 237 | 137 |
| South Korea | - | 5 | 866 | 705 | 2 | 1,578 | 1,533 | 45 | 433 |
| Brazil | - | - | 994 | 287 | 5 | 1,286 | 1,169 | 117 | 101 |
| Mexico | - | 9 | 161 | 946 | 1 | 1,117 | 817 | 300 | 158 |
| Romania | 35 | 172 | 31 | 393 | 447 | 1,078 | 18 | 1,060 | 122 |
| Indonesia | 84 | 94 | 247 | 286 | 128 | 839 | 699 | 140 | 273 |
| Portugal | 35 | - | 42 | 680 | 6 | 763 | 425 | 338 | 464 |
| Malaysia | - | 3 | 301 | 294 | 45 | 643 | 496 | 147 | 364 |
| Additional selected countries | | | | | | | | | |
| Spain | 20 | 6 | 429 | 6,784 | 404 | 7,643 | 3,051 | 4,592 | 2,138 |
| Japan | 1,028 | - | 707 | 815 | 25 | 2,575 | 1,886 | 689 | 2,210 |
| Greece | 10 | 35 | 50 | 417 | 16 | 528 | 407 | 121 | 192 |

Risk and balance sheet management (continued)

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Risk management: Credit risk: Country risk (continued)

| | Lending | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Central and local government | Central bank | Other financial institution | Corporate | Personal | Total | Core | Non-Core | RRM and contingent obligations |
| 31 December 2010 | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Republic of Ireland | 61 | 2,119 | 900 | 19,881 | 20,228 | 43,189 | 32,431 | 10,758 | 3,496 |
| Italy | 45 | 78 | 1,086 | 2,483 | 27 | 3,719 | 1,817 | 1,902 | 2,312 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| India | 262 | - | 1,614 | 2,590 | 273 | 4,739 | 4,085 | 654 | 1,249 |
| China | 17 | 298 | 1,240 | 753 | 64 | 2,372 | 2,136 | 236 | 1,572 |
| 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 |
| South Korea | - | 276 | 1,039 | 555 | 2 | 1,872 | 1,822 | 50 | 643 |
| 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 |
| Indonesia | 84 | 42 | 262 | 294 | 132 | 814 | 660 | 154 | 273 |
| Portugal | 86 | - | 63 | 611 | 6 | 766 | 450 | 316 | 537 |
| Malaysia | - | 44 | 125 | 293 | 45 | 507 | 347 | 160 | 240 |
| Additional selected countries | | | | | | | | | |
| Spain | 19 | 5 | 258 | 6,962 | 407 | 7,651 | 3,130 | 4,521 | 2,447 |
| Japan | 1,379 | - | 685 | 809 | 24 | 2,897 | 2,105 | 792 | 2,000 |
| Greece | 14 | 36 | 49 | 188 | 16 | 303 | 173 | 130 | 214 |

Key points

- Credit risk assets relating to most of the countries above have remained broadly stable during the first quarter of 2011. Currency movements increased euro-denominated lending by 2.5% and reduced US dollar-denominated exposures by 3.4%. Reductions were seen in exposure to governments as well as in RRM exposures. This contrasted with financial institution and corporate exposures which increased in a number of countries. The increases in Non-Core exposures in some countries resulted primarily from drawings under committed facilities. In addition to credit risk asset components above, debt securities represent the main concentration for Japan and Greece.
- Granular portfolio reviews continue to be 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.
- Republic of Ireland - lending increased by almost £1.0 billion in the first quarter (increases in lending to corporate clients by £0.7 billion and personal lending by £0.3 billion), primarily due to exchange rate movements. In euro terms, lending was largely unchanged. RRM exposure fell by £0.7 billion.

Risk and balance sheet management (continued)

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Risk management: Credit risk: Country risk (continued)

Key points (continued)

- Italy - lending exposure increased by £0.6 billion as a result of increases in corporate activity (oil & gas) of £0.4 billion, largely caused by drawings under committed facilities, and financial institutions (banks and funds) of £0.2 billion.

· Portugal - lending exposure was stable, with reductions in exposure to the government and financial institutions alongside a very small increase in corporate lending. RRM exposure decreased by almost £0.1 billion.

· Spain - lending exposure fell slightly due to a reduction in corporate exposure of £0.2 billion which was partially offset by an increase in exposure to financial institutions. RRM exposure decreased by £0.3 billion.

· Japan - lending exposure is £2.6 billion and has reduced by £0.3 billion since 31 December 2010 due to a reduction in government exposure. RRM accounts for an additional £2.2 billion of total exposure. Following the tsunami, impairment charges totalled approximately £77 million, of which £44 million relates to debt securities.

· Greece - lending exposure rose by £0.2 billion to £0.5 billion, due to an increase in the Core corporate portfolio.

· Limit controls are being applied on a risk-differentiated basis and exposure to most countries in North Africa and the Middle East reduced during the first quarter of 2011. Of the countries experiencing varying degrees of social and political unrest in North Africa and the Middle East, Bahrain accounted for lending exposure of £302 million (total credit risk assets - £338 million), Oman for £160 million (total credit risk assets - £237 million) and Egypt for £101 million (total credit risk assets - £130 million).

Risk and balance sheet management (continued)

Risk management: Credit risk: Commercial real estate

The commercial real estate lending portfolio totalled £85 billion at 31 March 2011, a 2% decrease over the quarter, from £87 billion at 31 December 2010. The Non-Core portion of the portfolio totalled £42 billion (50% of the portfolio) at 31 March 2011 (31 December 2010 - £46 billion, or 52% of the portfolio) and includes exposures in Ulster Bank Group as discussed on page 115. The analysis below excludes RRM and contingent obligations.

| | 31 March 2011 | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | Investment | Development | Total | Investment | Development | Total |
| By division | £m | £m | £m | £m | £m | £m |
| Core | | | | | | |
| UK Corporate | 26,514 | 6,124 | 32,638 | 24,879 | 5,819 | 30,698 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Ulster Bank | 4,272 | 1,015 | 5,287 | 4,284 | 1,090 | 5,374 |
| US Retail & Commercial | 2,705 | 807 | 3,512 | 3,061 | 653 | 3,714 |
| GBM | 1,030 | 417 | 1,447 | 1,131 | 644 | 1,775 |
| | 34,521 | 8,363 | 42,884 | 33,355 | 8,206 | 41,561 |
| Non-Core | | | | | | |
| UK Corporate | 5,372 | 2,701 | 8,073 | 7,591 | 3,263 | 10,854 |
| Ulster Bank | 3,947 | 8,881 | 12,828 | 3,854 | 8,760 | 12,614 |
| US Retail & Commercial | 1,085 | 202 | 1,287 | 1,202 | 220 | 1,422 |
| GBM | 19,754 | 523 | 20,277 | 20,502 | 417 | 20,919 |
| | 30,158 | 12,307 | 42,465 | 33,149 | 12,660 | 45,809 |
| | 64,679 | 20,670 | 85,349 | 66,504 | 20,866 | 87,370 |

| | Investment | | Development | | |
|---|---|---|---|---|---|
| | Commercial | Residential | Commercial | Residential | Total |
| By geography | £m | £m | £m | £m | £m |
| 31 March 2011 | | | | | |
| UK (excluding Northern Ireland) | 32,221 | 7,195 | 1,405 | 8,184 | 49,005 |
| Island of Ireland | 5,153 | 1,143 | 2,848 | 6,556 | 15,700 |
| Western Europe | 10,320 | 712 | 8 | 70 | 11,110 |
| US | 5,316 | 1,105 | 718 | 480 | 7,619 |
| RoW | 1,490 | 24 | 141 | 260 | 1,915 |
| | 54,500 | 10,179 | 5,120 | 15,550 | 85,349 |
| 31 December 2010 | | | | | |
| UK (excluding Northern Ireland) | 32,979 | 7,255 | 1,520 | 8,296 | 50,050 |
| Island of Ireland | 5,056 | 1,148 | 2,785 | 6,578 | 15,567 |
| Western Europe | 10,359 | 707 | 25 | 46 | 11,137 |
| US | 6,010 | 1,343 | 542 | 412 | 8,307 |
| RoW | 1,622 | 25 | 138 | 524 | 2,309 |
| | 56,026 | 10,478 | 5,010 | 15,856 | 87,370 |

Risk and balance sheet management (continued)

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

| | Investment | | Development | | |
|---|---|---|---|---|---|
| | Core | Non-Core | Core | Non-Core | Total |
| By geography | £m | £m | £m | £m | £m |
| 31 March 2011 | | | | | |
| UK (excluding Northern Ireland) | 27,658 | 11,758 | 6,320 | 3,269 | 49,005 |
| Island of Ireland | 3,189 | 3,107 | 899 | 8,505 | 15,700 |
| Western Europe | 378 | 10,654 | 50 | 28 | 11,110 |
| US | 3,018 | 3,403 | 840 | 358 | 7,619 |
| RoW | 277 | 1,237 | 254 | 147 | 1,915 |
| | 34,520 | 30,159 | 8,363 | 12,307 | 85,349 |
| 31 December 2010 | | | | | |
| UK (excluding Northern Ireland) | 26,168 | 14,066 | 5,997 | 3,819 | 50,050 |
| Island of Ireland | 3,159 | 3,044 | 963 | 8,401 | 15,567 |
| Western Europe | 409 | 10,657 | 25 | 46 | 11,137 |
| US | 3,375 | 3,978 | 733 | 221 | 8,307 |
| RoW | 244 | 1,404 | 488 | 173 | 2,309 |
| | 33,355 | 33,149 | 8,206 | 12,660 | 87,370 |

Key points

- The decrease in exposure occurred primarily in the UK and US investment books. The asset mix has remained broadly unchanged since the end of 2010.

- The increase in Core UK Corporate exposures reflected Non-Core returning commercial real estate assets in preparation for the sale of the RBS England and Wales branch-based business to Santander. Excluding this transfer, Core UK Corporate exposure remained broadly stable.

- Of the total portfolio at 31 March 2011, £42.1 billion (31 December 2010 - £45.5 billion) is managed within the Group's standard credit risk processes, £8.7 billion (31 December 2010 - £9.2 billion) is receiving heightened credit oversight under the Group watchlist process ("watch") and £34.5 billion (31 December 2010 - £32.6 billion) is managed within Global Restructuring Group (GRG).

- 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 2% of the portfolio. The Group's appetite for originating speculative commercial real estate lending is very limited. Current market conditions have resulted in some borrowers experiencing difficulty in procuring long-term finance. These borrowers are managed within the problem debt management process in "watch" or GRG.

- Tighter risk appetite criteria for new business origination were implemented during 2010 but will take time to be reflected in the performance of the portfolio. Whilst there has been some recovery in the value of prime properties in the UK, the Group observes that it has been selective. To date this improvement has not fed through into lower quality properties in the UK and has not been evident in other regions, notably the eurozone, Republic of Ireland and the US.

- Commercial real estate will remain challenging for key markets, such as UK, Ireland and US; new business will be accommodated by running-off existing exposure. Liquidity in the market remains low with the focus on refinancing and support for the existing client base.

Risk and balance sheet management (continued)

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

Overview

Ulster Bank Group accounts for 10% of the Group's total gross customer loans or 9% of the Group's Core gross customer loans. The impairment charge of £1,294 million for Q1 2011 was £135 million higher than the £1,159 million impairment charge for Q4 2010. This was driven by continued deterioration across most portfolios during the quarter. High unemployment coupled with higher taxation and less liquidity in the economy continues to depress housing market confidence and consumer spending.

Core

Impairment losses for Q1 2011 of £461 million were £85 million higher than Q4 2010 losses of £376 million, reflecting the deteriorating economic environment in Ireland with rising default levels across both mortgage and other corporate non-property portfolios. Lower asset values together with pressure on borrowers with a dependence on consumer spending have resulted in higher corporate loan losses while higher unemployment, lower incomes and increased taxation have driven mortgage impairment increases.

Ulster Bank Group is helping customers in this difficult environment. Forbearance policies which are deployed through the 'Flex' initiative are aimed at assisting customers in financial difficulty. These policies were reviewed at the end of 2010 given the structural problem that exists in Ireland with the scale and duration of customers in financial difficulty. There were 9,200 customer accounts in a forbearance arrangement at 31 March 2011. This represents 5.5% (by volume) of the Ulster Bank Group mortgage portfolio, with 75% of these customers in amortising or interest only agreements.

Non-Core

The impairment charge increased from £783 million for Q4 2010 to £833 million for Q1 2011, primarily reflecting the deterioration in the development property portfolio.

Risk and balance sheet management (continued)

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

Loans, REIL and impairments by sector

| 31 March 2011 | Gross loans (1) | REIL | Provisions | REIL as a % of gross loans | Provisions as a % of REIL | Provisions as a % of gross loans | Impairment charge | Amounts written-off |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | % | % | % | £m | £m |
| 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 |
| Core | | | | | | | | |
| 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 | 4,272 | 773 | 282 | 18.1 | 36.5 | 6.6 | 73 | - |
| - development | 1,015 | 210 | 99 | 20.7 | 47.1 | 9.8 | 24 | - |
| Other corporate | 8,886 | 1,682 | 890 | 18.9 | 52.9 | 10.0 | 120 | 1 |
| | 37,167 | 4,638 | 2,111 | 12.5 | 45.5 | 5.7 | 461 | 11 |
| Non-Core | | | | | | | | |
| 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 | - |

For the note to this table refer to page 116.

Risk and balance sheet management (continued)

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

Loans, REIL and impairments by sector (continued)

| | Gross loans (1) | REIL | Provisions | REIL as a % of | Provisions as a % of REIL | Provisions as a % of | Q4 Impairment charge | Q4 Amounts written-off |
|---|---|---|---|---|---|---|---|---|

| | | | loans | | | gross loans | | |
|---|---|---|---|---|---|---|---|---|
| 31 December 2010 | £m | £m | £m | % | % | % | £m | £m |
| 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 |
| Core | | | | | | | | |
| 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 | 4,284 | 598 | 332 | 14.0 | 55.5 | 7.7 | 79 | - |
| - development | 1,090 | 65 | 37 | 6.0 | 56.9 | 3.4 | (10) | - |
| Other corporate | 9,039 | 1,205 | 667 | 13.3 | 55.4 | 7.4 | 135 | 1 |
| | 36,857 | 3,619 | 1,633 | 9.8 | 45.1 | 4.4 | 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 | - |

Note:
(1) Funded loans.

Key points
- The increase in REIL reflects continuing difficult conditions in both commercial and residential sectors in the Republic of Ireland. Of the

REIL at 31 March 2011, 71% was in Non-Core (Q4 2010 - 74%).

· Provisions, including foreign currency effects, increased in the quarter from £6.0 billion to £7.4 billion and the coverage ratio increased to 46.4% from 43.8% at 31 December 2010. 68% of the provision at 31 March 2011 (31 December 2010 - 69%) relates to commercial real estate.

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 account for impairments already taken.

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

Note:
(1) LTV averages calculated by transaction volume.

Key points

· The residential mortgage portfolio across Ulster Bank Group totalled £21.5 billion at 31 March 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 (£21.2 billon) with little growth due to very low new business volumes. To date in 2011, 596 new mortgages were originated, of which 85% were in Northern Ireland.

· The 90 days arrears rate continues to increase due to the continued challenging economic environment. At 31 March 2011, the arrears rate was 6.6% (by volume) compared with 6.0% at 31 December 2010. The impairment charge for Q1 2011 was £233 million compared with £159 million for Q4 2010. Repossession levels remain low totalling 37 properties at 31 March 2011 (76 for full year 2010). 78% of repossessions during the quarter 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. At 31 March 2011, 7.4% (by value) of the mortgage book (£1.6 billion) was on forbearance arrangements, the majority of these are performing (77%) and not 90 days past due.

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 £18.1 billion at 31 March 2011, primarily due to exchange rate movements. The Non-Core portion of the portfolio totalled £12.8 billion (71% of the portfolio). Of the total Ulster Bank Group commercial real estate portfolio 25% relates to Northern Ireland, 61% to the Republic of Ireland and 14% to the rest of the UK.

| | Development | | Investment | | |
|---|---|---|---|---|---|
| | | Residential | Commercial | Residential | Total |
| Exposure by geography | £m | £m | £m | £m | £m |
| 31 March 2011 | | | | | |
| Island of Ireland | 2,848 | 6,556 | 5,090 | 1,143 | 15,637 |
| UK (excluding Northern Ireland) | 112 | 362 | 1,835 | 129 | 2,438 |
| RoW | - | 17 | 22 | 1 | 40 |
| | 2,960 | 6,935 | 6,947 | 1,273 | 18,115 |
| 31 December 2010 | | | | | |
| Island of Ireland | 2,785 | 6,578 | 5,072 | 1,098 | 15,533 |
| UK (excluding Northern Ireland) | 110 | 359 | 1,831 | 115 | 2,415 |
| RoW | - | 17 | 22 | 1 | 40 |
| | 2,895 | 6,954 | 6,925 | 1,214 | 17,988 |

Key points

· Commercial real estate remains a key driver of the increase in the defaulted loan book for Ulster Bank Group. The outlook remains challenging with limited liquidity in the marketplace to support refinancing.

- Ongoing reviews of the portfolio have led to a greater portion of the portfolio moving to specialised management in GRG.

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: 6 May 2011

THE ROYAL BANK OF
SCOTLAND GROUP plc
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill
Title: Deputy Secretary