

ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
November 04, 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 November 4, 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-

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

Key terms and acronyms used in this section are defined in the glossary of terms.

Balance sheet management

Capital

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

| | 30 September 2011 £bn | 30 June 2011 £bn | 31 December 2010 £bn |
|------------------------------------|--------------------------------|------------------------|-------------------------------|
| Risk-weighted assets (RWAs) | | | |
| Credit risk | 346.8 | 366.1 | 385.9 |
| Counterparty risk | 72.2 | 66.1 | 68.1 |
| Market risk | 55.0 | 58.6 | 80.0 |
| Operational risk | 37.9 | 37.9 | 37.1 |
| | 511.9 | 528.7 | 571.1 |
| Benefit of Asset Protection Scheme | (88.6) | (95.2) | (105.6) |
| | 423.3 | 433.5 | 465.5 |
| Risk asset ratio | % | % | % |
| Core Tier 1 | 11.3 | 11.1 | 10.7 |
| Tier 1 | 13.8 | 13.5 | 12.9 |
| Total | 14.7 | 14.4 | 14.0 |

Key points

- The Core Tier 1 ratio increased in the quarter, due to a reduction in RWAs.
- Credit risk RWAs decreased by £19.3 billion principally driven by asset run-off, disposals and restructurings.

- Market risk RWAs decreased by £3.6 billion reflecting de-risking of the Non-Core portfolio and a reduction in VaR.
- The reduction in APS RWA benefit mainly reflects the run-off of covered assets.

Risk and balance sheet management (continued)

Balance sheet management: Capital (continued)

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

| | 30 September 2011 £m | 30 June 2011 £m | 31 December 2010 £m |
|--|-------------------------------|-----------------------|------------------------------|
| Composition of regulatory capital | | | |
| Tier 1 | | | |
| Ordinary and B shareholders' equity | 72,699 | 70,000 | 70,388 |
| Non-controlling interests | 1,433 | 1,498 | 1,719 |
| Adjustments for: | | | |
| - goodwill and other intangible assets - continuing businesses | (14,744) | (14,592) | (14,448) |
| - unrealised losses on available-for-sale (AFS) debt securities | 379 | 1,103 | 2,061 |
| - reserves arising on revaluation of property and unrealised gains on AFS equities | (88) | (76) | (25) |
| - reallocation of preference shares and innovative securities | (548) | (548) | (548) |
| - other regulatory adjustments* | (3,465) | (1,014) | (1,097) |
| Less excess of expected losses over provisions net of tax | (2,127) | (2,156) | (1,900) |
| Less securitisation positions | (2,164) | (2,404) | (2,321) |
| Less APS first loss | (3,545) | (3,810) | (4,225) |
| Core Tier 1 capital | 47,830 | 48,001 | 49,604 |
| Preference shares | 5,398 | 5,372 | 5,410 |
| Innovative Tier 1 securities | 4,644 | 4,564 | 4,662 |
| Tax on the excess of expected losses over provisions | 767 | 777 | 758 |
| Less material holdings | (303) | (327) | (310) |
| Total Tier 1 capital | 58,336 | 58,387 | 60,124 |
| Tier 2 | | | |
| Reserves arising on revaluation of property and unrealised gains on AFS equities | 88 | 76 | 25 |
| Collective impairment provisions | 728 | 715 | 778 |

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| | | | |
|--|----------------|----------------|----------------|
| Perpetual subordinated debt | 1,837 | 1,858 | 1,852 |
| Term subordinated debt | 14,999 | 15,697 | 16,745 |
| Non-controlling and other interests in Tier 2 capital | 11 | 11 | 11 |
| Less excess of expected losses over provisions | (2,894) | (2,933) | (2,658) |
| Less securitisation positions | (2,164) | (2,404) | (2,321) |
| Less material holdings | (303) | (327) | (310) |
| Less APS first loss | (3,545) | (3,810) | (4,225) |
| Total Tier 2 capital | 8,757 | 8,883 | 9,897 |
| Supervisory deductions | | | |
| Unconsolidated investments | | | |
| - RBS Insurance | (4,292) | (4,176) | (3,962) |
| - other investments | (262) | (354) | (318) |
| Other deductions | (311) | (419) | (452) |
| Deductions from total capital | (4,865) | (4,949) | (4,732) |
| Total regulatory capital | 62,228 | 62,321 | 65,289 |
| * Includes reduction for own liabilities carried at fair value | (2,931) | (1,112) | (1,182) |

Risk and balance sheet management (continued)

Balance sheet management: Capital(continued)

| Movement in Core Tier 1 capital | £m |
|---|---------------|
| At 1 January 2011 | 49,604 |
| Attributable loss net of movement in fair value of own debt | (1,355) |
| Foreign currency reserves | (304) |
| Decrease in capital deductions including APS first loss | 76 |
| Decrease in non-controlling interests | (221) |
| Other movements | 201 |
| At 30 June 2011 | 48,001 |
| Attributable loss net of movement in fair value of own debt | (593) |
| Foreign currency reserves | 13 |
| Decrease in capital deductions including APS first loss | 534 |
| Decrease in non-controlling interests | (65) |
| Other movements | (60) |
| At 30 September 2011 | 47,830 |

Risk and balance sheet management (continued)

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

| 30 September 2011 | Credit risk £bn | Counterparty risk £bn | Market risk £bn | Operational risk £bn | Gross RWAs £bn | APS relief £bn | Net RWAs £bn |
|--------------------------------|-----------------------|-----------------------------|-----------------------|----------------------------|----------------------|----------------------|--------------------|
| UK Retail | 41.4 | - | - | 7.3 | 48.7 | (9.9) | 38.8 |
| UK Corporate Wealth | 69.0 | - | - | 6.7 | 75.7 | (16.9) | 58.8 |
| Global Transaction Services | 11.0 | - | 0.1 | 1.9 | 13.0 | - | 13.0 |
| Ulster Bank | 13.7 | - | - | 4.9 | 18.6 | - | 18.6 |
| US Retail & Commercial | 32.0 | 0.5 | 0.1 | 1.8 | 34.4 | (6.7) | 27.7 |
| Retail & Commercial | 51.0 | 1.1 | - | 4.4 | 56.5 | - | 56.5 |
| Global Banking & Markets | 218.1 | 1.6 | 0.2 | 27.0 | 246.9 | (33.5) | 213.4 |
| Other | 46.1 | 35.1 | 37.6 | 15.5 | 134.3 | (10.4) | 123.9 |
| Core | 8.8 | 0.3 | - | 0.7 | 9.8 | - | 9.8 |
| Non-Core | 273.0 | 37.0 | 37.8 | 43.2 | 391.0 | (43.9) | 347.1 |
| Group before RFS MI | 71.0 | 35.2 | 17.2 | (5.5) | 117.9 | (44.7) | 73.2 |
| RFS MI | 344.0 | 72.2 | 55.0 | 37.7 | 508.9 | (88.6) | 420.3 |
| Group | 2.8 | - | - | 0.2 | 3.0 | - | 3.0 |
| Group | 346.8 | 72.2 | 55.0 | 37.9 | 511.9 | (88.6) | 423.3 |
| 30 June 2011 | | | | | | | |
| UK Retail | 42.2 | - | - | 7.3 | 49.5 | (10.7) | 38.8 |
| UK Corporate Wealth | 71.2 | - | - | 6.7 | 77.9 | (19.3) | 58.6 |
| Global Transaction Services | 10.9 | - | 0.1 | 1.9 | 12.9 | - | 12.9 |
| Ulster Bank | 13.9 | - | - | 4.9 | 18.8 | - | 18.8 |
| US Retail & Commercial | 33.9 | 0.5 | 0.1 | 1.8 | 36.3 | (7.6) | 28.7 |
| Retail & Commercial | 49.6 | 0.8 | - | 4.4 | 54.8 | - | 54.8 |
| Global Banking & Markets | 221.7 | 1.3 | 0.2 | 27.0 | 250.2 | (37.6) | 212.6 |
| Other | 51.2 | 31.4 | 40.9 | 15.5 | 139.0 | (10.3) | 128.7 |
| Other | 10.7 | 0.4 | - | 0.7 | 11.8 | - | 11.8 |

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| | | | | | | | |
|------------------|-------|------|------|-------|-------|--------|-------|
| Core | 283.6 | 33.1 | 41.1 | 43.2 | 401.0 | (47.9) | 353.1 |
| Non-Core | 79.7 | 33.0 | 17.5 | (5.5) | 124.7 | (47.3) | 77.4 |
| Group before RFS | | | | | | | |
| MI | 363.3 | 66.1 | 58.6 | 37.7 | 525.7 | (95.2) | 430.5 |
| RFS MI | 2.8 | - | - | 0.2 | 3.0 | - | 3.0 |
| Group | 366.1 | 66.1 | 58.6 | 37.9 | 528.7 | (95.2) | 433.5 |

31 December 2010

| | | | | | | | |
|--------------------------|-------|------|------|-------|-------|---------|-------|
| UK Retail | 41.7 | - | - | 7.1 | 48.8 | (12.4) | 36.4 |
| UK Corporate | 74.8 | - | - | 6.6 | 81.4 | (22.9) | 58.5 |
| Wealth | 10.4 | - | 0.1 | 2.0 | 12.5 | - | 12.5 |
| Global Transaction | | | | | | | |
| Services | 13.7 | - | - | 4.6 | 18.3 | - | 18.3 |
| Ulster Bank | 29.2 | 0.5 | 0.1 | 1.8 | 31.6 | (7.9) | 23.7 |
| US Retail & Commercial | 52.0 | 0.9 | - | 4.1 | 57.0 | - | 57.0 |
| Retail & Commercial | 221.8 | 1.4 | 0.2 | 26.2 | 249.6 | (43.2) | 206.4 |
| Global Banking & Markets | 53.5 | 34.5 | 44.7 | 14.2 | 146.9 | (11.5) | 135.4 |
| Other | 16.4 | 0.4 | 0.2 | 1.0 | 18.0 | - | 18.0 |
| Core | 291.7 | 36.3 | 45.1 | 41.4 | 414.5 | (54.7) | 359.8 |
| Non-Core | 91.3 | 31.8 | 34.9 | (4.3) | 153.7 | (50.9) | 102.8 |
| Group before RFS | | | | | | | |
| MI | 383.0 | 68.1 | 80.0 | 37.1 | 568.2 | (105.6) | 462.6 |
| RFS MI | 2.9 | - | - | - | 2.9 | - | 2.9 |
| Group | 385.9 | 68.1 | 80.0 | 37.1 | 571.1 | (105.6) | 465.5 |

Risk and balance sheet management (continued)

Balance sheet management: Capital (continued)

CRD 3 and Basel III impacts

The estimated impact of CRD 3 rules on the Group's RWAs post mitigation is an increase of c.£20 billion. This is lower than the initial estimates of £25 billion to £30 billion and reflects mitigation, restructuring and continuing risk reduction.

The implementation of the Basel III proposals in 2013 is now estimated to result in an increase in RWAs of £60 billion to £75 billion. This is lower than the previous estimate of £75 billion to £85 billion, due to risk reduction and

mitigation in both GBM and Non-Core.

The combined impact of CRD 3 and Basel III on the Group's RWAs is now estimated to be some £20 billion or 20% lower than the previous estimates.

Funding and liquidity risk

The Group's balance sheet composition is a function of the broad array of product offerings and diverse markets served by its Core divisions. The structural composition of the balance sheet is augmented as needed through active management of both asset and liability portfolios. The objective of these activities is to optimise liquidity transformation in normal business environments while ensuring adequate coverage of all cash requirements under extreme stress conditions.

Diversification of the Group's funding base is central to its liquidity management strategy. The Group's businesses have developed large customer franchises based on strong relationship management and high quality service. These customer franchises are strongest in the UK, US and Ireland but extend into Europe and Asia. Customer deposits provide large pools of stable funding to support the majority of the Group's lending. It is a strategic objective to improve the Group's loan to deposit ratio to 100%, or better, by 2013.

The Group also accesses professional markets funding by way of public and private debt issuances on an unsecured and secured basis. These debt issuance programmes are spread across multiple currencies and maturities to appeal to a broad range of investor types and preferences around the world. This market based funding supplements the Group's structural liquidity needs and in some cases achieves certain capital objectives.

Risk and balance sheet management (continued)

Balance sheet management: Funding and liquidity risk (continued)

Funding sources

The table below shows the Group's primary funding sources, excluding repurchase agreements.

| | 30 September 2011 | | 30 June 2011 | | 31 December 2010 | |
|---|-------------------|------|--------------|------|------------------|------|
| | £m | % | £m | % | £m | % |
| Deposits by banks | | | | | | |
| - central banks | 3,568 | 0.5 | 4,469 | 0.6 | 6,655 | 0.9 |
| - derivative cash collateral | 32,466 | 4.4 | 25,524 | 3.5 | 28,074 | 3.8 |
| - other | 42,336 | 5.8 | 41,580 | 5.6 | 31,322 | 4.3 |
| | 78,370 | 10.7 | 71,573 | 9.7 | 66,051 | 9.0 |
| Debt securities in issue | | | | | | |
| - conduit asset backed commercial paper | 11,783 | 1.6 | 12,894 | 1.7 | 17,320 | 2.3 |
| - other commercial paper | 8,680 | 1.2 | 9,475 | 1.3 | 8,915 | 1.2 |
| - certificates of deposits | 25,036 | 3.4 | 35,305 | 4.8 | 37,855 | 5.1 |
| - medium-term notes (MTNs) | 127,719 | 17.4 | 132,371 | 17.9 | 131,026 | 17.7 |
| - covered bonds | 8,541 | 1.2 | 6,972 | 0.9 | 4,100 | 0.6 |
| - securitisations | 12,752 | 1.7 | 16,780 | 2.3 | 19,156 | 2.6 |

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| | | | | | | |
|---|---------|-------|---------|-------|---------|-------|
| | 194,511 | 26.5 | 213,797 | 28.9 | 218,372 | 29.5 |
| Subordinated liabilities | 26,275 | 3.6 | 26,311 | 3.5 | 27,053 | 3.6 |
| Debt securities in issue and subordinated liabilities | 220,786 | 30.1 | 240,108 | 32.4 | 245,425 | 33.1 |
| Wholesale funding | 299,156 | 40.8 | 311,681 | 42.1 | 311,476 | 42.1 |
| Customer deposits | | | | | | |
| - cash collateral | 10,278 | 1.4 | 11,166 | 1.5 | 10,433 | 1.4 |
| - other | 423,382 | 57.8 | 417,537 | 56.4 | 418,166 | 56.5 |
| Total customer deposits | 433,660 | 59.2 | 428,703 | 57.9 | 428,599 | 57.9 |
| Total funding | 732,816 | 100.0 | 740,384 | 100.0 | 740,075 | 100.0 |

| | 30 September 2011 £bn | 30 June 2011 £bn | 31 December 2010 £bn |
|--|--------------------------------|------------------------|-------------------------------|
| Short-term wholesale funding | 173.8 | 173.5 | 157.5 |
| Of which - bank deposits | 74.0 | 67.0 | 62.5 |
| - other | 99.8 | 106.5 | 95.0 |
| Short-term wholesale funding excluding derivative collateral | 141.3 | 148.0 | 129.4 |
| Of which - bank deposits | 41.5 | 41.5 | 34.4 |
| - other | 99.8 | 106.5 | 95.0 |

Risk and balance sheet management (continued)

Balance sheet management: Funding and liquidity risk: Funding sources (continued)

Key points

- Customer deposits increased by £5.0 billion during the quarter from £428.7 billion to £433.7 billion, driven by growth in retail and corporate deposits. Customer deposits as a proportion of total funding increased slightly to 59.2% at 30 September 2011 compared with 57.9% at 30 June 2011 and 31 December 2010.
- The proportion of funding from customer deposits excluding cash collateral increased slightly to 57.8% from 56.4% at 30 June 2011 and 56.5% at 31 December 2010.
- Short-term wholesale funding excluding derivative collateral and bank deposits reduced in Q3 2011 to £99.8 billion compared with £106.5 billion at the half year. Term debt maturing within one year amounts to £54.6 billion

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(including £40 billion relating to the UK Credit Guarantee Scheme (CGS)) of which, £20.1 billion matures in Q4 2011.

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

| | Conduit asset backed commercial paper £m | Other CP and CDs £m | MTNs £m | Covered bonds £m | Securitisations £m | Total £m | Subordinated liabilities £m | Total £m | % |
|-------------------|---|---------------------------------|------------|------------------------|-----------------------|-------------|-----------------------------------|-------------|-------|
| 30 September 2011 | | | | | | | | | |
| Less than 1 year | 11,783 | 32,914 | 54,622 | - | 43 | 99,362 | 400 | 99,762 | 45.2 |
| 1-3 years | - | 795 | 28,456 | 2,800 | 26 | 32,077 | 2,045 | 34,122 | 15.5 |
| 3-5 years | - | 2 | 18,049 | 3,037 | 33 | 21,121 | 8,265 | 29,386 | 13.3 |
| More than 5 years | - | 5 | 26,592 | 2,704 | 12,650 | 41,951 | 15,565 | 57,516 | 26.0 |
| | 11,783 | 33,716 | 127,719 | 8,541 | 12,752 | 194,511 | 26,275 | 220,786 | 100.0 |
| 30 June 2011 | | | | | | | | | |
| Less than 1 year | 12,894 | 43,974 | 49,174 | - | 43 | 106,085 | 399 | 106,484 | 44.3 |
| 1-3 years | - | 788 | 33,366 | 1,114 | 18 | 35,286 | 1,962 | 37,248 | 15.6 |
| 3-5 years | - | 13 | 19,028 | 3,154 | 33 | 22,228 | 8,316 | 30,544 | 12.7 |
| More than 5 years | - | 5 | 30,803 | 2,704 | 16,686 | 50,198 | 15,634 | 65,832 | 27.4 |
| | 12,894 | 44,780 | 132,371 | 6,972 | 16,780 | 213,797 | 26,311 | 240,108 | 100.0 |
| 31 December 2010 | | | | | | | | | |
| Less than 1 year | 17,320 | 46,051 | 30,589 | - | 88 | 94,048 | 964 | 95,012 | 38.7 |
| 1-3 years | - | 702 | 47,357 | 1,078 | 12 | 49,149 | 754 | 49,903 | 20.3 |
| 3-5 years | - | 12 | 21,466 | 1,294 | 34 | 22,806 | 8,476 | 31,282 | 12.8 |
| More than 5 years | - | 5 | 31,614 | 1,728 | 19,022 | 52,369 | 16,859 | 69,228 | 28.2 |
| | 17,320 | 46,770 | 131,026 | 4,100 | 19,156 | 218,372 | 27,053 | 245,425 | 100.0 |

Risk and balance sheet management (continued)

Balance sheet management: Funding and liquidity risk: Funding sources (continued)

Long-term debt issuances

The table below shows debt securities issued by the Group with an original maturity of one year or more. The Group also executes other long-term funding arrangements (predominately term repos) which are not reflected in the following tables.

| | Quarter ended | | Nine months ended | | |
|----------------|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
| | 30 September 2011 £m | 30 June 2011 £m | 30 September 2010 £m | 30 September 2011 £m | 30 September 2010 £m |
| Public | | | | | |
| - unsecured | - | 1,808 | 6,254 | 5,085 | 12,112 |
| - secured | 1,721 | 2,211 | 5,286 | 6,584 | 6,316 |
| Private | | | | | |
| - unsecured | 3,255 | 3,997 | 6,299 | 11,503 | 12,827 |
| Gross issuance | 4,976 | 8,016 | 17,839 | 23,172 | 31,255 |

The table below shows the original maturity of public long-term debt securities issued in the nine months ended 30 September 2011 and 2010.

| | 2-3 years | | 5-10 years | > 10 years | Total £m |
|-------------------------------------|----------------|-------|---------------|---------------|-------------|
| | 3-5years £m | £m | £m | £m | |
| Nine months ended 30 September 2011 | | | | | |
| MTNs | 904 | 1,407 | 1,839 | 935 | 5,085 |
| Covered bonds | - | 1,721 | 2,652 | - | 4,373 |
| Securitisations | - | - | - | 2,211 | 2,211 |
| | 904 | 3,128 | 4,491 | 3,146 | 11,669 |
| % of total | 8% | 27% | 38% | 27% | 100% |
| Nine months ended 30 September 2010 | | | | | |
| MTNs | 1,445 | 1,541 | 6,393 | 2,733 | 12,112 |
| Covered bonds | - | 1,030 | 1,244 | - | 2,274 |
| Securitisations | - | - | - | 4,042 | 4,042 |
| | 1,445 | 2,571 | 7,637 | 6,775 | 18,428 |
| % of total | 8% | 14% | 41% | 37% | 100% |

Risk and balance sheet management (continued)

Balance sheet management: Funding and liquidity risk: Funding sources (continued)

Long-term debt issuance (continued)

The table below shows the currency breakdown of public and private long-term debt securities issued in the nine months ended 30 September 2011 and 2010.

| | GBP | EUR | USD | AUD | Other | Total |
|--|-------|--------|-------|-------|-------|--------|
| Nine months ended 30 September 2011 | £m | £m | £m | £m | £m | £m |
| Public | | | | | | |
| - MTNs | - | 1,808 | 2,181 | 1,096 | - | 5,085 |
| - covered bonds | - | 4,373 | - | - | - | 4,373 |
| - securitisations | 258 | 1,293 | 660 | - | - | 2,211 |
| Private | 2,193 | 3,513 | 2,996 | 280 | 2,521 | 11,503 |
| | 2,451 | 10,987 | 5,837 | 1,376 | 2,521 | 23,172 |
| % of total | 11% | 47% | 25% | 6% | 11% | 100% |
| Nine months ended 30 September 2010 | | | | | | |
| Public | | | | | | |
| - MTNs | 1,260 | 3,969 | 5,131 | 1,040 | 712 | 12,112 |
| - covered bonds | - | 2,274 | - | - | - | 2,274 |
| - securitisations | 663 | 1,629 | 1,750 | - | - | 4,042 |
| Private | 1,926 | 7,671 | 1,683 | 106 | 1,441 | 12,827 |
| | 3,849 | 15,543 | 8,564 | 1,146 | 2,153 | 31,255 |
| % of total | 12% | 50% | 27% | 4% | 7% | 100% |

Key points

- Despite the difficult economic environment gross term issuances in Q3 2011 were £5.0 billion, including €2.0 billion of covered bonds issued publicly. The Group has executed £3.5 billion of securitisation transactions in October 2011, and continues to access markets as opportunities arise.
- The Group has continued to diversify its funding mix with 47% of issuance denominated in euros, 25% in US dollars and 28% in other currencies.
- The Group has already met its full year target for long-term debt issuance of £23 billion.

Risk and balance sheet management (continued)

Balance sheet management: Funding and liquidity risk (continued)

Liquidity portfolio

The table below shows the composition of the Group's liquidity portfolio.

| | 30 September 2011 £m | 30 June 2011 £m | 31 December 2010 £m |
|---|-------------------------------|-----------------------|------------------------------|
| Liquidity portfolio | | | |
| Cash and balances at central banks | 76,833 | 59,010 | 53,661 |
| Treasury bills | 4,037 | 8,600 | 14,529 |
| Central and local government bonds (1) | | | |
| - AAA rated governments and US agencies | 29,850 | 47,999 | 41,435 |
| - AA- to AA+ rated governments (2) | 18,077 | 1,399 | 3,744 |
| - governments rated below AA | 700 | 836 | 1,029 |
| - local government | 4,700 | 4,881 | 5,672 |
| | 53,327 | 55,115 | 51,880 |
| Unencumbered collateral (3) | | | |
| - AAA rated | 24,186 | 18,335 | 17,836 |
| - below AAA rated and other high quality assets | 11,444 | 13,493 | 16,693 |
| | 35,630 | 31,828 | 34,529 |
| Total liquidity portfolio | 169,827 | 154,553 | 154,599 |

Notes:

- (1) Includes FSA eligible government bonds of £36.8 billion at 30 September 2011 (30 June 2011 - £34.5 billion; 31 December 2010 - £34.7 billion).
- (2) Includes AAA rated US government guaranteed and US government sponsored agencies. The US government was downgraded from AAA to AA+ by S&P on 5 August 2011 and its debt securities carry a split credit rating; these securities are reflected here.
- (3) Includes secured assets eligible for discounting at central banks, comprising loans and advances and debt securities.

Key points

- The Group's liquidity portfolio was £169.8 billion, an increase of £15.3 billion from 30 June 2011 and £15.2 billion from 31 December 2010, mainly due to an increase in cash at central banks. The Group strengthened its liquidity portfolio in response to the ongoing stress in global financial markets which worsened during Q3 2011.
- The strategic target of £150 billion is unchanged.
- The liquidity portfolio is actively managed and as such its composition varies over time in accordance with factors such as changing external market conditions.

Risk and balance sheet management (continued)

Balance sheet management: Funding and liquidity risk (continued)

Net stable funding

The table below shows the Group's net stable funding ratio (NSFR) estimated by applying the Basel III guidance issued in December 2010; the Group is aiming to meet the minimum required NSFR of 100% over the longer term. This measure seeks to show the proportion of structural term assets which are funded by stable funding including customer deposits, long-term wholesale funding and equity. The Group's NSFR will continue to be refined over time in line with regulatory developments.

| | 30 September 2011 | | 30 June 2011 | | 31 December 2010 | | Weighting % |
|--------------------------------------|----------------------|------------|--------------|------------|---------------------|------------|----------------|
| | ASF (1) | | ASF (1) | | ASF (1) | | |
| | £bn | £bn | £bn | £bn | £bn | £bn | |
| Equity | 79 | 79 | 76 | 76 | 77 | 77 | 100 |
| Wholesale funding > 1 year | 125 | 125 | 138 | 138 | 154 | 154 | 100 |
| Wholesale funding < 1 year | 174 | - | 174 | - | 157 | - | - |
| Derivatives | 562 | - | 388 | - | 424 | - | - |
| Repurchase agreements | 132 | - | 124 | - | 115 | - | - |
| Deposits | | | | | | | |
| - Retail and SME - more stable | 170 | 153 | 168 | 151 | 172 | 155 | 90 |
| - Retail and SME - less stable | 25 | 20 | 25 | 20 | 51 | 41 | 80 |
| - Other | 239 | 120 | 236 | 118 | 206 | 103 | 50 |
| Other (2) | 102 | - | 117 | - | 98 | - | - |
| Total liabilities and equity | 1,608 | 497 | 1,446 | 503 | 1,454 | 530 | |
| Cash | 78 | - | 64 | - | 57 | - | - |
| Inter-bank lending | 53 | - | 53 | - | 58 | - | - |
| Debt securities > 1 year | | | | | | | |
| - central and local governments AAA | | | | | | | |
| to AA- | 84 | 4 | 87 | 4 | 89 | 4 | 5 |
| - other eligible bonds | 75 | 15 | 85 | 17 | 75 | 15 | 20 |
| - other bonds | 17 | 17 | 19 | 19 | 10 | 10 | 100 |
| Debt securities < 1 year | 54 | - | 53 | - | 43 | - | - |
| Derivatives | 572 | - | 395 | - | 427 | - | - |
| Reverse repurchase agreements | 102 | - | 98 | - | 95 | - | - |
| Customer loans and advances > 1 year | | | | | | | |
| - residential mortgages | 144 | 94 | 145 | 94 | 145 | 94 | 65 |
| - other | 176 | 176 | 182 | 182 | 211 | 211 | 100 |
| Customer loans and advances < 1 year | | | | | | | |

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| | | | | | | | |
|--------------------------------------|-------|------|-------|-----|-------|------|-----|
| - retail loans | 20 | 17 | 20 | 17 | 22 | 19 | 85 |
| - other | 146 | 73 | 143 | 72 | 125 | 63 | 50 |
| Other (3) | 87 | 87 | 102 | 102 | 97 | 97 | 100 |
| Total assets | 1,608 | 483 | 1,446 | 507 | 1,454 | 513 | |
| Undrawn commitments | 245 | 12 | 250 | 13 | 267 | 13 | 5 |
| Total assets and undrawn commitments | 1,853 | 495 | 1,696 | 520 | 1,721 | 526 | |
| Net stable funding ratio | | 100% | | 97% | | 101% | |

Notes:

(1) Available stable funding.

(2) Deferred tax, insurance liabilities and other liabilities.

(3) Prepayments, accrued income, deferred tax and other assets.

Key point

- The Group's net stable funding ratio improved to 100% during Q3 2011 from 97% mainly as a result of increased deposits and the reduction in GBM and Non-Core assets.

Risk and balance sheet management (continued)

Balance sheet management: Funding and liquidity risk (continued)

Loan deposit ratio and funding gap

The table below shows quarterly trends in the loan to deposit ratio and customer funding gap.

| | Loan to deposit ratio (1) | | Customer funding gap |
|-------------------|---------------------------|--------|----------------------|
| | Group % | Core % | Group £bn |
| 30 September 2011 | 112 | 95 | 52 |
| 30 June 2011 | 114 | 96 | 61 |
| 31 March 2011 | 115 | 96 | 66 |
| 31 December 2010 | 117 | 96 | 74 |
| 30 September 2010 | 126 | 101 | 107 |

Note:

(1) Loans are net of provisions.

Key points

- The Group's loan to deposit ratio improved by 500 basis points to 112% in the nine months to 30 September 2011, including a 200 basis points improvement in Q3 2011. The customer funding gap narrowed by £22 billion in the nine months to 30 September 2011, including a £9 billion reduction in Q3 2011, primarily due to the reduction in Non-Core customer loans and an increase in customer deposits.
- The loan to deposit ratio for the Group's Core business improved by 100 basis points during Q3 2011.

Risk and balance sheet management (continued)

Balance sheet management: Funding and liquidity risk (continued)

Sensitivity of net interest income

The Group seeks to mitigate the effect of prospective interest rate movements which could reduce future net interest income through its management of interest rate risk in the Group's businesses, whilst balancing the cost of such activities on the current net revenue stream. Hedging activities also consider the impact on market value sensitivity under stress.

The following table shows the sensitivity of net interest income over the next twelve months to an immediate up and down 100 basis points change to all interest rates. In addition, the table includes the impact of a gradual 400 basis point steepening and a gradual 300 basis point flattening of the yield curve at tenors greater than a year.

| | 30 September 2011 £m | 30 June 2011 £m |
|-------------------------------|-------------------------------|-----------------------|
| + 100bp shift in yield curves | 188 | 319 |
| - 100bp shift in yield curves | (74) | (141) |
| Bear steepener | 487 | 417 |
| Bull flattener | (248) | (309) |

Key points

- The Group's interest rate exposure remains slightly asset sensitive driven in part by changes to underlying business assumptions as rates rise. The impact of the steepening and flattening scenarios is largely driven by the investment of net free reserves.
- The reported sensitivity will vary over time due to a number of factors such as changing market conditions and strategic changes to the balance sheet mix and should not therefore be considered predictive of future performance.

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. All assets, including loans, of businesses held for disposal are included as one line on the balance sheet, as required by IFRS.

| | 30 September 2011 | | | 30 June 2011 | | | 31 December 2010 | | |
|---|-------------------|--------------------|-------------|--------------|--------------------|-------------|------------------|--------------------|-------------|
| | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m |
| Central and local government | 8,097 | 1,507 | 9,604 | 6,574 | 1,507 | 8,081 | 6,781 | 1,671 | 8,452 |
| Finance | 48,094 | 4,884 | 52,978 | 47,545 | 5,038 | 52,583 | 46,910 | 7,651 | 54,561 |
| Residential mortgages | 143,941 | 5,319 | 149,260 | 144,400 | 5,509 | 149,909 | 140,359 | 6,142 | 146,501 |
| Personal lending | 32,152 | 2,810 | 34,962 | 32,224 | 3,229 | 35,453 | 33,581 | 3,891 | 37,472 |
| Property | 44,072 | 40,628 | 84,700 | 44,539 | 42,862 | 87,401 | 42,455 | 47,651 | 90,106 |
| Construction | 7,992 | 3,062 | 11,054 | 8,525 | 3,070 | 11,595 | 8,680 | 3,352 | 12,032 |
| Manufacturing | 24,816 | 5,233 | 30,049 | 24,068 | 6,293 | 30,361 | 25,797 | 6,520 | 32,317 |
| Service industries and business activities | | | | | | | | | |
| - retail, wholesale and repairs | 22,207 | 2,427 | 24,634 | 22,123 | 2,598 | 24,721 | 21,974 | 3,191 | 25,165 |
| - transport and storage | 16,236 | 6,009 | 22,245 | 15,243 | 6,449 | 21,692 | 15,946 | 8,195 | 24,141 |
| - health, education and recreation | 16,224 | 1,515 | 17,739 | 16,707 | 1,547 | 18,254 | 17,456 | 1,865 | 19,321 |
| - hotels and restaurants | 7,841 | 1,358 | 9,199 | 8,028 | 1,452 | 9,480 | 8,189 | 1,492 | 9,681 |
| - utilities | 8,212 | 1,725 | 9,937 | 7,487 | 2,010 | 9,497 | 7,098 | 2,110 | 9,208 |
| - other | 24,744 | 4,479 | 29,223 | 25,128 | 4,966 | 30,094 | 24,464 | 5,530 | 29,994 |
| Agriculture, forestry and fishing | 3,767 | 135 | 3,902 | 3,791 | 123 | 3,914 | 3,758 | 135 | 3,893 |
| Finance leases and instalment credit | 8,404 | 7,467 | 15,871 | 8,353 | 7,920 | 16,273 | 8,321 | 8,529 | 16,850 |
| Interest accruals | 661 | 152 | 813 | 715 | 176 | 891 | 831 | 278 | 1,109 |
| Gross loans | 417,460 | 88,710 | 506,170 | 415,450 | 94,749 | 510,199 | 412,600 | 108,203 | 520,803 |
| Loan impairment provisions | (8,748) | (11,849) | (20,597) | (8,621) | (12,006) | (20,627) | (7,740) | (10,315) | (18,055) |
| Net loans | 408,712 | 76,861 | 485,573 | 406,829 | 82,743 | 489,572 | 404,860 | 97,888 | 502,748 |

Key point

- Gross loans decreased by £4.0 billion in Q3 2011, across most sectors, including £2.7 billion in property, £0.5 billion in construction, £0.3 billion in manufacturing, £0.3 billion in hotels and restaurants reflecting run-offs, continued de-risking as well as subdued credit demand.

Risk and balance sheet management (continued)

Risk management: Credit risk: REIL

The table below analyses the Group's risk elements in lending (REIL) which do not take account of the value of any security held that could reduce the eventual loss should it occur, nor of any provisions. REIL is split into UK and overseas, based on the location of the lending office.

| | 30 September 2011 | | | 30 June 2011 | | | 31 December 2010 | | |
|--|-------------------|--------------------|-------------|--------------|--------------------|-------------|------------------|--------------------|-------------|
| | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m |
| Impaired loans (1) | | | | | | | | | |
| - UK | 9,222 | 7,471 | 16,693 | 9,229 | 7,812 | 17,041 | 8,575 | 7,835 | 16,410 |
| - Overseas | 6,695 | 16,274 | 22,969 | 6,326 | 16,268 | 22,594 | 4,936 | 14,355 | 19,291 |
| | 15,917 | 23,745 | 39,662 | 15,555 | 24,080 | 39,635 | 13,511 | 22,190 | 35,701 |
| Accruing loans past due | | | | | | | | | |
| 90 days or more (2) | | | | | | | | | |
| - UK | 1,648 | 580 | 2,228 | 1,487 | 583 | 2,070 | 1,434 | 939 | 2,373 |
| - Overseas | 580 | 256 | 836 | 415 | 230 | 645 | 262 | 262 | 524 |
| | 2,228 | 836 | 3,064 | 1,902 | 813 | 2,715 | 1,696 | 1,201 | 2,897 |
| Total REIL | 18,145 | 24,581 | 42,726 | 17,457 | 24,893 | 42,350 | 15,207 | 23,391 | 38,598 |
| REIL as a % of gross loans and advances (3) | 4.3% | 27.4% | 8.4% | 4.2% | 26.1% | 8.3% | 3.7% | 20.7% | 7.3% |
| Provisions as a % of REIL | 49% | 48% | 49% | 50% | 48% | 49% | 52% | 44% | 47% |

Notes:

(1) All loans against which an impairment provision is held.

(2) Loans where an impairment event has taken place but no impairment provision recognised. This category is used for fully collateralised non-revolving credit facilities.

(3) Gross loans and advances to customers include assets of disposal groups and exclude repos.

Key points

- REIL increased marginally by £0.4 billion in Q3 2011, driven by an increase in mortgage and corporate defaults in Core Ulster Bank. REIL increased by £4.1 billion in 2011 mainly due to an increase in commercial real estate REIL in the first half of 2011.
- There were decreases in Retail & Commercial (from 49% to 48%) and GBM (from 66% to 57%) provision coverage ratios whilst Non-Core coverage ratio was broadly flat at 48% compared with the position at 30 June

2011. Group provision coverage ratio was unchanged at 49%.

- REIL as a percentage of loans and advances now stands at 27.4% for Non-Core and 4.3% for Core, increasing from 26.1% and 4.2% respectively at 30 June 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: REIL (continued)

The table below details the movement in REIL for the nine months ended 30 September 2011.

| | Impaired loans | | | Other loans (1) | | | REIL | | |
|--|----------------|--------------------|-------------|-----------------|--------------------|-------------|------------|--------------------|-------------|
| | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m |
| At 1 January 2011 | 13,511 | 22,190 | 35,701 | 1,696 | 1,201 | 2,897 | 15,207 | 23,391 | 38,598 |
| Intra-group transfers | 300 | (300) | - | 81 | (81) | - | 381 | (381) | - |
| Currency translation and other adjustments | 165 | 462 | 627 | 14 | 12 | 26 | 179 | 474 | 653 |
| Additions | 4,249 | 5,383 | 9,632 | 1,362 | 577 | 1,939 | 5,611 | 5,960 | 11,571 |
| Transfers | 403 | 284 | 687 | (245) | (225) | (470) | 158 | 59 | 217 |
| Disposals, repayments and restructurings | (2,055) | (3,027) | (5,082) | (1,006) | (671) | (1,677) | (3,061) | (3,698) | (6,759) |
| Amounts written-off | (1,018) | (912) | (1,930) | - | - | - | (1,018) | (912) | (1,930) |
| At 30 June 2011 | 15,555 | 24,080 | 39,635 | 1,902 | 813 | 2,715 | 17,457 | 24,893 | 42,350 |
| Currency translation and other adjustments | (165) | (629) | (794) | (19) | (15) | (34) | (184) | (644) | (828) |
| Additions | 2,012 | 1,527 | 3,539 | 781 | 250 | 1,031 | 2,793 | 1,777 | 4,570 |
| Transfers | (3) | 28 | 25 | 28 | (10) | 18 | 25 | 18 | 43 |
| Disposals, repayments and restructurings | (889) | (764) | (1,653) | (464) | (202) | (666) | (1,353) | (966) | (2,319) |
| Amounts written-off | (593) | (497) | (1,090) | - | - | - | (593) | (497) | (1,090) |
| At 30 September 2011 | 15,917 | 23,745 | 39,662 | 2,228 | 836 | 3,064 | 18,145 | 24,581 | 42,726 |

Impaired loans

Other loans (1)

REIL

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| | Non- | | | Non- | | | Non- | | |
|--|---------|---------|---------|---------|-------|---------|---------|---------|---------|
| | Core | Core | Total | Core | Core | Total | Core | Core | Total |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| At 1 January 2011 | 13,511 | 22,190 | 35,701 | 1,696 | 1,201 | 2,897 | 15,207 | 23,391 | 38,598 |
| Intra-group transfers | 300 | (300) | - | 81 | (81) | - | 381 | (381) | - |
| Currency translation and other adjustments | - | (167) | (167) | (5) | (3) | (8) | (5) | (170) | (175) |
| Additions | 6,261 | 6,910 | 13,171 | 2,143 | 827 | 2,970 | 8,404 | 7,737 | 16,141 |
| Transfers | 400 | 312 | 712 | (217) | (235) | (452) | 183 | 77 | 260 |
| Disposals, repayments and restructurings | (2,944) | (3,791) | (6,735) | (1,470) | (873) | (2,343) | (4,414) | (4,664) | (9,078) |
| Amounts written-off | (1,611) | (1,409) | (3,020) | - | - | - | (1,611) | (1,409) | (3,020) |
| At 30 September 2011 | 15,917 | 23,745 | 39,662 | 2,228 | 836 | 3,064 | 18,145 | 24,581 | 42,726 |

Note:

(1) Accruing loans past due 90 days or more (also see page 112).

Key point

- Disposals and restructurings include £1,685 million of transfers to the performing book in the nine months ended September 2011 including £120 million in Q3 2011.

Risk and balance sheet management (continued)

Risk management: Credit risk: Impairment provisions

Movement in loan impairment provisions

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

| | 30 September 2011 | | | Quarter ended 30 June 2011 | | | | 30 September 2010 | | | |
|------------------------------|-------------------|--------|--------|----------------------------|--------|------|--------|-------------------|-------|--------|------|
| | Non- | | | Core | Non- | | RFS | Non- | | | |
| | Core | Core | Total | | Core | Core | | MI | Total | Core | Core |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| At beginning of period | 8,752 | 12,007 | 20,759 | 8,416 | 10,842 | - | 19,258 | 7,633 | 8,533 | 16,166 | |
| Transfers to disposal groups | - | - | - | - | 9 | - | 9 | - | - | - | |
| Intra-group transfers | - | - | - | - | - | - | - | (351) | 351 | - | |
| Currency translation and | (90) | (285) | (375) | 33 | 145 | - | 178 | 116 | 175 | 291 | |

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| | | | | | | | | | | |
|--|-------|--------|---------|-------|--------|------|--------|-------|-------|--------|
| other adjustments | | | | | | | | | | |
| Disposals | - | - | - | - | - | 11 | 11 | - | - | - |
| Amounts written-off | (593) | (497) | (1,090) | (504) | (474) | - | (978) | (416) | (329) | (745) |
| Recoveries of amounts previously written-off | 39 | 55 | 94 | 41 | 126 | - | 167 | 80 | 85 | 165 |
| Charge to income statement | | | | | | | | | | |
| - continued | 817 | 635 | 1,452 | 810 | 1,427 | - | 2,237 | 779 | 1,129 | 1,908 |
| - discontinued | - | - | - | - | - | (11) | (11) | - | - | - |
| Unwind of discount | (52) | (65) | (117) | (44) | (68) | - | (112) | (50) | (65) | (115) |
| At end of period | 8,873 | 11,850 | 20,723 | 8,752 | 12,007 | - | 20,759 | 7,791 | 9,879 | 17,670 |

| | Nine months ended | | | | | | | |
|--|-------------------|--------------------|-----------------|-------------|-------------------|--------------------|-----------------|-------------|
| | 30 September 2011 | | | | 30 September 2010 | | | |
| | Core £m | Non- Core £m | RFS MI £m | Total £m | Core £m | Non- Core £m | RFS MI £m | Total £m |
| At beginning of period | 7,866 | 10,316 | - | 18,182 | 6,921 | 8,252 | 2,110 | 17,283 |
| Transfers to disposal groups | - | - | - | - | - | (67) | - | (67) |
| Intra-group transfers | 177 | (177) | - | - | (351) | 351 | - | - |
| Currency translation and other adjustments | (1) | (45) | - | (46) | (163) | 294 | - | 131 |
| Disposals | - | - | 11 | 11 | - | (17) | (2,149) | (2,166) |
| Amounts written-off | (1,611) | (1,409) | - | (3,020) | (1,479) | (3,047) | - | (4,526) |
| Recoveries of amounts previously written-off | 119 | 261 | - | 380 | 184 | 131 | - | 315 |
| Charge to income statement | | | | | | | | |
| - continued | 2,479 | 3,108 | - | 5,587 | 2,825 | 4,164 | - | 6,989 |
| - discontinued | - | - | (11) | (11) | - | - | 39 | 39 |
| Unwind of discount | (156) | (204) | - | (360) | (146) | (182) | - | (328) |
| At end of period | 8,873 | 11,850 | - | 20,723 | 7,791 | 9,879 | - | 17,670 |

Risk and balance sheet management (continued)

Risk management: Credit risk: Impairment provisions (continued)

Movement in loan impairment provisions (continued)

Key points

- Overall the Q3 2011 impairment charge of £1.5 billion was £0.8 billion or 35% lower than the Q2 2011 charge as the latter reflected the impact of the re-assessment of Ulster Bank's Non-Core development land collateral values.

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- The year-to-date charge for 2011 of £5.6 billion was £1.5 billion lower than 2010, with reductions in both Core (£0.3 billion) and Non-Core (£1.1 billion).
- The Group impairment charge as a percentage of loans and advances was 20 basis points lower at 1.5% in 2011 compared with 2010.
- The loan impairment provision was broadly unchanged at £20.7 billion.

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

| | 30 September 2011 | | | 30 June 2011 | | | 31 December 2010 | | |
|-----------------------|-------------------|--------------------|-------------|--------------|--------------------|-------------|------------------|--------------------|-------------|
| | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m |
| Latent loss | 1,516 | 751 | 2,267 | 1,568 | 786 | 2,354 | 1,653 | 997 | 2,650 |
| Collectively assessed | 4,675 | 1,114 | 5,789 | 4,510 | 1,100 | 5,610 | 4,139 | 1,157 | 5,296 |
| Individually assessed | 2,557 | 9,984 | 12,541 | 2,543 | 10,120 | 12,663 | 1,948 | 8,161 | 10,109 |
| Customer loans | 8,748 | 11,849 | 20,597 | 8,621 | 12,006 | 20,627 | 7,740 | 10,315 | 18,055 |
| Bank loans | 125 | 1 | 126 | 131 | 1 | 132 | 126 | 1 | 127 |
| Total provisions | 8,873 | 11,850 | 20,723 | 8,752 | 12,007 | 20,759 | 7,866 | 10,316 | 18,182 |
| % of loans (1) | 2.1% | 13.2% | 4.1% | 2.1% | 12.6% | 4.0% | 1.9% | 9.1% | 3.4% |

Note:

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

Risk and balance sheet management (continued)

Risk management: Credit risk: Impairment charge

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

| | 30 September 2011 | | | Quarter ended 30 June 2011 | | | 30 September 2010 | | |
|-----------------------|-------------------|--------------------|-------------|-------------------------------|--------------------|-------------|-------------------|--------------------|-------------|
| | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m |
| Latent loss | (33) | (27) | (60) | (16) | (172) | (188) | 132 | (92) | 40 |
| Collectively assessed | 548 | 141 | 689 | 465 | 126 | 591 | 450 | 298 | 748 |
| Individually assessed | 302 | 521 | 823 | 361 | 1,473 | 1,834 | 197 | 923 | 1,120 |

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| | | | | | | | | | |
|---|-------|------|-------|-------|-------|-------|------|-------|-------|
| Customer loans | 817 | 635 | 1,452 | 810 | 1,427 | 2,237 | 779 | 1,129 | 1,908 |
| Securities - sovereign debt impairment and related interest rate hedge adjustments | 202 | - | 202 | 842 | - | 842 | - | - | - |
| Securities - other | 37 | 47 | 84 | 43 | (16) | 27 | 3 | 42 | 45 |
| Charge to income statement | 1,056 | 682 | 1,738 | 1,695 | 1,411 | 3,106 | 782 | 1,171 | 1,953 |
| Charge relating to customer loans as a % of gross customer loans (1) | 0.8% | 2.8% | 1.1% | 0.8% | 6.0% | 1.8% | 0.7% | 3.9% | 1.4% |

| | Nine months ended | | | | | |
|---|-------------------|----------------|-------------|-------------------|----------------|-------------|
| | 30 September 2011 | | | 30 September 2010 | | |
| | Core £m | Non-Core £m | Total £m | Core £m | Non-Core £m | Total £m |
| Latent loss | (165) | (190) | (355) | 63 | (68) | (5) |
| Collectively assessed | 1,597 | 403 | 2,000 | 1,699 | 642 | 2,341 |
| Individually assessed | 1,047 | 2,895 | 3,942 | 1,063 | 3,590 | 4,653 |
| Customer loans | 2,479 | 3,108 | 5,587 | 2,825 | 4,164 | 6,989 |
| Securities - sovereign debt impairment and related interest rate hedge adjustments | 1,044 | - | 1,044 | - | - | - |
| Securities - other | 100 | 60 | 160 | 25 | 101 | 126 |
| Charge to income statement | 3,623 | 3,168 | 6,791 | 2,850 | 4,265 | 7,115 |
| Charge relating to customer loans as a % of gross customer loans (1) | 0.8% | 4.6% | 1.5% | 0.9% | 4.7% | 1.7% |

Note:

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

Risk and balance sheet management (continued)

Risk management: Credit risk: Impairment charge (continued)

Key points

- The £60 million latent loss release in Q3 2011 reflects improving trends in US Retail & Commercial performing book metrics (Core and Non-Core).
- Collectively assessed impairments increased primarily within US Retail & Commercial's home equity and corporate portfolios as well as in Ulster Bank, the latter driven by deteriorating mortgage credit metrics.
- The £1.0 billion decrease in individually assessed impairments in Q3 2011 principally reflects higher impairments booked in Q2 2011 relating to Ulster Bank's development land portfolio in Non-Core.
- Sovereign debt impairments in Q3 2011 reflect further declines in the market value of AFS Greek sovereign bonds.

Debt securities

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

| | Central and local government | | | Banks £m | Other financial institutions | | Corporate £m | Total £m | Of which ABS £m |
|--------------------------------|------------------------------|----------|-------------|-------------|------------------------------------|---------|-----------------|-------------|--------------------------|
| | UK £m | US £m | Other £m | | £m | £m | | | |
| 30 September 2011 | | | | | | | | | |
| Held-for-trading (HFT) | 8,434 | 20,120 | 47,621 | 4,216 | 27,511 | 4,666 | 112,568 | 24,123 | |
| Designated as at fair value | 1 | - | 140 | 4 | 7 | 10 | 162 | 1 | |
| Available-for-sale | 13,328 | 20,032 | 28,976 | 17,268 | 28,463 | 2,334 | 110,401 | 41,091 | |
| Loans and receivables | 10 | - | - | 274 | 5,764 | 478 | 6,526 | 5,447 | |
| | 21,773 | 40,152 | 76,737 | 21,762 | 61,745 | 7,488 | 229,657 | 70,662 | |
| Of which US agencies | - | 5,311 | - | - | 27,931 | - | 33,242 | 30,272 | |
| Short positions (HFT) | (2,896) | (12,763) | (21,484) | (2,043) | (4,437) | (1,680) | (45,303) | (895) | |
| Available-for-sale | | | | | | | | | |
| Gross unrealised gains | 1,090 | 1,240 | 1,331 | 310 | 1,117 | 81 | 5,169 | 1,242 | |
| Gross unrealised losses | - | - | (989) | (1,039) | (2,371) | (24) | (4,423) | (3,114) | |

Risk and balance sheet management (continued)

Risk management: Credit risk: Debt securities (continued)

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

Key points

- Held-for-trading bonds increased by £13.7 billion of which £12.6 billion relates to government bonds (principally G10).
- Whilst the Group's AFS portfolio decreased by £0.7 billion, UK government bonds increased by £5.0 billion, principally in the Group's liquidity portfolio.

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

| | Central and local government | | | Banks | Other financial institutions | | Corporate | Total | Of which ABS |
|-------------------|------------------------------|----|-------|-------|------------------------------|----|-----------|------------|--------------|
| | UK | US | Other | | | | | | |
| 30 September 2011 | £m | £m | £m | £m | £m | £m | £m | % of total | £m |

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

31 December
2010

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

Risk and balance sheet management (continued)

Risk management: Credit risk: Debt securities (continued)

Key points

- The decrease in AAA rated debt securities relates to the downgrading of US government and agencies to AA+ by S&P in August 2011.
- The proportion of debt securities rated A to AA- increased to 16%, principally reflecting the Japanese government downgrade in January 2011.
- Non-investment grade and unrated debt securities now account for 5% of the debt securities portfolio down from 7% at the start of the year.

Asset-backed securities

| | Government sponsored or similar (2) | | RMBS (1) | | MBS covered CMBS (3) | | Other ABS (5) | | Total |
|-------------------|-------------------------------------|----------------|-----------|------|----------------------|---------|---------------|----|-------|
| | Prime | Non-conforming | Sub-prime | bond | (4)CDOs | (4)CLOs | (6) | | |
| 30 September 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m |

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| | | | | | | | | | | |
|----------------------|--------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| AAA | 4,391 | 4,152 | 1,509 | 144 | 3,462 | 893 | 194 | 2,198 | 1,828 | 18,771 |
| AA to AA+ | 31,037 | 117 | 111 | 97 | 1,162 | 839 | 125 | 1,496 | 970 | 35,954 |
| A to AA- | 137 | 603 | 124 | 175 | 1,680 | 1,326 | 166 | 569 | 890 | 5,670 |
| BBB- to A- | - | 147 | 295 | 59 | 1,553 | 383 | 92 | 601 | 1,301 | 4,431 |
| Non-investment grade | - | 768 | 676 | 486 | - | 327 | 1,516 | 170 | 676 | 4,619 |
| Unrated | - | 146 | 47 | 213 | - | 67 | 134 | 331 | 279 | 1,217 |
| | 35,565 | 5,933 | 2,762 | 1,174 | 7,857 | 3,835 | 2,227 | 5,365 | 5,944 | 70,662 |
| Of which in Non-Core | - | 269 | 463 | 276 | - | 1,158 | 1,953 | 4,698 | 1,976 | 10,793 |
| 31 December 2010 | | | | | | | | | | |
| AAA | 28,835 | 4,355 | 1,754 | 317 | 7,107 | 2,789 | 444 | 2,490 | 3,144 | 51,235 |
| AA to AA+ | 1,529 | 147 | 144 | 116 | 357 | 392 | 567 | 1,786 | 1,297 | 6,335 |
| A to AA- | - | 67 | 60 | 212 | 408 | 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 | 5,747 | 3,135 | 1,218 | 7,872 | 4,950 | 3,458 | 6,074 | 8,007 | 70,825 |

Notes:

- (1) Residential mortgage-backed securities.
- (2) Includes US agency and Dutch government guaranteed securities.
- (3) Commercial mortgage-backed securities.
- (4) Collateralised debt obligations.
- (5) Collateralised loan obligations.
- (6) Other ABS includes £1.4 billion (31 December 2010 - £1.9 billion) of covered bonds.

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 in aggregate of those individually less than £0.5 billion.

| | | 30 September 2011 | | | | 31 December 2010 | | | |
|------------------------------|------------------------------|------------------------------|-----------|-------|--------------|----------------------|------------------------------|------------------------------|-----------|
| Central and local government | Other financial institutions | Other financial institutions | Corporate | Total | Of which ABS | AFS reserves (gross) | Central and local government | Other financial institutions | Corporate |
| | | | | | | | | | |

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| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
|-------------------------|--------|--------|--------|-------|---------|--------|---------|--------|--------|--------|-------|
| US | 20,032 | 394 | 16,710 | 169 | 37,305 | 19,907 | 523 | 22,244 | 704 | 15,973 | 65 |
| UK | 13,328 | 4,053 | 996 | 891 | 19,268 | 3,830 | 589 | 8,377 | 4,297 | 1,662 | 438 |
| Germany | 11,084 | 1,518 | 109 | 99 | 12,810 | 1,083 | 416 | 10,648 | 1,291 | 386 | 219 |
| Netherlands | 2,749 | 1,357 | 6,163 | 201 | 10,470 | 6,892 | (8) | 3,469 | 984 | 6,238 | 264 |
| Spain | 81 | 5,131 | 1,632 | 8 | 6,852 | 6,724 | (1,408) | 88 | 5,264 | 1,657 | 9 |
| France | 4,605 | 988 | 561 | 247 | 6,401 | 639 | 52 | 5,912 | 774 | 630 | 71 |
| Japan | 3,575 | - | - | 6 | 3,581 | - | 1 | 4,354 | - | 80 | 2 |
| Australia | - | 1,834 | 262 | 289 | 2,385 | 495 | (17) | - | 1,659 | 320 | 93 |
| MDBs (1) | - | - | 1,112 | - | 1,112 | - | 37 | - | - | 912 | - |
| Italy | 852 | 168 | 55 | 6 | 1,081 | 221 | (215) | 906 | 198 | 54 | 15 |
| Singapore | 732 | 180 | 20 | - | 932 | - | - | 649 | 189 | 20 | - |
| Belgium | 771 | 39 | - | 3 | 813 | 34 | (91) | 763 | 39 | - | 1 |
| India | 627 | 176 | - | - | 803 | - | (6) | 548 | 139 | - | - |
| Hong Kong | 641 | - | - | - | 641 | - | - | 905 | 8 | - | - |
| Denmark | 433 | 183 | - | - | 616 | - | - | 629 | 172 | - | - |
| Austria | 296 | 61 | 105 | 140 | 602 | 156 | (40) | 274 | 67 | 4 | 131 |
| Sweden | 39 | 379 | 141 | 26 | 585 | 250 | 1 | 30 | 288 | 131 | 15 |
| Switzerland | 323 | 228 | - | 7 | 558 | - | 1 | 657 | 148 | - | 8 |
| Greece | 532 | - | - | - | 532 | - | - | 895 | - | - | - |
| Republic of Ireland | 115 | 176 | 1 | 91 | 383 | 151 | (83) | 104 | 435 | 62 | 88 |
| South Korea | 138 | - | 86 | - | 224 | 86 | - | 261 | - | 429 | - |
| < £0.5bn | 1,383 | 403 | 510 | 151 | 2,447 | 623 | (142) | 1,773 | 326 | 590 | 95 |
| | 62,336 | 17,268 | 28,463 | 2,334 | 110,401 | 41,091 | (390) | 63,486 | 16,982 | 29,148 | 1,514 |
| Tax on AFS reserves | | | | | | | 11 | | | | |
| AFS reserves net of tax | | | | | | | (379) | | | | |

(1) Represents multilateral development banks and other supranational organisations.

Risk and balance sheet management (continued)

Risk management: Credit risk: Derivatives

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

| Asset quality | Probability of default range | 30 September 2011 | | | | | Total | 31 | |
|---------------|------------------------------|-------------------|------------|-------------|-----------|--------------|-------|--------------------|---------------------|
| | | 0-3 months | 3-6 months | 6-12 months | 1-5 years | Over 5 years | | 30 June 2011 Total | December 2010 Total |
| | | | | | | | | | |

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| | | £m | £m | £m | £m | £m | £m | £m | £m |
|---|------------------|--------|--------|--------|---------|---------|-----------|-----------|-----------|
| AQ1 | 0% - 0.034% | 41,121 | 13,820 | 19,858 | 137,585 | 304,713 | 517,097 | 357,031 | 408,489 |
| AQ2 | 0.034% - 0.048% | 591 | 116 | 347 | 2,016 | 4,195 | 7,265 | 5,600 | 2,659 |
| AQ3 | 0.048% - 0.095% | 2,618 | 525 | 939 | 3,609 | 6,832 | 14,523 | 10,908 | 3,317 |
| AQ4 | 0.095% - 0.381% | 1,135 | 399 | 828 | 3,373 | 4,670 | 10,405 | 6,624 | 3,391 |
| AQ5 | 0.381% - 1.076% | 4,469 | 173 | 341 | 2,707 | 6,019 | 13,709 | 6,933 | 4,860 |
| AQ6 | 1.076% - 2.153% | 282 | 65 | 78 | 929 | 1,117 | 2,471 | 3,595 | 1,070 |
| AQ7 | 2.153% - 6.089% | 327 | 134 | 93 | 670 | 2,144 | 3,368 | 2,072 | 857 |
| AQ8 | 6.089% - 17.222% | 3 | 11 | 30 | 160 | 970 | 1,174 | 654 | 403 |
| AQ9 | 17.222% - 100% | 10 | 12 | 19 | 402 | 697 | 1,140 | 486 | 450 |
| AQ10 | 100% | 26 | 11 | 48 | 713 | 394 | 1,192 | 969 | 1,581 |
| | | 50,582 | 15,266 | 22,581 | 152,164 | 331,751 | 572,344 | 394,872 | 427,077 |
| Counterparty mtm netting | | | | | | | (473,256) | (323,455) | (330,397) |
| Cash collateral held against derivative exposures | | | | | | | (38,202) | (27,500) | (31,096) |
| Net exposure | | | | | | | 60,886 | 43,917 | 65,584 |

At 30 September 2011, the Group also held collateral in the form of securities of £5.5 billion (30 June 2011 - £4.2 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 September 2011 | | 30 June 2011 | | 31 December 2010 | |
|--------------------------------|-------------------|-------------|--------------|-------------|------------------|-------------|
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| | £m | £m | £m | £m | £m | £m |
| Interest rate contracts | 424,130 | 407,814 | 283,966 | 269,638 | 311,731 | 299,209 |
| Exchange rate contracts | 107,024 | 112,184 | 72,682 | 78,095 | 83,253 | 89,375 |
| Credit derivatives | 33,884 | 31,574 | 32,507 | 30,877 | 26,872 | 25,344 |
| Equity and commodity contracts | 7,306 | 10,218 | 5,717 | 9,199 | 5,221 | 10,039 |
| | 572,344 | 561,790 | 394,872 | 387,809 | 427,077 | 423,967 |

Key points

30 September 2011 compared with 30 June 2011

- Net exposure, after taking account of position and collateral netting arrangements, increased significantly (up 39%) due to higher derivative fair values (see below) primarily reflecting economic uncertainty and the eurozone crisis.
- Continued reductions in interest rates and the depreciation of sterling against the US dollar resulted in an increase in fair values of interest rate contracts. This was partially offset by the effect of the appreciation of sterling against the euro. All major five and ten year interest rate indices (sterling, euro, and the US dollar), moved down, decreasing by approximately 74 to 84 and 90 to 116 basis points respectively.

Risk and balance sheet management (continued)

Risk management: Credit risk: Derivatives (continued)

Key points (continued)

30 September 2011 compared with 30 June 2011 (continued)

- Exchange rate contracts increased due to increased volume, trading fluctuations and the depreciation of sterling against the US dollar, as the majority of exchange rate contracts are US dollar denominated.
- Credit derivative fair values increased due to widening credit spreads.

30 September 2011 compared with 31 December 2010

- Net exposure, after taking account of position and collateral netting arrangements, reduced by 7%, despite an increase in derivative carrying values primarily due to increased use of netting arrangements.
- Interest rate contracts increased due to continued reductions in interest rate yields. This was partially offset by the effect of marginal appreciation of sterling against the US dollar and the euro.
- Exchange rate contracts increased due to trading fluctuations and movements in forward rates and volume.
- Credit derivative fair values increased due to widening credit spreads.

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 held within Non-Core.

Exposures to monoline insurers

| | Notional: protected assets £m | Fair value: reference protected assets £m | Gross exposure £m | Credit valuation adjustment (CVA) £m | Hedges £m | Net exposure £m |
|-------------------------|--|---|-------------------------|--|--------------|-----------------------|
| 30 September 2011 | | | | | | |
| A to AA- | 5,411 | 4,735 | 676 | 259 | - | 417 |
| Non-investment grade | 7,098 | 3,684 | 3,414 | 2,568 | 70 | 776 |
| | 12,509 | 8,419 | 4,090 | 2,827 | 70 | 1,193 |

| | | | | | | |
|-------------------------|--------|--------|-------|-------|----|-------|
| Of which: | | | | | | |
| CMBS | 3,954 | 1,879 | 2,075 | 1,599 | | |
| CDOs | 988 | 156 | 832 | 619 | | |
| CLOs | 4,806 | 4,348 | 458 | 183 | | |
| Other ABS | 2,275 | 1,758 | 517 | 309 | | |
| Other | 486 | 278 | 208 | 117 | | |
| | 12,509 | 8,419 | 4,090 | 2,827 | | |
| 30 June 2011 | | | | | | |
| A to AA- | 5,547 | 4,936 | 611 | 166 | - | 445 |
| Non-investment 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 December 2010 | | | | | | |
| A to AA- | 6,336 | 5,503 | 833 | 272 | - | 561 |
| Non-investment grade | 8,555 | 5,365 | 3,190 | 2,171 | 71 | 948 |
| | 14,891 | 10,868 | 4,023 | 2,443 | 71 | 1,509 |
| Of which: | | | | | | |
| CMBS | 4,149 | 2,424 | 1,725 | 1,253 | | |
| CDOs | 1,133 | 256 | 877 | 593 | | |
| CLOs | 6,724 | 6,121 | 603 | 210 | | |
| Other ABS | 2,393 | 1,779 | 614 | 294 | | |
| Other | 492 | 288 | 204 | 93 | | |
| | 14,891 | 10,868 | 4,023 | 2,443 | | |

Risk and balance sheet management (continued)

Risk management: Credit risk: Derivatives (continued)

Exposure to monoline insurers (continued)

Key points

30 September 2011 compared with 30 June 2011

- The gross exposure, principally to monolines, increased reflecting the effect of credit spread on the underlying reference instruments and strengthening of the US dollar against sterling.
- The increased CVA reflected the increase in exposure and the widened credit spreads of monoline insurers.

30 September 2011 compared with 31 December 2010

- The increase in monoline CVA on a year-to-date basis was primarily attributable to wider monoline credit spreads.

Exposure to CPDCs

| | Notional: protected assets £m | Fair value: reference protected assets £m | Gross exposure £m | Credit valuation adjustment £m | Net exposure £m |
|----------------------|--|---|-------------------------|---|-----------------------|
| 30 September 2011 | | | | | |
| AAA | 211 | 209 | 2 | - | 2 |
| A to AA- | 640 | 614 | 26 | 15 | 11 |
| Non-investment grade | 19,294 | 17,507 | 1,787 | 902 | 885 |
| Unrated | 3,985 | 3,552 | 433 | 316 | 117 |
| | 24,130 | 21,882 | 2,248 | 1,233 | 1,015 |
| 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 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: Derivatives (continued)

Exposure to CPDCs (continued)

Key points

30 September 2011 compared with 30 June 2011

- The increase in gross exposure to CDPCs was mainly driven by wider credit spreads of the underlying reference loans and bonds coupled with the increase in the relative value of senior tranches.
- CVA as a percentage of gross exposures increased from 45% to 55% principally reflecting higher CVA on certain CDPCs due to increased risks in the portfolio.

30 September 2011 compared with 31 December 2010

- The year-to-date increase in the gross exposure to CDPCs mainly in Q3 2011, resulted from wider credit spreads of the underlying reference loans and bonds coupled with the increase in the relative value of senior tranches.
- CVA as a percentage of gross exposures increased from 39% to 55%, as noted above.

Risk and balance sheet management (continued)

Risk management: Credit risk: Country risk

Background

All country exposures are covered by the Group's country risk framework. This framework includes active management of portfolios either when these have been identified as exhibiting signs of stress, using the Group's country risk watch list process, or when it is otherwise considered appropriate. Granular portfolio reviews are undertaken to align country risk profiles to the Group's country risk appetite in light of evolving economic and political developments. Accordingly, limit controls are tailored to the level of risk associated with each country.

Ongoing concern surrounding the most vulnerable eurozone economies has intensified the Group's vigilance and controls. This involves frequent, comprehensive and detailed reviews of exposures to each of these countries, including increased prudence in counterparty monitoring which has led to several divestments and exposure reductions. In addition to Greece, Portugal and Ireland, the Group has recently brought Italy and Spain under tighter controls, and country limits are being set in response to these countries' uncertain outlook.

Country events in North Africa and the Middle East, a tsunami plus nuclear disaster in Japan, and developments in the eurozone have placed crisis management on the daily agenda for country risk this year. Following on from sovereign related stress tests and a series of broad thematic reviews, a Group wide response plan has been prepared to position the Group against potential increased stress in the eurozone. The plan covers themes such as sovereign debt restructuring, various eurozone breakup scenarios and a re-examination of prospective financial sector support given ongoing public finance and political pressures.

The following tables show the Group's exposure to countries at 30 September 2011, where the on-balance sheet exposure to counterparties incorporated in the country exceeded £1 billion and where the country had an external rating of A+ or below from S&P, Moody's or Fitch, as well as selected other eurozone countries. The numbers are stated before taking into account the impact of mitigating action, such as collateral, insurance or guarantees that may have been taken to reduce or eliminate exposure to country risk events. Shipping related exposures are not included due to their multinational nature.

The following apply to the tables on pages 128 to 140:

Lending comprises loans and advances, gross of impairment provisions, to: central banks, including cash balances; other banks and financial institutions, incorporating overdraft and other short-term facilities; corporations, in large part loans and leases; and individuals, comprising mortgages, personal loans and credit card balances. Risk elements in lending (REIL) are included within lending and comprise impaired loans and loans where an impairment event has taken place.

Risk and balance sheet management (continued)

Risk management: Credit risk: Country risk (continued)

Background (continued)

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

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

Off balance sheet amounts comprise the sum of contingent liabilities, including guarantees, and committed undrawn facilities.

Credit default swaps (CDS): Under a CDS contract the buyer is protected in the event of the default of the reference entity by the seller. Fair value or mtm value of CDS represents the carrying value on the balance sheet. The mtm value of CDSs is included within derivatives against the counterparty of the credit derivative, as opposed to the reference entity.

Risk and balance sheet management (continued)

Risk management: Credit risk: Country risk (continued)

Summary

| | Lending | | | | | | | Of which | | Debt securities | Derivatives (gross of collateral) and repos |
|-------------------|------------------------------|---------------|-------------|------------------------------|-----------|----------|---------------|----------|----------|-----------------|---|
| | Central and local government | Central banks | Other banks | Other financial institutions | Corporate | Personal | Total lending | Core | Non-Core | | |
| 30 September 2011 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |

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Eurozone:

| | | | | | | | | | | | |
|------------------|-------|--------|-------|-------|--------|--------|--------|--------|--------|--------|--------|
| Ireland | 54 | 2,235 | 49 | 542 | 19,574 | 19,606 | 42,060 | 31,549 | 10,511 | 900 | 2,354 |
| Spain | 10 | 3 | 554 | 90 | 6,599 | 380 | 7,636 | 3,505 | 4,131 | 6,497 | 2,521 |
| Italy | - | 76 | 420 | 472 | 2,057 | 25 | 3,050 | 1,437 | 1,613 | 1,180 | 2,331 |
| Greece | 7 | 10 | 1 | 32 | 381 | 14 | 445 | 325 | 120 | 707 | 335 |
| Portugal | 43 | - | 57 | - | 579 | 5 | 684 | 333 | 351 | 139 | 443 |
| Other | | | | | | | | | | | |
| - Germany | - | 15,483 | 1,473 | 334 | 7,099 | 166 | 24,555 | 18,832 | 5,723 | 17,434 | 15,769 |
| - | | | | | | | | | | | |
| Netherlands | 2,257 | 7,393 | 642 | 1,896 | 5,540 | 21 | 17,749 | 15,003 | 2,746 | 11,729 | 11,290 |
| - France | 503 | 56 | 1,998 | 695 | 4,354 | 79 | 7,685 | 5,218 | 2,467 | 11,125 | 9,777 |
| - | | | | | | | | | | | |
| Luxembourg | - | 27 | 92 | 1,087 | 2,448 | 3 | 3,657 | 2,060 | 1,597 | 162 | 3,663 |
| - Belgium | 226 | 13 | 384 | 399 | 800 | 20 | 1,842 | 1,273 | 569 | 920 | 2,818 |
| Rest of eurozone | 120 | - | 61 | 115 | 1,511 | 26 | 1,833 | 1,494 | 339 | 1,152 | 1,919 |

Other selected countries

| | | | | | | | | | | | |
|-------------|-----|-----|-------|----|-------|-----|-------|-------|-------|-------|-----|
| India | - | 164 | 1,382 | 94 | 3,295 | 150 | 5,085 | 4,670 | 415 | 1,867 | 194 |
| China | 23 | 170 | 2,226 | 6 | 746 | 55 | 3,226 | 3,033 | 193 | 444 | 762 |
| South Korea | - | 39 | 1,024 | 3 | 636 | 1 | 1,703 | 1,693 | 10 | 1,106 | 589 |
| Turkey | 231 | 27 | 294 | 55 | 1,187 | 15 | 1,809 | 1,330 | 479 | 386 | 83 |
| Russia | - | 20 | 986 | 44 | 852 | 69 | 1,971 | 1,851 | 120 | 107 | 93 |
| Brazil | - | - | 1,035 | - | 273 | 4 | 1,312 | 1,201 | 111 | 659 | 25 |
| Romania | 30 | 174 | 22 | 15 | 473 | 410 | 1,124 | 13 | 1,111 | 302 | 10 |
| Mexico | - | - | 207 | - | 993 | 1 | 1,201 | 819 | 382 | 27 | 127 |
| Indonesia | 77 | 31 | 288 | 23 | 311 | 110 | 840 | 720 | 120 | 139 | 365 |
| Poland | 37 | - | - | 10 | 635 | 5 | 687 | 639 | 48 | 294 | 60 |

For definitions refer to pages 126 and 127.

Risk and balance sheet management (continued)

Risk management: Credit risk: Country risk (continued)

Summary(continued)

| | Lending | | | | | | | Of which | | Debt securities | Derivatives (gross of collateral) and repos |
|------------------|------------------------------|---------------|-------------|------------------------------|-----------|----------|---------------|----------|----------|-----------------|---|
| | Central and local government | Central banks | Other banks | Other financial institutions | Corporate | Personal | Total lending | Core | Non-Core | | |
| 31 December 2010 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |

Eurozone:

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| | | | | | | | | | | | |
|--------------------------|-----|--------|-------|-------|--------|--------|--------|--------|--------|--------|--------|
| Ireland | 61 | 2,119 | 87 | 813 | 19,881 | 20,228 | 43,189 | 32,432 | 10,757 | 1,323 | 2,940 |
| Spain | 19 | 5 | 166 | 92 | 6,962 | 407 | 7,651 | 3,130 | 4,521 | 7,107 | 2,047 |
| Italy | 45 | 78 | 668 | 418 | 2,483 | 27 | 3,719 | 1,818 | 1,901 | 3,836 | 2,030 |
| Greece | 14 | 36 | 18 | 31 | 188 | 16 | 303 | 173 | 130 | 974 | 203 |
| Portugal | 86 | - | 63 | - | 611 | 6 | 766 | 450 | 316 | 242 | 393 |
| Other | | | | | | | | | | | |
| - Germany | - | 10,894 | 1,060 | 422 | 7,423 | 162 | 19,961 | 13,586 | 6,375 | 14,747 | 15,263 |
| - | | | | | | | | | | | |
| Netherlands | 914 | 6,484 | 554 | 1,801 | 6,161 | 81 | 15,995 | 12,792 | 3,203 | 12,523 | 9,035 |
| - France | 511 | 3 | 1,095 | 470 | 4,376 | 102 | 6,557 | 3,769 | 2,788 | 14,041 | 8,606 |
| - | | | | | | | | | | | |
| Luxembourg | - | 25 | 26 | 734 | 2,503 | 3 | 3,291 | 1,773 | 1,518 | 378 | 2,545 |
| - Belgium | 102 | 14 | 441 | 32 | 893 | 327 | 1,809 | 1,307 | 502 | 803 | 2,207 |
| Rest of eurozone | 124 | 1 | 142 | 119 | 1,503 | 24 | 1,913 | 1,581 | 332 | 535 | 1,351 |
| Other selected countries | | | | | | | | | | | |
| India | - | - | 1,307 | 307 | 2,590 | 273 | 4,477 | 3,824 | 653 | 1,686 | 177 |
| China | 17 | 298 | 1,223 | 16 | 753 | 64 | 2,371 | 2,135 | 236 | 573 | 251 |
| South Korea | - | 276 | 1,033 | 5 | 555 | 2 | 1,871 | 1,821 | 50 | 1,353 | 457 |
| Turkey | 282 | 68 | 448 | 37 | 1,365 | 12 | 2,212 | 1,520 | 692 | 550 | 103 |
| Russia | - | 110 | 244 | 7 | 1,181 | 58 | 1,600 | 1,475 | 125 | 124 | 51 |
| Brazil | - | - | 825 | - | 315 | 5 | 1,145 | 1,025 | 120 | 687 | 15 |
| Romania | 36 | 178 | 21 | 21 | 426 | 446 | 1,128 | 7 | 1,121 | 310 | 8 |
| Mexico | - | 8 | 149 | - | 999 | 1 | 1,157 | 854 | 303 | 144 | 122 |
| Indonesia | 84 | 42 | 242 | 19 | 294 | 131 | 812 | 658 | 154 | 356 | 249 |
| Poland | - | 168 | 7 | 7 | 655 | 6 | 843 | 735 | 108 | 271 | 69 |

For definitions refer to pages 126 and 127.

Risk and balance sheet management (continued)

Risk management: Credit risk: Country risk (continued)

External risk environment

So far 2011 has seen heightened country risks, which have intensified in the past quarter. However, trends have been divergent. Conditions have deteriorated among vulnerable eurozone countries facing growth impediments and higher public debt burdens, with market risks rising sharply in the past quarter. Many emerging markets have continued to enjoy relative stability, seeing net inflows of capital and lower spreads despite the impact of higher risk aversion in Q3 2011. In the US, notwithstanding a sovereign downgrade from a rating agency, a deal was secured to increase the sovereign debt ceiling, and yields on government debt remain low.

Europe has been at the centre of rising global risks, owing to a combination of slower growth among some of its major economies and a further deepening of the ongoing sovereign crisis which has in turn, increasingly harmed financial sector health. Risks in Greece have risen as a deeper than expected contraction in GDP has adversely affected the fiscal adjustment programme and hit debt sustainability. Some private sector creditors have proposed a burden sharing agreement to reduce debt repayments somewhat, but market prices of sovereign debt have implied investor expectations of a broader debt restructuring and concerns over contagion have risen sharply.

Despite the announcement of significant new support proposals by eurozone leaders in July, investor worries over risks to their implementation rose and market conditions worsened markedly through Q3 2011 as a result. Risk aversion towards Spanish and Italian assets picked up and despite a policy response by both countries, yields remained elevated, prompting the European Central Bank (ECB) to intervene to support their bonds in secondary markets for the first time. Contagion affected bank stocks and asset prices. At the International Monetary Fund (IMF) annual meetings in September, eurozone leaders agreed to enhance anti-crisis measures. Some steps, including boosting the resources of the European Financial Stability Facility and a proposed 50% voluntary haircut by private sector investors holding Greek debt, were taken at two key summits in October, but implementation risks remain high. Within a week of the summit, Greece proposed a referendum on its commitments under the deal, resulting in renewed concerns over the possibility of a more comprehensive restructuring.

Meanwhile, Portugal's new government has continued to remain on track with implementation of the European Union - International Monetary Fund (EU-IMF) deal agreed in May after a sharp deterioration in sovereign liquidity. Ireland's performance under its EU-IMF programme has been good and the announcement of a bank restructuring deal without defaults on senior debt obligations has helped improve market confidence. This was reflected in a compression in bond spreads in Q3 2011.

Emerging markets have meanwhile continued to perform relatively well. In Asia, despite growth slowing, China and India have continued to post strong overall expansion, while generally large external savings levels have reinforced balance of payments stability. In China specifically, measures to curb house price growth have proven effective, though concerns over bank asset quality linked to rapid lending growth in 2009 have risen.

In Emerging Europe, Russia has seen some contagion into asset markets from weaker commodity prospects and a challenging investment climate, but the sovereign balance sheet remains quite robust. Foreign exchange exposures remain a risk factor in a number of Eastern European economies. Elsewhere, Turkey's economy cooled in Q3 2011, helping to narrow the current account deficit sharply, though external vulnerabilities remain.

Risk and balance sheet management (continued)

Risk management: Credit risk: Country risk (continued)

External risk environment (continued)

The Middle East and North Africa has been characterised by political instability in a number of the relatively lower income countries. Excluding Bahrain, pressures for change have been more contained in the Gulf Cooperation Council countries.

Latin America continues to be characterised by relative stability owing to balance sheet repair by a number of countries following crises in previous decades. Capital inflows have contributed to currency appreciation, but overheating pressures have so far proven contained, including in Brazil where credit growth has slowed from high levels.

Overall, the outlook for the rest of the year remains challenging, with risks likely to remain elevated but divergent. Much will depend on the success of EU efforts to contain contagion from the sovereign crisis and whether growth headwinds in larger advanced economies persist. Emerging market balance sheet risks remain lower, despite ongoing structural and political constraints, but these economies will continue to be affected by events elsewhere through financial markets and trade channels.

Key points

Currency movements had a significant impact on exposures in the third quarter as sterling fell by 2.8% against the US dollar and rose by 5.0% against the euro. However, they had less impact on exposures year-to-date as sterling rose by only 0.6% against the US dollar and 0.2% against the euro over the first three quarters of 2011.

- Total exposure to over half of the countries shown in the table decreased over the nine months since 31 December 2010, driven partly by clients' debt reduction efforts and partly by a restrictive stance on the part of the Group. Reductions were seen particularly in off-balance sheet exposures and in lending. Exposures generally increased in (collateralised) derivatives and repos.
- India - Continued strong economic growth led total exposure to grow by £1.1 billion so far this year, largely due to increases in lending to corporate clients (£0.7 billion) and in debt securities (£0.2 billion).
- China - Lending to Chinese banks increased by £1.0 billion to £2.4 billion in 2011. This reflects increased activity with the top tier banks, partially driven by on-shore regulatory needs, and an increase in trade finance activity. These credit facilities support trade within the Asia-Pacific region as well as a number of key UK clients with trade finance requirements in China.
- South Korea - Total exposure decreased by £0.6 billion, largely due to reductions in debt securities reflecting a hedge against a derivatives position which decreased over the course of the year and a reduction in off-balance exposures reflecting the expiration of a large medium-term guarantee and the Group's cautious stance given the current global economic downturn.
- Eurozone - Portfolio composition and trends in a number of vulnerable eurozone countries are discussed in more detail below. Here, most peripheral eurozone exposure decreased, with derivatives and repos being the only component that still saw some gross increases in the third quarter. The CDS positions referencing sovereign debt are generally collateralised and are with large international banks or large international asset management companies outside the country of the referenced sovereign.
- In the rest of the eurozone, exposure in the first nine months of 2011 increased mainly in lending to central banks (in Germany and the Netherlands, largely deposits of excess liquidity), to governments (the Netherlands) and to banks, particularly in the first half of the year (France and the Netherlands), as well as in derivatives and repos (the Netherlands, France and Luxembourg).

Risk and balance sheet management (continued)

Risk management: Credit risk: Country risk: Ireland

| Issuer | Lending £m | REIL £m | Impairment provisions £m | AFS and LAR debt securities £m | AFS reserves £m | HFT debt securities | | Total debt securities £m | Derivatives (gross of collateral) and repos £m | Contingent liabilities and commitments £m |
|------------------------------------|---------------|------------|--------------------------------|---|-----------------------|------------------------|-------------|--------------------------------|--|--|
| | | | | | | Long £m | Short £m | | | |
| 30 September 2011 | | | | | | | | | | |
| Central and local government | 54 | - | - | 115 | (40) | 30 | 30 | 115 | 20 | 1 |
| Central banks | 2,235 | - | - | - | - | - | - | - | 1 | - |
| Other banks | 49 | - | - | 176 | (44) | 67 | - | 243 | 901 | 52 |

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| | | | | | | | | | | |
|------------------------------|--------|--------|-------|-----|------|-----|-----|-------|-------|-------|
| Other financial institutions | 542 | - | - | 57 | - | 250 | 52 | 255 | 1,024 | 691 |
| Corporate | 19,574 | 10,195 | 5,667 | 148 | 1 | 139 | - | 287 | 407 | 2,061 |
| Personal | 19,606 | 2,210 | 954 | - | - | - | - | - | 1 | 535 |
| | 42,060 | 12,405 | 6,621 | 496 | (83) | 486 | 82 | 900 | 2,354 | 3,340 |
| 31 December 2010 | | | | | | | | | | |
| Central and local government | 61 | - | - | 104 | (45) | 93 | 88 | 109 | 20 | 1 |
| Central banks | 2,119 | - | - | - | - | 7 | - | 7 | 126 | - |
| Other banks | 87 | - | - | 435 | (51) | 96 | 45 | 486 | 1,523 | 83 |
| Other financial institutions | 813 | - | - | 291 | (1) | 205 | - | 496 | 837 | 1,050 |
| Corporate | 19,881 | 8,291 | 4,072 | 91 | (2) | 140 | 6 | 225 | 434 | 2,633 |
| Personal | 20,228 | 1,638 | 534 | - | - | - | - | - | - | 544 |
| | 43,189 | 9,929 | 4,606 | 921 | (99) | 541 | 139 | 1,323 | 2,940 | 4,311 |

Fair values of CDS referencing sovereign exposures were:

| Fair value | 30 September 31 December | |
|-------------------|--------------------------|------|
| | 2011 | 2010 |
| | £m | £m |
| Bought protection | 511 | 360 |
| Sold protection | 523 | 387 |

For definitions refer to pages 126 and 127.

Risk and balance sheet management (continued)

Risk management: Credit risk: Country risk: Ireland (continued)

Key points

The Group has significant exposure to Ireland, largely through Ulster Bank. The portfolio is predominantly personal lending of £19.6 billion (largely mortgages) and corporate lending of £19.6 billion. In addition, the Group has lending and derivatives exposure to the Central Bank of Ireland, financial institutions and large international clients with funding units based in Ireland.

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Total Group exposure (including off-balance sheet) declined by £3.1 billion to less than £50 billion from December 2010 to September 2011. Ulster Bank currently represents 87% of the Group's total Irish exposure.

Central and local government and central bank

Exposure to the government is modest at £0.2 billion.

Exposure to the central bank fluctuates, driven by reserve requirements and by placings of excess liquidity as part of the Group's assets and liabilities management. At 30 September 2011, exposure was £2.2 billion.

Financial institutions

Interbank lending, which is provided to the largest, systemically important Irish banks, is approximately £50 million.

Derivatives and repos exposure in GBM to banks and other financial institutions increased by £0.8 billion over the year to date. Transactions are typically collateralised.

Corporations

Corporate lending exposure decreased by approximately £0.3 billion in the nine months ended 30 September 2011. Exposure in this area is highest in the property sector £12.5 billion, which also experienced the biggest reduction, £160 million, in the same period. Risk elements in lending of £10.2 billion and impairment provisions of £5.7 billion, up since December 2010 by £1.9 billion and £1.6 billion respectively, are further discussed in the Ulster Bank section.

Personal

The Ulster Bank retail portfolio mainly consists of mortgages (approximately 92%), with the remainder comprising other personal lending and credit card exposure (see also page 142).

Non-Core

Of the total Irish exposure, £11.5 billion is designated Non-Core, £10.0 billion of which is related to commercial real estate.

Risk and balance sheet management (continued)

Risk management: Credit risk: Country risk: Spain

| Issuer | Lending £m | REIL £m | Impairment provisions £m | AFS and LAR debt securities £m | AFS reserves £m | HFT debt securities | | Total debt securities £m | Derivatives (gross of collateral) and repos £m | Contingent liabilities and commitments £m |
|--------|---------------|------------|--------------------------------|---|-----------------------|------------------------|-------------|--------------------------------|--|--|
| | | | | | | Long £m | Short £m | | | |
| | | | | | | | | | | |

30
September

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| | | | | | | | | | | |
|------------------------------|-------|-------|-----|-------|---------|-------|-------|-------|-------|-------|
| 2011 | | | | | | | | | | |
| Central and local government | 10 | - | - | 81 | (9) | 864 | 1,271 | (326) | 40 | 30 |
| Central banks | 3 | - | - | - | - | - | - | - | - | - |
| Other banks | 554 | - | - | 5,131 | (820) | 137 | 178 | 5,090 | 1,904 | 40 |
| Other financial institutions | 90 | - | - | 1,694 | (579) | 71 | 55 | 1,710 | 32 | 228 |
| Corporate | 6,599 | 1,438 | 690 | 8 | - | 18 | 3 | 23 | 545 | 1,635 |
| Personal | 380 | 1 | - | - | - | - | - | - | - | 57 |
| | 7,636 | 1,439 | 690 | 6,914 | (1,408) | 1,090 | 1,507 | 6,497 | 2,521 | 1,990 |

| | | | | | | | | | | |
|------------------------------|-------|-------|-----|-------|---------|-------|-------|-------|-------|-------|
| 31 December 2010 | | | | | | | | | | |
| Central and local government | 19 | - | - | 88 | (7) | 1,172 | 1,248 | 12 | 53 | 1 |
| Central banks | 5 | - | - | - | - | - | - | - | - | - |
| Other banks | 166 | - | - | 5,264 | (834) | 147 | 118 | 5,293 | 1,482 | 41 |
| Other financial institutions | 92 | - | - | 1,724 | (474) | 34 | 7 | 1,751 | 22 | 285 |
| Corporate | 6,962 | 1,871 | 572 | 9 | 38 | 50 | 8 | 51 | 490 | 2,494 |
| Personal | 407 | 1 | - | - | - | - | - | - | - | 62 |
| | 7,651 | 1,872 | 572 | 7,085 | (1,277) | 1,403 | 1,381 | 7,107 | 2,047 | 2,883 |

Fair values of CDS referencing sovereign exposures were:

| | 30 September 2011 | 31 December 2010 |
|-------------------|-------------------|------------------|
| Fair value | £m | £m |
| Bought protection | 562 | 436 |
| Sold protection | 547 | 435 |

For definitions refer to pages 126 and 127.

Risk and balance sheet management (continued)

Risk management: Credit risk: Country risk: Spain (continued)

Key points

The Group's exposure to Spain consists primarily of lending to major investment grade corporations and a large covered bond portfolio.

Total (on and off-balance sheet) exposure decreased by £1.0 billion in the nine months ended 30 September 2011 to £18.6 billion, the majority of which consists of exposure to the property, natural resource and banking sectors.

Central and local government and central bank

The Group's exposure to the government is negative owing to a net short position in held-for-trading debt securities.

Financial institutions

A sizeable covered bond portfolio of £6.8 billion is the Group's largest exposure to Spanish banks and other financial institutions. Stress analysis on the AFS debt securities indicates that this exposure is unlikely to suffer material credit losses.

A further £1.9 billion of the Group's exposure to financial institutions consists of fully collateralised derivatives exposure to the top banks and a few of the largest regional banks. Lending to banks of almost £0.6 billion consists mainly of short-term money market lines with the top two international Spanish banks.

Corporations

Total exposure to corporate clients declined by £1.2 billion in the nine months ended 30 September 2011, driven by reductions in exposure to corporations in the property and telecom, media and technology sectors. REIL relates to commercial real estate lending and decreased reflecting disposals and restructurings; however provision increased due to declining collateral values.

Non-Core

Of the total Spanish exposure, £4.9 billion is in Non-Core, the majority of which is related to either real estate or project finance. Current Spanish property market conditions present significant disposal challenges. Despite this, Non-Core continues to seek divestment opportunities across the portfolio.

Risk and balance sheet management (continued)

Risk management: Credit risk: Country risk: Italy

| Issuer | Lending £m | REIL £m | Impairment provisions £m | AFS and LAR debt securities £m | AFS reserves £m | HFT debt securities | | Total debt securities £m | Derivatives (gross of collateral) and repos £m | Contingent liabilities and commitments £m |
|--------|---------------|------------|--------------------------------|---|-----------------------|------------------------|-------------|--------------------------------|--|--|
| | | | | | | Long £m | Short £m | | | |

30
September
2011

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| | | | | | | | | | | |
|------------------------------|-------|-----|-----|-------|-------|-------|-------|-------|-------|-------|
| Central and local government | - | - | - | 852 | (191) | 5,076 | 5,634 | 294 | 103 | - |
| Central banks | 76 | - | - | - | - | - | - | - | - | - |
| Other banks | 420 | - | - | 168 | (16) | 88 | 5 | 251 | 1,143 | 26 |
| Other financial institutions | 472 | - | - | 538 | (8) | 49 | 81 | 506 | 672 | 957 |
| Corporate | 2,057 | 451 | 139 | 68 | - | 61 | - | 129 | 413 | 2,172 |
| Personal | 25 | - | - | - | - | - | - | - | - | 13 |
| | 3,050 | 451 | 139 | 1,626 | (215) | 5,274 | 5,720 | 1,180 | 2,331 | 3,168 |

31
December
2010

| | | | | | | | | | | |
|------------------------------|-------|-----|-----|-------|-------|-------|-------|-------|-------|-------|
| Central and local government | 45 | - | - | 906 | (99) | 5,113 | 3,175 | 2,844 | 71 | 6 |
| Central banks | 78 | - | - | - | - | - | - | - | - | - |
| Other banks | 668 | - | - | 198 | (11) | 67 | 16 | 249 | 782 | 161 |
| Other financial institutions | 418 | - | - | 646 | (5) | 49 | - | 695 | 759 | 1,217 |
| Corporate | 2,483 | 314 | 141 | 20 | - | 36 | 8 | 48 | 418 | 2,456 |
| Personal | 27 | - | - | - | - | - | - | - | - | 13 |
| | 3,719 | 314 | 141 | 1,770 | (115) | 5,265 | 3,199 | 3,836 | 2,030 | 3,853 |

Fair values of CDS referencing sovereign exposures were:

| Fair value | 30 September 31 December | |
|-------------------|--------------------------|------|
| | 2011 | 2010 |
| | £m | £m |
| Bought protection | 1,815 | 641 |
| Sold protection | 1,691 | 551 |

For definitions refer to pages 126 and 127.

Risk and balance sheet management (continued)

Risk management: Credit risk: Country risk: Italy (continued)

Key points

The Group is an active market maker in Italian government bonds, resulting in substantial long positions in held-for-trading securities against approximately equal short positions.

The Group maintains relationships with government entities, banks, other financial institutions and large corporate clients, in the case of the latter predominantly with subsidiaries of multinationals. Since the start of 2011 the Group has taken steps to reduce and mitigate its risks through increased collateral requirements, additional security and strategic exits where appropriate, in line with its evolving appetite for Italian risk. Total exposure to entities incorporated in Italy declined by £3.7 billion in the nine months ended 30 September 2011, to £9.7 billion, much of which was lending to corporate clients, banks and other financial institutions.

Central and local government and central bank

Total exposure to the government including net debt securities positions was significantly reduced by £2.6 billion to £0.4 billion.

Financial institutions

The majority of the Group's exposure to Italian financial institutions is concentrated on the two largest, systemically important groups and consists of collateralised derivatives and, to a lesser extent, short-term interbank lending.

Corporations

Since 31 December 2010, total exposure has declined by approximately £0.6 billion, driven in part by reductions in lending to the property industry. However, the Group has maintained lending facilities to the manufacturing and natural resource sectors.

Non-Core

Of the total Italian exposure, £1.8 billion is in Non-Core, the majority of which is related to real estate or project finance. The key risk in the portfolio is the availability of refinancing options for current clients.

Risk and balance sheet management (continued)

Risk management: Credit risk: Country risk: Greece

| Issuer | Lending £m | REIL £m | Impairment provisions £m | AFS and LAR debt securities £m | AFS reserves £m | HFT debt securities | | Total debt securities £m | Derivatives (gross of collateral) and repos £m | Contingent liabilities and commitments £m |
|---|---------------|------------|--------------------------------|---|-----------------------|------------------------|-------------|--------------------------------|--|--|
| | | | | | | Long £m | Short £m | | | |
| 30 September 2011 Central and local government | 7 | - | - | 532 | - | 180 | 7 | 705 | - | - |

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| | | | | | | | | | | |
|------------------------------|-----|-----|-----|-----|---|-----|---|-----|-----|----|
| Central banks | 10 | - | - | - | - | - | - | - | - | - |
| Other banks | 1 | - | - | - | - | - | - | - | 299 | 1 |
| Other financial institutions | 32 | - | - | - | - | - | - | - | 2 | - |
| Corporate | 381 | 335 | 249 | - | - | 2 | - | 2 | 34 | 60 |
| Personal | 14 | - | - | - | - | - | - | - | - | 10 |
| | 445 | 335 | 249 | 532 | - | 182 | 7 | 707 | 335 | 71 |

31 December 2010

| | | | | | | | | | | |
|------------------------------|-----|----|----|-----|-------|-----|----|-----|-----|-----|
| Central and local government | 14 | - | - | 895 | (694) | 118 | 39 | 974 | 7 | 7 |
| Central banks | 36 | - | - | - | - | - | - | - | - | - |
| Other banks | 18 | - | - | - | - | - | - | - | 167 | 1 |
| Other financial institutions | 31 | - | - | - | - | - | - | - | 3 | 3 |
| Corporate | 188 | 48 | 48 | - | - | - | - | - | 26 | 141 |
| Personal | 16 | - | - | - | - | - | - | - | - | 10 |
| | 303 | 48 | 48 | 895 | (694) | 118 | 39 | 974 | 203 | 162 |

Fair values of CDS referencing sovereign exposures were:

| Fair value | 30 | 31 |
|-------------------|----------------|---------------|
| | September 2011 | December 2010 |
| | £m | £m |
| Bought protection | 1,832 | 854 |
| Sold protection | 1,720 | 871 |

For definitions refer to pages 126 and 127.

Risk and balance sheet management (continued)

Risk management: Credit risk: Country risk: Greece (continued)

Key points

Given the continued economic distress in Greece, the Group is actively managing its exposure to this country.

Much of the exposure is collateralised or guaranteed. As a result, the Group has reduced its effective exposure to Greece in line with the de-risking strategy that has been in place since early 2010.

Central and local government and central bank

As a result of the continued deterioration in Greece's fiscal position, coupled with the potential for the restructuring of Greek sovereign debt, the Group recognised an impairment charge in respect of available-for-sale Greek government bonds in H1 2011. These bonds continue to represent a significant proportion of the total Greek portfolio.

Financial institutions

Exposure to Greek banks remains under close scrutiny and is actively managed. Lending exposures to banks are very small.

The gross derivatives exposure to banks increased by slightly over £0.1 billion in the third quarter but is largely collateralised; the remainder consists for the most part of transactions conducted with Greek subsidiaries of non-Greek banks.

Corporations

At the start of the year, a number of defaulted clients re-incorporated in Greece causing a £0.2 billion increase in lending as well as increases in the risk elements in lending and in impairment provisions.

The ongoing deterioration in Greek sovereign credit quality led to some further increase in provisions and to a rigorous review of Greek corporate exposure.

Accordingly, and allowing for the effect described above, the Group's total corporate exposure is declining. The focus is now on short-term trade facilities to the domestic subsidiaries of international clients, increasingly supported by parental guarantees.

Non-Core

Of the total Greek exposure, £0.2 billion is in Non-Core.

Risk and balance sheet management (continued)

Risk management: Credit risk: Country risk: Portugal

| Issuer | Lending £m | REIL £m | Impairment provisions £m | AFS and LAR debt securities £m | AFS reserves £m | HFT debt securities | | Total debt securities £m | Derivatives (gross of collateral) and repos £m | Contingent liabilities and commitments £m |
|--------|---------------|------------|--------------------------------|---|-----------------------|------------------------|-------------|--------------------------------|--|--|
| | | | | | | Long £m | Short £m | | | |
| | | | | | | | | | | |

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| | | | | | | | | | | |
|------------------------------|-----|----|----|-----|------|----|-----|------|-----|-----|
| 2011 | | | | | | | | | | |
| Central and local government | 43 | - | - | 66 | (53) | 70 | 152 | (16) | 19 | - |
| Central banks | - | - | - | - | - | - | - | - | - | - |
| Other banks | 57 | - | - | 91 | (37) | 14 | 11 | 94 | 338 | - |
| Other financial institutions | - | - | - | 5 | - | 13 | - | 18 | 12 | - |
| Corporate | 579 | 27 | 27 | 43 | - | - | - | 43 | 74 | 348 |
| Personal | 5 | - | - | - | - | - | - | - | - | 8 |
| | 684 | 27 | 27 | 205 | (90) | 97 | 163 | 139 | 443 | 356 |

31 December 2010

| | | | | | | | | | | |
|------------------------------|-----|----|----|-----|------|-----|-----|-----|-----|-----|
| Central and local government | 86 | - | - | 92 | (26) | 68 | 122 | 38 | 29 | 211 |
| Central banks | - | - | - | - | - | - | - | - | - | - |
| Other banks | 63 | - | - | 106 | (24) | 46 | 2 | 150 | 307 | 2 |
| Other financial institutions | - | - | - | 47 | - | 7 | - | 54 | 7 | 1 |
| Corporate | 611 | 27 | 21 | - | 1 | - | - | - | 50 | 512 |
| Personal | 6 | - | - | - | - | - | - | - | - | 8 |
| | 766 | 27 | 21 | 245 | (49) | 121 | 124 | 242 | 393 | 734 |

Fair values of CDS referencing sovereign exposures were:

| Fair value | 30 September 2011 | 31 December 2010 |
|-------------------|-------------------|------------------|
| | £m | £m |
| Bought protection | 1,053 | 471 |
| Sold protection | 1,041 | 460 |

For definitions refer to pages 126 and 127.

Risk and balance sheet management (continued)

Risk management: Credit risk: Country risk: Portugal (continued)

Key points

Following the closure of its local branch in early 2011, the Group has modest exposure overall. The portfolio is focused on corporate lending and derivatives trading with the largest local banks.

Central and local government and central bank

In the first nine months of 2011, the sovereign risk position was reduced, largely the result of decreases in contingent exposures to three public sector entities in addition to bond sales and maturities. Overall, the exposure shrank to less than £50 million in the nine months.

Financial institutions

As the Portuguese economy deteriorated, the Group reduced its exposure in all areas.

Approximately 90% of remaining counterparty exposures are focused on the top four systemically important financial groups. Exposures generally consist of collateralised trading products and short-term treasury lines.

Corporations

The Group's exposure is concentrated on large highly creditworthy clients. The largest exposure is to corporations active in the energy and transport sectors.

Trade finance exposure was nearly halved in the third quarter to £50 million.

Non-Core

Of the total Portuguese exposure, £0.6 billion is in Non-Core, 87% of which is related to project finance.

Risk and balance sheet management (continued)

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

Overview

Ulster Bank Group accounts for 9.8% of the Group's total gross customer loans (30 June 2011 - 10.2%; 31 December 2010 - 9.9%) and 8.5% of the Group's Core gross customer loans (30 June 2011 - 8.8%; 31 December 2010 - 8.9%). The Q3 2011 impairment charge was £608 million (Q3 2010 - £962 million) with commercial real estate and mortgage sectors accounting for £314 million (52%) and £126 million (21%) of the total Q3 2011 impairment charge respectively. The impairment charge in Q3 2011 was driven by a combination of new defaulting customers and deteriorating security values. Provisions as a percentage of REIL has increased from 51.4% at 30 June 2011 to 51.6% at 30 September 2011 (30 September 2010 - 39%).

The impairment charge of £608 million for Q3 2011 was £638 million lower than the £1,246 million impairment charge for Q2 2011. Non-Core was the main driver for this reduction with its impairment charge £696 million lower in Q3 2011 compared with Q2 2011 due to a slower rate of deterioration in security values and a decrease in the value of loans defaulting in the quarter. The Core portfolio quarterly impairment charge increased by £58 million to £327 million (Q2 2011 - £269 million), with the mortgage portfolio accounting for £48 million of the increase. Impairments remain elevated as high unemployment coupled with higher taxation and less liquidity in the economy continues to depress the property market and domestic spending.

Core

The Q3 2011 impairment charge was £327 million (Q3 2010 - £286 million) with the mortgage sector accounting for £126 million (39%) of the total Q3 2011 impairment charge. These impairment losses reflect the difficult economic climate in Ireland with elevated default levels across both mortgage and other corporate portfolios.

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

Non-Core

The Q3 2011 impairment charge was £281 million (Q3 2010 - £676 million) with the commercial real estate sector accounting for £236 million (84%) of the total Q3 2011 charge. The impairment charge decreased from £977 million in Q2 2011 to £281 million in Q3 2011, primarily reflecting a slower rate of deterioration in security values and a reduction in the value of loans defaulting.

Risk and balance sheet management (continued)

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

Loans, REIL and impairments by sector

| | Gross loans | | REIL as a % of gross loans | | Provisions as a % of gross loans | | Q3 Impairment charge | Q3 Amounts written-off |
|------------------------|-------------|--------|----------------------------|----------------|----------------------------------|-------------------|----------------------|------------------------|
| | (1) | REIL | Provisions | as a % of REIL | as a % of gross loans | Impairment charge | | |
| 30 September 2011 | £m | £m | £m | % | % | % | £m | £m |
| Core | | | | | | | | |
| Mortgages | 20,692 | 2,138 | 852 | 10.3 | 40 | 4.1 | 126 | - |
| Personal unsecured | 1,557 | 201 | 182 | 12.9 | 91 | 11.7 | 12 | 4 |
| Commercial real estate | | | | | | | | |
| - investment | 4,241 | 1,163 | 373 | 27.4 | 32 | 8.8 | 58 | - |
| - development | 923 | 261 | 135 | 28.3 | 52 | 14.6 | 20 | - |
| Other corporate | 8,133 | 1,793 | 1,025 | 22.0 | 57 | 12.6 | 111 | 37 |
| | 35,546 | 5,556 | 2,567 | 15.6 | 46 | 7.2 | 327 | 41 |
| Non-Core | | | | | | | | |
| Commercial real estate | | | | | | | | |
| - investment | 3,937 | 2,684 | 1,247 | 68.2 | 47 | 31.7 | 74 | 1 |
| - development | 8,703 | 7,687 | 4,342 | 88.3 | 57 | 49.9 | 162 | 1 |
| Other corporate | 1,670 | 1,176 | 674 | 70.4 | 57 | 40.4 | 45 | 9 |
| | 14,310 | 11,547 | 6,263 | 80.7 | 54 | 43.8 | 281 | 11 |

| | | | | | | | | |
|------------------------|--------|--------|-------|------|----|------|-----|----|
| Ulster Bank Group | | | | | | | | |
| Mortgages | 20,692 | 2,138 | 852 | 10.3 | 40 | 4.1 | 126 | - |
| Personal unsecured | 1,557 | 201 | 182 | 12.9 | 91 | 11.7 | 12 | 4 |
| Commercial real estate | | | | | | | | |
| - investment | 8,178 | 3,847 | 1,620 | 47.0 | 42 | 19.8 | 132 | 1 |
| - development | 9,626 | 7,948 | 4,477 | 82.6 | 56 | 46.5 | 182 | 1 |
| Other corporate | 9,803 | 2,969 | 1,699 | 30.3 | 57 | 17.3 | 156 | 46 |
| | 49,856 | 17,103 | 8,830 | 34.3 | 52 | 17.7 | 608 | 52 |

Note:

(1) Funded customer 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 | H1 Impairment charge | H1 Amounts written-off |
|------------------------|-------------|-------|------------|----------------------------|----------------------------------|----------------------|------------------------|
| 30 June 2011 | £m | £m | £m | % | % | £m | £m |
| Core | | | | | | | |
| Mortgages | 21,778 | 2,014 | 769 | 9.2 | 38 | 311 | 4 |
| Personal unsecured | 1,605 | 201 | 181 | 12.5 | 90 | 33 | 15 |
| Commercial real estate | | | | | | | |
| - investment | 4,338 | 838 | 331 | 19.3 | 40 | 115 | - |
| - development | 955 | 241 | 120 | 25.2 | 50 | 48 | - |
| Other corporate | 8,699 | 1,822 | 1,000 | 20.9 | 55 | 223 | 2 |
| | 37,375 | 5,116 | 2,401 | 13.7 | 47 | 730 | 21 |
| Non-Core | | | | | | | |
| Commercial real estate | | | | | | | |
| - investment | 4,076 | 2,662 | 1,231 | 65.3 | 46 | 384 | - |
| - development | 9,002 | 7,847 | 4,367 | 87.2 | 56 | 1,313 | - |

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| | | | | | | | | |
|------------------------|--------|--------|-------|------|----|------|-------|----|
| Other corporate | 1,811 | 1,226 | 661 | 67.7 | 54 | 36.5 | 113 | 2 |
| | 14,889 | 11,735 | 6,259 | 78.8 | 53 | 42.0 | 1,810 | 2 |
| Ulster Bank Group | | | | | | | | |
| Mortgages | 21,778 | 2,014 | 769 | 9.2 | 38 | 3.5 | 311 | 4 |
| Personal unsecured | 1,605 | 201 | 181 | 12.5 | 90 | 11.3 | 33 | 15 |
| Commercial real estate | | | | | | | | |
| - investment | 8,414 | 3,500 | 1,562 | 41.6 | 45 | 18.6 | 499 | - |
| - development | 9,957 | 8,088 | 4,487 | 81.2 | 56 | 45.1 | 1,361 | - |
| Other corporate | 10,510 | 3,048 | 1,661 | 29.0 | 55 | 15.8 | 336 | 4 |
| | 52,264 | 16,851 | 8,660 | 32.2 | 51 | 16.6 | 2,540 | 23 |

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 | 159 | 3 |
| Personal unsecured | 1,282 | 185 | 158 | 14.4 | 85 | 13 | 6 |
| Commercial real estate | | | | | | | |
| - investment | 4,284 | 598 | 332 | 14.0 | 56 | 79 | - |
| - development | 1,090 | 65 | 37 | 6.0 | 57 | (10) | - |
| Other corporate | 9,039 | 1,205 | 667 | 13.3 | 55 | 135 | 1 |
| | 36,857 | 3,619 | 1,633 | 9.8 | 45 | 376 | 10 |
| Non-Core | | | | | | | |
| Commercial real estate | | | | | | | |
| - investment | 3,854 | 2,391 | 1,000 | 62.0 | 42 | 206 | - |

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| | | | | | | | | |
|------------------------|--------|--------|-------|------|----|------|-------|----|
| - development | 8,760 | 6,341 | 2,783 | 72.4 | 44 | 31.8 | 596 | - |
| Other corporate | 1,970 | 1,310 | 561 | 66.5 | 43 | 28.5 | (19) | - |
| | 14,584 | 10,042 | 4,344 | 68.9 | 43 | 29.8 | 783 | - |
| Ulster Bank Group | | | | | | | | |
| Mortgages | 21,162 | 1,566 | 439 | 7.4 | 28 | 2.1 | 159 | 3 |
| Personal unsecured | 1,282 | 185 | 158 | 14.4 | 85 | 12.3 | 13 | 6 |
| Commercial real estate | | | | | | | | |
| - investment | 8,138 | 2,989 | 1,332 | 36.7 | 45 | 16.4 | 285 | - |
| - development | 9,850 | 6,406 | 2,820 | 65.0 | 44 | 28.6 | 586 | - |
| Other corporate | 11,009 | 2,515 | 1,228 | 22.8 | 49 | 11.2 | 116 | 1 |
| | 51,441 | 13,661 | 5,977 | 26.6 | 44 | 11.6 | 1,159 | 10 |

Key points

- The REIL increase of £252 million in Q3 2011 reflects continuing difficult conditions in both the commercial and residential sectors in the Republic of Ireland partially offset by currency movements. Of the REIL at 30 September 2011, 68% was in Non-Core (30 June 2011 - 70%).
- The majority of Non-Core commercial real estate development portfolio (88%) is REIL with a 57% provision coverage.
- REIL mortgages represented 10.3% of gross lending at 30 September 2011 compared with 9.2% at 30 June 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 September 2011 % | 30 June 2011 % | 31 December 2010 % |
|--------------------|------------------------------|----------------------|-----------------------------|
| By average LTV (1) | | | |
| <= 50% | 33.7 | 35.1 | 35.9 |
| > 50% and <= 70% | 12.5 | 13.0 | 13.5 |

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| | | | |
|---|------|------|------|
| > 70% and <= 90% | 12.4 | 13.0 | 13.5 |
| > 90% | 41.4 | 38.9 | 37.1 |
| Total portfolio average LTV | 77.6 | 74.5 | 71.2 |
| Average LTV on new originations during the period | 66.7 | 65.0 | 75.9 |

Note:

(1)LTV averages calculated by transaction volume.

Key points

- The residential mortgage portfolio across Ulster Bank Group totalled £20.7 billion at 30 September 2011 with 89% in the Republic of Ireland and 11% in Northern Ireland. At constant exchange rates, the portfolio remained at similar levels to 31 December 2010 (c.£21.2 billion) with little growth due to low new business volumes.
- Repossession levels remain low at 134 cases in the nine months ended 30 September 2011, of which 111 were in the Republic of Ireland, primarily due to voluntary surrender or abandonment of the property.

Risk and balance sheet management (continued)

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

Commercial real estate

The commercial real estate lending portfolio in Ulster Bank Group reduced during the quarter to £17.8 billion, primarily due to exchange rate movements. The Non-Core portion of the portfolio totalled £12.6 billion (71% of the portfolio). Of the total Ulster Bank Group commercial real estate portfolio, the geographic split remains similar to last quarter with, 62% relating to the Republic of Ireland, 26% to Northern Ireland and 12% to the rest of the UK.

| Exposure by geography | Development | | Investment | | Total £m |
|------------------------------------|------------------|-------------------|------------------|-------------------|-------------|
| | Commercial £m | Residential £m | Commercial £m | Residential £m | |
| 30 September 2011 | | | | | |
| Ireland (ROI & NI) | 2,674 | 6,479 | 5,225 | 1,174 | 15,552 |
| UK (excluding Northern Ireland) | 97 | 357 | 1,659 | 108 | 2,221 |
| RoW | - | 19 | 8 | 4 | 31 |
| | 2,771 | 6,855 | 6,892 | 1,286 | 17,804 |
| 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 |

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| | | | | | |
|---------------------------------|-------|-------|-------|-------|--------|
| | 2,870 | 7,087 | 7,088 | 1,326 | 18,371 |
| 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 for the sector remains uncertain with the possibility of further declines in values. Proactive management of the portfolio has resulted in further transfers of stressed customers to the specialised management of Global Restructuring Group.

Risk and balance sheet management (continued)

Market risk

Market risk arises from changes in interest rates, foreign currency, credit spread, equity prices and risk related factors such as market volatilities. The Group manages market risk centrally within its trading and non-trading portfolios through a comprehensive market risk management framework. This framework includes limits based on, but not limited to, value-at-risk (VaR), stress testing, position and sensitivity analyses.

For a description of the Group's basis of measurement and methodology limitations, refer to the 2010 Annual Report and Accounts, Market risk, page 193.

Daily distribution of GBM trading revenues

http://www.rns-pdf.londonstockexchange.com/rns/4912R_-2011-11-3.pdf

Note:

(1) The effect of any month end adjustments, not attributable to a specific daily market move, is spread evenly over the days in the month in question.

Risk and balance sheet management (continued)

Market risk (continued)

Key points

Nine months ended 30 September 2011 compared with nine months ended 30 September 2010

- GBM traded revenue decreased during 2011 due to the ongoing European sovereign debt crisis and heightened concerns about growth expectations for the world economy.
- The average daily revenue earned from Core trading activities in 2011 was £22 million, compared with £29 million in 2010. The standard deviation of these daily revenues was £21 million, unchanged period on period.
- The number of days with negative revenue increased from 11 days in 2010 to 24 days in 2011 due to market and economic conditions referred to above.
- The most frequent result is daily revenue in the range of £25 million to £30 million with 24 occurrences in 2011, compared with 32 occurrences in 2010.

The table below details VaR for the Group's trading portfolio, segregated by type of market risk exposure, and between Core and Non-Core, Counterparty Exposure Management (CEM) and Core excluding CEM.

| | Quarter ended | | | | | | | |
|--------------------|-------------------|--------------|--------------|-------------|--------------|-------------|--------------|-------------|
| | 30 September 2011 | | | | 30 June 2011 | | | |
| Trading VaR | Average | end | Maximum | Minimum | Average | end | Maximum | Minimum |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Interest rate | 51.3 | 73.0 | 73.1 | 33.1 | 39.4 | 36.8 | 75.7 | 27.5 |
| Credit spread | 56.2 | 69.8 | 69.8 | 47.4 | 73.2 | 64.6 | 95.0 | 60.0 |
| Currency | 8.7 | 6.5 | 12.5 | 6.1 | 9.4 | 9.3 | 14.2 | 5.2 |
| Equity | 7.9 | 7.7 | 13.1 | 4.6 | 10.4 | 12.0 | 17.3 | 5.2 |
| Commodity | 0.9 | 3.6 | 3.6 | 0.1 | 0.2 | 0.3 | 1.6 | - |
| Diversification | | (54.3) | | | | (61.0) | | |
| Total | 78.3 | 106.3 | 114.2 | 59.7 | 78.7 | 62.0 | 117.9 | 60.8 |
| Core | 58.3 | 83.1 | 91.0 | 41.7 | 60.2 | 42.5 | 86.0 | 42.5 |
| Core CEM | 34.4 | 38.0 | 45.2 | 23.5 | 26.5 | 23.2 | 33.2 | 21.9 |
| Core excluding CEM | 44.3 | 62.2 | 71.4 | 35.3 | 57.1 | 39.4 | 78.4 | 39.2 |
| Non-Core | 40.4 | 38.7 | 53.0 | 33.2 | 69.3 | 51.4 | 110.1 | 47.5 |

Key points

Q3 2011 compared with Q2 2011

- The Group's total trading VaR and interest rate VaR were significantly higher at the end of Q3 2011 than at end Q2 2011. This was largely driven by hedge positions for a large and successful UK gilt syndication in which RBS participated.

Average credit spread VaR and Non-Core trading VaR was considerably lower in Q3 2011 than in Q2 2011. Non-Core VaR decreased substantially during Q2 primarily due to a significant de-risking of the portfolios in line with the overall business strategy. The VaR continued to decline as the period of high volatility relating to the 2008/2009 credit crisis dropped out of the VaR calculations.

Risk and balance sheet management (continued)

Market risk (continued)

Key points (continued)

- The credit spread period end VaR was slightly higher in Q3 2011 than in Q2 2011. This was largely due to the recent volatility in the European sovereign peripheral time series entering the VaR window.
- The CEM trading VaR increased in Q3 2011 due to the implementation of an enhanced discounting methodology for cross-currency trades.

| Trading VaR | Nine months ended | | | | | | | |
|--------------------|-------------------|--------------|--------------|-------------|-------------------|--------------|--------------|--------------|
| | 30 September 2011 | | | | 30 September 2010 | | | |
| | Average | end | Maximum | Minimum | Average | end | Maximum | Minimum |
| £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Interest rate | 50.3 | 73.0 | 79.2 | 27.5 | 47.7 | 74.3 | 74.3 | 32.5 |
| Credit spread | 87.4 | 69.8 | 151.1 | 47.4 | 177.1 | 190.8 | 243.2 | 113.0 |
| Currency | 10.1 | 6.5 | 18.0 | 5.2 | 18.9 | 16.7 | 28.0 | 9.3 |
| Equity | 9.8 | 7.7 | 17.3 | 4.6 | 9.3 | 5.4 | 17.9 | 2.7 |
| Commodity | 0.4 | 3.6 | 3.6 | - | 10.1 | 13.8 | 15.8 | 3.2 |
| Diversification | | (54.3) | | | | (119.2) | | |
| Total | 104.1 | 106.3 | 181.3 | 59.7 | 173.3 | 181.8 | 252.1 | 103.0 |
| Core | 75.3 | 83.1 | 133.9 | 41.7 | 105.1 | 115.0 | 153.4 | 58.9 |
| Core CEM | 33.6 | 38.0 | 47.6 | 21.9 | 55.1 | 73.0 | 82.4 | 30.3 |
| Core excluding CEM | 62.9 | 62.2 | 106.2 | 35.3 | 83.2 | 78.4 | 108.7 | 53.6 |
| Non-Core | 74.2 | 38.7 | 128.6 | 33.2 | 105.7 | 101.8 | 169.4 | 63.2 |

Key point

Nine months ended 30 September 2011 compared with nine months ended 30 September 2010

- The Group's market risk profile in 2010 was equally split across Non-Core and Core divisions with a concentrated exposure to the credit spread risk factor. In line with the business strategy to wind down the Group's interest in Semptra and other Non-Core activities, the trading portfolio has now been re-balanced such that the Non-Core

exposure has been significantly reduced and the trading portfolio is less concentrated in the credit risk factor.

Risk and balance sheet management (continued)

Market risk (continued)

The table below details VaR for the Group's non-trading portfolio, excluding the structured portfolio (SCP) and loans and receivables (LAR), segregated by type of market risk exposure and between Core and Non-Core.

| | Quarter ended | | | | | | | |
|-----------------|---------------|-------------------|---------|---------|---------|--------------|---------|---------|
| | Average | 30 September 2011 | | | Average | 30 June 2011 | | |
| | | Period end | Maximum | Minimum | | Period end | Maximum | Minimum |
| Non-trading VaR | £m | £m | £m | £m | £m | £m | £m | £m |
| Interest rate | 9.6 | 10.3 | 11.1 | 8.2 | 8.3 | 8.3 | 9.2 | 5.7 |
| Credit spread | 16.0 | 14.8 | 18.0 | 14.1 | 19.1 | 18.0 | 24.2 | 16.1 |
| Currency | 3.0 | 4.1 | 5.9 | 1.1 | 1.7 | 3.3 | 3.3 | 0.2 |
| Equity | 1.9 | 1.8 | 2.0 | 1.6 | 2.2 | 2.0 | 2.4 | 2.0 |
| Diversification | | (13.5) | | | | (13.1) | | |
| Total | 17.6 | 17.5 | 18.9 | 15.7 | 18.7 | 18.5 | 22.5 | 16.7 |
| Core | 17.4 | 18.6 | 20.1 | 15.2 | 18.5 | 19.4 | 24.6 | 15.7 |
| Non-Core | 3.9 | 3.7 | 4.3 | 3.2 | 3.7 | 4.3 | 4.3 | 2.8 |

Key point

Q3 2011 compared with Q2 2011

- The maximum credit spread VaR was lower in Q3 2011 than in Q2 2011. This was primarily due to the increased market volatility experienced during the 2008/2009 credit crisis, dropping out of the two year time series used by the VaR model. This volatility was particularly pronounced in respect of credit spreads and had a marked impact on historic credit spread VaR.

| | Nine months ended | | | | | | | |
|-----------------|-------------------|-------------------|---------|---------|---------|-----------------------|---------|---------|
| | Average | 30 September 2011 | | | Average | 30 September 2010 (1) | | |
| | | Period end | Maximum | Minimum | | Period end | Maximum | Minimum |
| Non-trading VaR | £m | £m | £m | £m | £m | £m | £m | £m |
| Interest rate | 8.6 | 10.3 | 11.1 | 5.7 | 8.9 | 4.4 | 20.5 | 4.4 |
| Credit spread | 19.6 | 14.8 | 39.3 | 14.1 | 37.1 | 19.4 | 101.2 | 19.4 |
| Currency | 1.8 | 4.1 | 5.9 | 0.1 | 2.1 | 2.0 | 7.6 | 0.3 |
| Equity | 2.2 | 1.8 | 3.1 | 1.6 | 0.6 | 0.4 | 3.5 | 0.2 |
| Diversification | | (13.5) | | | | (6.8) | | |

| | | | | | | | | |
|----------|------|------|------|------|------|------|------|------|
| Total | 20.9 | 17.5 | 41.6 | 13.4 | 35.8 | 19.4 | 98.0 | 19.4 |
| Core | 20.4 | 18.6 | 38.9 | 13.5 | 35.5 | 19.3 | 98.1 | 19.3 |
| Non-Core | 3.4 | 3.7 | 4.3 | 2.2 | 0.8 | 0.3 | 3.6 | 0.2 |

Note:

(1) Revised to exclude LAR portfolios.

Key point

Nine months ended 30 September 2011 compared with nine months ended 30 September 2010

- The maximum credit spread VaR was considerably lower in 2011 than in the same period in 2010. This was due to a change in the time series used for the Dutch RMBS portfolio in RBS N.V. where more relevant and granular market data had become available and provided a better reflection of the risk in the portfolio. The VaR decreased through the period as the volatile market data continued to drop out of the 500 day time series used in the VaR calculation.

Risk and balance sheet management (continued)

Market risk (continued)

Structured Credit Portfolio (SCP)

| | Drawn notional | | | | | Fair value | | | | |
|-------------------|----------------|-------|---------|-----------|-------|------------|------|---------|-----------|-------|
| | CDOs | CLOs | MBS (1) | Other ABS | Total | CDOs | CLOs | MBS (1) | Other ABS | Total |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| 30 September 2011 | | | | | | | | | | |
| 1-2 years | - | - | 29 | 36 | 65 | - | - | 28 | 31 | 59 |
| 2-3 years | - | - | 5 | 172 | 177 | - | - | 4 | 160 | 164 |
| 3-4 years | 6 | - | 6 | 43 | 55 | 5 | - | 5 | 40 | 50 |
| 4-5 years | - | 39 | - | 95 | 134 | - | 36 | - | 88 | 124 |
| 5-10 years | 32 | 517 | 317 | 277 | 1,143 | 30 | 469 | 230 | 242 | 971 |
| >10 years | 1,296 | 454 | 470 | 593 | 2,813 | 228 | 394 | 314 | 349 | 1,285 |
| | 1,334 | 1,010 | 827 | 1,216 | 4,387 | 263 | 899 | 581 | 910 | 2,653 |
| 30 June 2011 | | | | | | | | | | |
| 1-2 years | - | - | 45 | 46 | 91 | - | - | 44 | 41 | 85 |
| 2-3 years | 11 | - | - | 183 | 194 | 10 | - | - | 170 | 180 |
| 3-4 years | 5 | - | 11 | 48 | 64 | 5 | - | 10 | 46 | 61 |
| 4-5 years | - | 15 | - | 56 | 71 | - | 14 | - | 53 | 67 |

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| | | | | | | | | | | |
|------------|-----|-----|-----|-------|-------|-----|-----|-----|-------|-------|
| 5-10 years | 95 | 396 | 315 | 365 | 1,171 | 84 | 370 | 245 | 322 | 1,021 |
| >10 years | 390 | 498 | 551 | 526 | 1,965 | 167 | 420 | 391 | 388 | 1,366 |
| | 501 | 909 | 922 | 1,224 | 3,556 | 266 | 804 | 690 | 1,020 | 2,780 |

31 December
2010

| | | | | | | | | | | |
|------------|-----|-------|-----|-------|-------|-----|-----|-----|-------|-------|
| 1-2 years | - | - | - | 47 | 47 | - | - | - | 42 | 42 |
| 2-3 years | 85 | 19 | 44 | 98 | 246 | 81 | 18 | 37 | 91 | 227 |
| 3-4 years | - | 41 | 20 | 205 | 266 | - | 37 | 19 | 191 | 247 |
| 4-5 years | 16 | - | - | - | 16 | 15 | - | - | - | 15 |
| 5-10 years | 98 | 466 | 311 | 437 | 1,312 | 87 | 422 | 220 | 384 | 1,113 |
| >10 years | 412 | 663 | 584 | 550 | 2,209 | 161 | 515 | 397 | 367 | 1,440 |
| | 611 | 1,189 | 959 | 1,337 | 4,096 | 344 | 992 | 673 | 1,075 | 3,084 |

Note:

(1)MBS include sub-prime RMBS with a notional amount of £406 million (30 June 2011 - £451 million; 31 December 2010 - £471 million) and a fair value of £274 million (30 June 2011 - £325 million; 31 December 2010 - £329 million), all with residual maturities of greater than 10 years.

The SCP non-trading risk in Non-Core is not measured using VaR as the Group believes this is not an appropriate tool for this portfolio of illiquid debt securities. The fair value and drawn notional are represented on a net basis.

The increase in drawn notional for CDOs and CLOs at the quarter ended 30 September 2011 was due to the exposure to legacy positions in the banking book portfolio. These positions were previously hedged, with both positions and hedges marked at fair value, well below their notional values. The hedges that were considered to be ineffective were removed in Q3 2011, resulting in a large increase in net notional values but only a small increase in net fair values.

Additional information

| | 30 September 2011 | 30 June 2011 | 31 December 2010 |
|--|-------------------------|-----------------|------------------------|
| Ordinary share price | £0.235 | £0.385 | £0.391 |
| Number of ordinary shares in issue | 59,228m | 59,226m | 58,458m |
| Market capitalisation (including B shares) | £25.9bn | £42.4bn | £42.8bn |

Statutory results

Financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 ('the Act'). The statutory accounts for the year ended 31 December 2010 have been filed with the Registrar of Companies. The report of the auditor on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the

Act.

These third quarter 2011 results have not been audited or reviewed by the auditors.

Financial calendar

2011 annual results
announcement

Thursday 23 February
2012

2012 first quarter interim management
statement

Friday 4 May 2012

Signatures

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

Date: 4 November 2011

THE ROYAL BANK OF
SCOTLAND GROUP plc
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill
Title: Deputy Secretary