RLI CORP
Form 4
November 12, 2009

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
DONDANVILLE JOSEPH E
(Last) (First) (Middle)
9025 N. LINDBERGH DRIVE
(Street)
PEORIA, IL 61615
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
RLI CORP [RLI]

3. Date of Earliest Transaction (Month/Day/Year)
07/15/2009

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Senior Vice President/CFO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8) Code	V	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) Amount	(A) or (D)	Price	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
Common Stock	07/15/2009		J (3)	V	200	D	$ 0	0	I	By Wife, As Custodian
Common Stock								77,010.015	D	
Common Stock								25,002.4171	I	By Empl. Stock Ownership Plan
Common Stock								8,817.8022	I	By Trust (1)
								12,276	I	

Common Stock	By Wife in Trust

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. De Se (In
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Stock Option	$ 29.335							05/02/2003	05/02/2012	Common Stock	32,000	
Stock Option	$ 29.55							05/01/2004	05/01/2013	Common Stock	28,000	
Stock Option	$ 35.08							05/06/2005	05/06/2014	Common Stock	28,000	
Stock Option	$ 44.54							05/05/2006	05/05/2015	Common Stock	21,000	
Stock Option	$ 50.15							05/04/2007(2)	05/04/2016	Common Stock	17,500	
Stock Option	$ 56.09							05/03/2008(2)	05/03/2017	Common Stock	18,000	
Stock Option	$ 50							05/01/2009(2)	05/01/2018	Common Stock	5,000	
Stock Option	$ 54.36							08/01/2009(2)	08/01/2018	Common Stock	5,000	
Stock Option	$ 56.73							11/03/2009(2)	11/03/2018	Common Stock	5,000	
Stock Option	$ 56.89							02/02/2010(2)	02/02/2019	Common Stock	5,000	

Stock Option	$ 46.9	05/07/2010(2)	05/07/2017	Common Stock	4,700

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
DONDANVILLE JOSEPH E 9025 N. LINDBERGH DRIVE PEORIA, IL 61615			Senior Vice President/CFO	

Signatures

/s/ Joseph E. Dondanville	11/11/2009
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Ownership reflects dividend reinvestment.

(2) Pursuant to option schedule wherein 20% of the aggregate number of shares granted may be exercised commencing one year from grant date and each year thereafter in 20% increments.

(3) Daughter's legal residence is no longer Reporting Person's.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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-
6
-
108
114

1,859
29
28,979
30,867
10
1,096
16,706
738
49,531
AQ8
-
-
-
29
29

	-
	7
	9,163
	9,170
	40
	161
	5,439
	146
	14,985
AQ9	
	-
	-
	-
	129
	129
	-
	12
	14,963
	14,975
	13
	728
	1,390
	200
	17,435
AQ10	
	-
	-
	-
	-
	-
	-
	-
	591
	591
	10
	210
	376
	80
	1,267
Past due	
	-
	-
	-
	1
	1
	-
	-

Explanation of Responses:

	12,370
	12,370
	331
	-
	-
	-
	12,702
Impaired	
	-
	-
	-
	94
	94
	-
	-
	17,926
	17,926
	1,147
	-
	-
	-
	19,167
Impairment provision	
	-
	-
	-
	(82)
	(82)
	-
	-
	(10,276)
	(10,276)
	-
	-
	-
	-
	(10,358)
	89,449
	37,540
	13,196
	16,527
	67,263
	61,726
	20,142
	363,691
	445,559
	17,966

369,086
215,277
29,079
1,233,679

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Explanation of Responses:

Appendix 3 Credit risk (continued)

Financial assets: Asset quality: Core (continued)

	Cash and balances at central banks	Loans and advances								Settlement balances and other financial assets	Derivatives	Comm
		Banks (1)				Customers (2)						
		Reverse repos	Derivative cash collateral	Other	Total	Reverse repos	Derivative cash collateral	Other	Total			
31 December 2012	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
AQ1	78,003	17,806	3,708	8,495	30,009	42,963	15,022	32,256	90,241	2,671	99,882	
AQ2	12	3,556	4,566	514	8,636	710	704	10,551	11,965	185	108,107	
AQ3	1,046	5,703	2,241	2,738	10,682	2,886	3,917	21,688	28,491	539	152,462	
AQ4	100	6,251	1,761	2,729	10,741	14,079	2,144	99,771	115,994	1,202	57,650	
AQ5	-	1,183	469	785	2,437	8,163	679	86,581	95,423	659	12,082	
AQ6	-	282	39	356	677	86	50	36,891	37,027	73	1,476	
AQ7	-	2	-	186	188	1,133	12	32,032	33,177	191	2,536	
AQ8	-	-	-	68	68	4	2	10,731	10,737	8	247	
AQ9	1	-	-	93	93	-	7	14,958	14,965	137	979	
AQ10	-	-	-	-	-	-	-	684	684	1	448	
Past due	-	-	-	-	-	-	249	9,528	9,777	991	-	
Impaired	-	-	-	133	133	-	-	17,418	17,418	-	-	
Impairment provision	-	-	-	(113)	(113)	-	-	(9,949)	(9,949)	-	-	
	79,162	34,783	12,784	15,984	63,551	70,024	22,786	363,140	455,950	6,657	435,869	2

Notes:

(1) Core, Non-Core split excludes £2,036 million of loans to banks in relation to Direct Line Group.

(2) Core, Non-Core split excludes £881 million of loans to customers in relation to Direct Line Group.

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Appendix 3 Credit risk (continued)

Financial assets: Asset quality: Non-Core

		Loans and advances										
		Banks				Customers						
30 June 2013	Cash and balances at central banks £m	Reverse repos £m	Derivative cash collateral £m	Other £m	Total £m	Reverse repos £m	Derivative cash collateral £m	Other £m	Total £m	Settlement balances and other financial assets £m	Derivatives £m	Commitm
AQ1	43	-	-	68	68	-	-	5,229	5,229	-	538	
AQ2	-	-	-	5	5	-	-	691	691	-	587	
AQ3	-	-	-	230	230	-	-	2,369	2,369	-	531	
AQ4	-	-	-	141	141	-	-	4,512	4,512	-	719	
AQ5	128	-	-	6	6	-	-	4,455	4,455	-	1,019	
AQ6	-	-	-	37	37	-	-	2,682	2,682	-	539	
AQ7	-	-	-	36	36	-	-	2,837	2,837	-	429	
AQ8	-	-	-	83	83	-	-	565	565	-	10	
AQ9	-	-	-	3	3	-	-	2,537	2,537	-	202	
AQ10	-	-	-	-	-	17	-	78	95	-	34	
Past due	-	-	-	-	-	-	-	1,262	1,262	-	-	
Impaired	-	-	-	1	1	-	-	19,962	19,962	-	-	
Impairment provision	-	-	-	(1)	(1)	-	-	(11,394)	(11,394)	-	-	
	171	-	-	609	609	17	-	35,785	35,802	-	4,608	2,

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Appendix 3 Credit risk (continued)

Financial assets: Asset quality: Non-Core (continued)

	Cash and balances at central banks	Loans and advances								Settlement balances and other financial assets	Derivatives	Commitm
		Banks (1)				Customers (2)						
		Reverse repos	Derivative cash collateral	Other	Total	Reverse repos	Derivative cash collateral	Other	Total			
31 December 2012	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
AQ1	36	-	-	394	394	-	-	7,466	7,466	-	770	1,
AQ2	-	-	-	5	5	-	-	2,550	2,550	-	626	
AQ3	110	-	-	19	19	-	-	3,564	3,564	-	348	
AQ4	-	-	-	5	5	-	-	4,289	4,289	-	1,055	
AQ5	-	-	-	2	2	-	-	4,718	4,718	-	1,162	
AQ6	-	-	-	1	1	-	-	3,205	3,205	-	699	
AQ7	-	-	-	50	50	-	-	4,191	4,191	-	669	1,
AQ8	-	-	-	-	-	-	-	2,081	2,081	-	15	
AQ9	-	-	-	-	-	23	-	2,452	2,475	-	381	
AQ10	-	-	-	-	-	-	-	123	123	-	324	
Past due	-	-	-	-	-	-	-	757	757	8	-	
Impaired	-	-	-	1	1	-	-	20,947	20,947	-	-	
Impairment provision	-	-	-	(1)	(1)	-	-	(11,199)	(11,199)	-	-	
	146	-	-	476	476	23	-	45,144	45,167	8	6,049	5,

For the notes on this table refer to page 10.

Appendix 3 Credit risk (continued)

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

	30 June 2013				31 December 2012			
	UK	US	Other (1)	Total	UK	US	Other (1)	Total
AFS reserves by issuer	£m	£m	£m	£m	£m	£m	£m	£m
Government (2)	6,671	16,573	12,554	35,798	9,774	19,046	16,155	44,975
Banks	353	96	5,622	6,071	1,085	357	7,419	8,861
Other financial institutions	2,760	8,763	9,702	21,225	2,861	10,613	10,416	23,890
Corporate	27	-	120	147	1,318	719	1,130	3,167
Total	9,811	25,432	27,998	63,241	15,038	30,735	35,120	80,893
Of which ABS (3)	2,920	12,931	12,680	28,531	3,558	14,209	12,976	30,743
AFS reserves (gross)	197	188	(982)	(597)	667	763	(1,277)	153

Notes:
(1) Includes eurozone countries as detailed in Appendix 5 Country risk.
(2) Includes central and local government.
(3) Asset-backed securities.

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

	Central and local government				Other financial				Of which
	UK	US	Other	Banks	institutions	Corporate	Total	Total	ABS
30 June 2013	£m	£m	£m	£m	£m	£m	£m	%	£m
AAA	-	26	17,493	1,411	9,852	60	28,842	21	9,386
AA to AA+	14,897	28,392	6,208	217	25,439	293	75,446	55	27,271
A to AA-	-	35	7,113	1,467	2,685	135	11,435	8	2,450
BBB- to A-	-	-	6,311	4,614	4,318	939	16,182	12	7,480
Non-investment grade	-	-	717	243	3,069	652	4,681	3	2,898
Unrated	-	1	-	219	1,124	301	1,645	1	933
	14,897	28,454	37,842	8,171	46,487	2,380	138,231	100	50,418
31 December 2012									
AAA	17,471	31	17,167	2,304	11,502	174	48,649	30	10,758
AA to AA+	-	36,357	7,424	1,144	26,403	750	72,078	44	28,775
A to AA-	-	6	11,707	2,930	3,338	1,976	19,957	12	2,897

BBB- to A-	-	-	6,245	4,430	4,217	1,643	16,535	10	7,394
Non-investment grade	-	-	928	439	3,103	614	5,084	3	2,674
Unrated	-	1	2	308	1,541	469	2,321	1	1,087
	17,471	36,395	43,473	11,555	50,104	5,626	164,624	100	53,585

Key points

- AAA rated debt securities decreased as the UK was downgraded from AAA to AA+ during the first half of the year and also reflected the Group's reduced holding of debt securities.

- The decrease in holdings of debt securities rated A to AA- was primarily driven by a reduction in Japanese bonds.

- Non-investment grade and unrated debt securities accounted for 5% of the portfolio.

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Appendix 3 Credit risk (continued)

Debt securities (continued)
Asset-backed securities
The table below summarises the ratings of asset-backed securities on the balance sheet.

	RMBS (1)										
	Government sponsored or similar (2)	Prime	Non-conforming	Sub-prime	MBS covered bond (1)	CMBS (1)	CDOs (1)	CLOs (1)	ABS covered bond	ABS other	Total
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
AAA	1,743	2,713	1,538	26	521	347	73	1,087	25	1,313	9,386
AA to AA+	22,269	595	84	23	103	3,332	7	525	49	284	27,271
A to AA-	201	197	289	60	49	678	64	239	-	673	2,450
BBB- to A-	1,015	54	150	115	5,093	311	12	275	9	446	7,480
Non-investment grade (3)	3	623	482	406	353	354	275	201	-	201	2,898
Unrated (4)	-	78	10	405	-	10	40	300	-	90	933
	25,231	4,260	2,553	1,035	6,119	5,032	471	2,627	83	3,007	50,418
Of which in Non-Core	-	541	391	179	-	635	410	1,765	-	423	4,344
31 December 2012											
AAA	2,454	2,854	1,487	11	639	396	92	1,181	165	1,479	10,758
AA to AA+	23,692	613	88	26	102	2,551	7	887	340	469	28,775
A to AA-	201	302	275	33	155	808	74	146	20	883	2,897
BBB- to A-	990	53	141	86	4,698	441	32	291	8	654	7,394
Non-investment grade (3)	20	641	454	330	136	304	421	133	-	235	2,674
Unrated (4)	-	108	8	298	-	23	94	388	-	168	1,087
	27,357	4,571	2,453	784	5,730	4,523	720	3,026	533	3,888	53,585
Of which in Non-Core	-	651	404	154	-	780	494	2,228	-	850	5,561

Notes:
(1) RMBS: residential mortgage-backed securities; CMBS: commercial mortgage-backed securities; CDOs: collateralised debt obligations; CLOs: collateralised loan obligations.
(2) Includes US agency and Dutch government guaranteed securities.
(3) Comprises held-for-trading (HFT) £1,467 million (31 December 2012 - £1,177 million), designated at fair value (DFV) nil (31 December 2012 - £7 million), available-for-sale (AFS) £1,226 million (31 December 2012 - £1,173 million) and loans and receivables (LAR) £205 million (31 December 2012 - £317 million).

(4) Comprises HFT £768 million (31 December 2012 - £808 million), AFS £107 million (31 December 2012 - £149 million) and LAR £58 million (31 December 2012 - £130 million).

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Appendix 3 Credit risk (continued)

Equity shares

The table below analyses holdings of equity shares for eurozone countries and other countries with balances of more than £100 million by country, issuer and measurement classification. The HFT portfolios in Markets comprise positions in the Markets Derivative Products Solutions business, primarily for economic hedging of liabilities including debt issuances and equity derivatives. The AFS portfolios include capital stock in the Federal Home Loan Bank (a government sponsored entity, included in Other Financial Institutions) and the Federal Reserve Bank, which together amounted to £0.6 billion (31 December 2012 - £0.7 billion) that US Retail & Commercial are required to hold. The remaining AFS balances are individually small holdings in unlisted companies, mainly acquired through loan renegotiations in the Global Restructuring Group (GRG).

	30 June 2013										
	HFT				HFT	AFS/DFV (1)					
	Banks	Other FI (2)	Corporate	Total	short positions	Banks	Other FI (2)	Corporate	Total	Total	AFS reserves
Countries	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Spain	7	-	344	351	(2)	-	-	64	64	415	(52)
Ireland	-	71	11	82	-	-	7	-	7	89	-
Italy	11	-	23	34	-	-	5	16	21	55	-
Portugal	-	-	3	3	-	-	-	-	-	3	-
Greece	-	-	1	1	-	-	-	-	-	1	-
Eurozone Periphery	18	71	382	471	(2)	-	12	80	92	563	(52)
Netherlands	-	151	389	540	(23)	-	40	46	86	626	(22)
Germany	4	135	403	542	(10)	-	-	-	-	542	-
France	10	42	90	142	(185)	-	-	156	156	298	33
Luxembourg	-	210	38	248	(7)	-	-	3	3	251	-
Other	22	24	103	149	(14)	-	3	-	3	152	2
Total eurozone	54	633	1,405	2,092	(241)	-	55	285	340	2,432	(39)
Countries											
US	62	416	2,013	2,491	(288)	458	269	68	795	3,286	16
UK	145	428	1,897	2,470	(36)	8	283	267	558	3,028	64
China	284	109	296	689	(54)	-	-	-	-	689	8
Japan	-	155	112	267	(10)	-	1	-	1	268	-
Australia	80	43	104	227	-	-	-	5	5	232	-
Taiwan	1	60	138	199	-	-	-	-	-	199	-
South Korea	1	27	145	173	-	-	-	1	1	174	-
Hong Kong	3	72	93	168	-	-	-	6	6	174	3
Switzerland	8	13	87	108	(5)	-	40	-	40	148	38
Russia	15	4	104	123	-	-	-	-	-	123	-
India	14	-	100	114	-	-	-	-	-	114	-
Romania	1	110	-	111	-	-	-	-	-	111	-

Canada	3	2	76	81	(404)	-	-	-	-	81	-
Other	51	37	263	351	(23)	-	5	16	21	372	8
Total	722	2,109	6,833	9,664	(1,061)	466	653	648	1,767	11,431	98

For the notes to this table refer to the following page.

Appendix 3 Credit risk (continued)

Equity shares (continued)

	31 December 2012										
	HFT					AFS/DFV (1)					
Countries	Banks £m	Other FI (2) £m	Corporate £m	Total £m	HFT short positions £m	Banks £m	Other FI (2) £m	Corporate £m	Total £m	Total £m	AFS reserves £m
Spain	18	-	51	69	-	-	-	92	92	161	(41)
Ireland	-	126	47	173	(3)	-	17	-	17	190	-
Italy	7	1	33	41	(15)	-	5	-	5	46	-
Portugal	-	-	5	5	-	-	-	-	-	5	-
Greece	-	-	6	6	-	-	-	-	-	6	-
Eurozone periphery	25	127	142	294	(18)	-	22	92	114	408	(41)
Netherlands	20	157	465	642	(21)	-	40	156	196	838	(19)
Germany	33	1	106	140	(54)	-	-	-	-	140	-
France	10	75	103	188	(10)	-	1	143	144	332	23
Luxembourg	14	196	46	256	(1)	-	6	34	40	296	1
Other	18	26	116	160	(15)	-	3	-	3	163	1
Total eurozone	120	582	978	1,680	(119)	-	72	425	497	2,177	(35)
Countries											
US	208	619	2,645	3,472	(132)	307	419	18	744	4,216	7
UK	372	144	2,483	2,999	(35)	35	70	320	425	3,424	73
China	331	147	357	835	(3)	-	14	3	17	852	7
Japan	24	67	973	1,064	(1)	-	2	-	2	1,066	-
Australia	77	45	159	281	(17)	-	-	-	-	281	-
Taiwan	2	31	259	292	(11)	-	-	-	-	292	-
South Korea	32	72	880	984	-	-	-	-	-	984	-
Hong Kong	2	81	97	180	-	-	-	4	4	184	2
Switzerland	4	-	71	75	(13)	-	34	-	34	109	31
Russia	16	4	158	178	-	-	-	-	-	178	-
India	29	68	220	317	-	-	-	-	-	317	-
Romania	-	123	-	123	-	-	-	-	-	123	-
Canada	14	25	200	239	(277)	-	-	2	2	241	2
MDB and supranationals (3)	-	-	-	-	-	-	-	156	156	156	-
Other	70	48	492	610	(3)	-	5	22	27	637	(3)
Total	1,301	2,056	9,972	13,329	(611)	342	616	950	1,908	15,237	84

Notes:

(1) Designated as at fair value through profit or loss balances are £414 million (31 December 2012 - £533 million) comprising £54 million other financial institutions (31 December 2012 - £61 million) and £360 million corporate (31 December 2012 - £472 million).

(2) Other financial institutions (FI) including government sponsored entities.

(3) MDB - Multilateral development banks.

Key point

· Equity shares decreased by £3.8 billion in the half year driven by both targeted risk reduction in Markets and the announcement in June 2013 of the planned exit of the division's Equity Derivatives franchise.

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Appendix 3 Credit risk (continued)

Credit derivatives

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

	30 June 2013				31 December 2012			
	Notional		Fair value		Notional		Fair value	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
Group	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Client-led trading & residual risk	218.6	206.6	2.8	2.7	250.7	240.7	3.4	3.1
Credit hedging - banking book (1)	5.3	0.2	0.2	-	5.4	0.4	0.1	-
Credit hedging - trading book								
- rates	9.2	6.1	0.2	0.1	9.4	5.8	0.1	0.1
- credit and mortgage markets	4.3	1.9	0.6	0.4	22.4	16.0	0.9	0.7
- other	1.2	0.3	-	-	1.4	0.6	-	-
Total	238.6	215.1	3.8	3.2	289.3	263.5	4.5	3.9
Core								
Client-led trading	195.5	192.6	2.6	2.4	231.4	228.4	3.0	2.7
Credit hedging - banking book	1.6	-	-	-	1.7	-	-	-
Credit hedging - trading book								
- rates	8.0	5.0	0.2	0.1	7.8	4.6	0.1	0.1
- credit and mortgage markets	0.2	-	-	-	13.9	13.6	0.2	0.2
- other	1.2	0.3	-	-	1.3	0.5	-	-
	206.5	197.9	2.8	2.5	256.1	247.1	3.3	3.0
Non-Core								
Residual risk	23.1	14.0	0.2	0.3	19.3	12.3	0.4	0.4
Credit hedging - banking book (1)	3.7	0.2	0.2	-	3.7	0.4	0.1	-
Credit hedging - trading book								
- rates	1.2	1.1	-	-	1.6	1.2	-	-
	4.1	1.9	0.6	0.4	8.5	2.4	0.7	0.5

- credit and mortgage markets								
- other	-	-	-	-	0.1	0.1	-	-
	32.1	17.2	1.0	0.7	33.2	16.4	1.2	0.9
By counterparty								
Monoline insurers	3.2	-	0.2	-	4.6	-	0.4	-
CDPCs (2)	21.9	-	0.2	-	21.0	-	0.2	-
Banks	88.1	92.1	1.5	1.7	127.2	128.6	2.3	2.8
Other financial institutions	124.7	123.0	1.7	1.5	135.8	134.9	1.4	1.1
Corporates	0.7	-	0.2	-	0.7	-	0.2	-
	238.6	215.1	3.8	3.2	289.3	263.5	4.5	3.9

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

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Appendix 3 Credit risk (continued)

Problem debt management

For a description of the Group's early problem identification and problem debt management, refer to pages 131 to 139 of the Group's 2012 Form 20-F.

Wholesale renegotiations

The data presented below include loans where renegotiations were completed during the period. Thresholds for inclusion are set at divisional level and range from nil to £10 million. Comparison and analysis of renegotiated loans may be skewed by the impact of individual material cases reaching legal completion during a given period, and are also subject to seasonality.

	Half year ended 30 June 2013			Year ended 31 December 2012		
	Performing	Non-performing	Provision coverage	Performing	Non-performing	Provision coverage
Sector (1)	£m	£m	%	£m	£m	%
Property	791	322	25	1,954	3,288	18
Transport	87	177	16	832	99	23
Telecommunications, media and technology	123	38	5	237	341	46
Retail and leisure	173	27	-	487	111	34
Other	231	74	-	792	245	28
	1,405	638	18	4,302	4,084	22

Note:

(1) In addition loans totalling £1.0 billion granted financial covenant concessions only during the period are not included in the table above as these concessions do not affect a loan's contractual cash flows (year to 31 December 2012 - £3.9 billion).

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

	Half year ended 30 June 2013	Year ended 31 December 2012
Arrangement type (1)	%	%
Variation in margin	2	9
Payment concessions and loan rescheduling	87	69
Forgiveness of all or part of the outstanding debt	12	29
Other (2)	18	20

Notes:

(1) The total above exceeds 100% as an individual case can involve more than one type of arrangement.

(2) Main types of 'other' concessions include formal 'standstill' agreements, release of security and amendments to negative pledge.

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Explanation of Responses:

Appendix 3 Credit risk (continued)

Problem debt management: Wholesale renegotiations (continued)

Key points

Renegotiations completed during the first half of 2013, subject to thresholds as explained above, amounted to £2.0 billion. In H1 2013 renegotiations were most prevalent in the Group's most significant corporate sectors and in those industries experiencing difficult markets, notably property and transport as the Group sought to support viable customers. The majority of renegotiations granted to borrowers in the property sector were payment concessions and loan rescheduling.

Year-on-year analysis of renegotiated loans may be skewed by individual material cases reaching legal completion during a given year. This is particularly relevant when comparing the value of renegotiations completed in the property and seaborne transport sectors where negotiations can be lengthy. In the first half of 2013, the decrease in completed renegotiations was driven by a lack of large individual material cases reaching legal completion during the period.

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

Loans renegotiated since January 2011 and still outstanding at 30 June 2013 amounted to £16.3 billion (31 December 2012 - £17.7 billion). Of the loans renegotiated by GRG since January 2011, 7% had been returned to performing portfolios managed by the business by 30 June 2013 (31 December 2012 - 6%).

Renegotiations are likely to remain significant, particularly in those industries experiencing difficult markets. At 30th June 2013, loans totalling £13.6 billion (31 December 2012 - £13.7 billion) were in the process of being renegotiated but had not yet reached legal completion (these loans are not included in the tables above). Property and transport represent 70% and 11% respectively of the in-process renegotiations. 73% of the in-process renegotiations were non-performing loans (31 December 2012 - 69%), with associated provision coverage of 33% (31 December 2012 - 32%). The principal types of arrangements offered include variation in margin, payment concessions and loan rescheduling and forgiveness of all or part of the outstanding debt.

56% of 'completed' and 96% of 'in progress' renegotiated cases (by value) were managed by GRG.

Problem debt management (continued)

Retail forbearance

For a description of forbearance arrangements in the Group's retail businesses, see pages 135 of the Group's 2012 Form 20-F. The mortgage arrears information for retail accounts in forbearance and related provisions are shown in the tables below.

	No missed payments		1-3 months in arrears		>3 months in arrears		Total		
	Balance £m	Provision £m	Balance £m	Provision £m	Balance £m	Provision £m	Balance £m	Provision £m	Forborne balances %
30 June 2013									
UK Retail (1,2)	4,121	20	438	19	448	61	5,007	100	5.1
Ulster Bank (1,2)	1,114	150	585	79	627	244	2,326	473	11.8
RBS Citizens	-	-	185	20	211	9	396	29	1.8
Wealth (3)	121	18	4	-	22	1	147	19	1.7
	5,356	188	1,212	118	1,308	315	7,876	621	4.9
31 December 2012									
UK Retail (1,2)	4,006	20	388	16	450	64	4,844	100	4.9
Ulster Bank (1,2)	915	100	546	60	527	194	1,988	354	10.4
RBS Citizens	-	-	179	25	160	10	339	35	1.6
Wealth	38	-	-	-	7	-	45	-	0.5
	4,959	120	1,113	101	1,144	268	7,216	489	4.9

Notes:

(1) Forbearance in UK Retail and Ulster Bank above capture all instances where a change has been made to the contractual payment terms including those where the customer is up-to-date on payments and there is no obvious evidence of financial stress

(2) Includes the current stock position of forbearance deals agreed since early 2008 for UK Retail and early 2009 for Ulster Bank.

(3) Wealth forbearance stock at 30 June 2013 included the RBS International portfolio.

Appendix 3 Credit risk (continued)

Problem debt management: Retail forbearance (continued)
The incidence of the main types of retail forbearance on the balance sheet at 30 June 2013 is analysed below. This includes forbearance arrangements agreed during the first half of 2013 and the balance at the period end.

30 June 2013 (1)	UK Retail £m	Ulster Bank £m	RBS Citizens £m	Wealth £m	Total £m
Interest only conversions - temporary and permanent	1,301	759	-	5	2,065
Term extensions - capital repayment and interest only	2,401	274	-	36	2,711
Payment concessions	226	1,092	368	19	1,705
Capitalisation of arrears	938	264	-	-	1,202
Other	414	-	28	87	529
	5,280	2,389	396	147	8,212
31 December 2012 (1)					
Interest only conversions - temporary and permanent	1,220	924	-	6	2,150
Term extensions - capital repayment and interest only	2,271	183	-	27	2,481
Payment concessions	215	762	339	9	1,325
Capitalisation of arrears	932	119	-	-	1,051
Other	452	-	-	3	455
	5,090	1,988	339	45	7,462

The table below shows forbearance agreed during the first half of 2013 analysed between performing and non-performing.

30 June 2013	UK Retail £m	Ulster Bank £m	RBS Citizens £m	Wealth £m	Total £m
Performing forbearance in the half year	777	1,105	-	56	1,938
Non-performing forbearance in the half year	83	517	57	5	662
Total forbearance in the half year (2)	860	1,622	57	61	2,600

Notes:
(1) As an individual case can include more than one type of arrangement, the analysis in the table on forbearance arrangements exceeds the total value of cases subject to forbearance.
(2) Includes all deals agreed during the half year (new customers and renewals) regardless of whether they remain active at the period end.

Key points

UK Retail

At 30 June 2013, stock levels of £5.0 billion represented 5.1% of the total mortgage assets, an increase of 3.4% from 31 December 2012; balances were flat between Q1 and Q2 2013.

The flow of new forbearance in Q2 2013 continued to fall (£429 million compared with an average of £494 million per quarter in the preceding four quarters). The 24 month rolling stock of forbearance (where the treatment has been provided in the last 24 months) is £2.1 billion and fell slightly in the first half of the year.

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Appendix 3 Credit risk (continued)

Problem debt management: Retail forbearance (continued)

Key points (continued)

UK Retail (continued)

Approximately 82% of forbearance assets (31 December 2012 - 83%) were up-to-date with payments (compared with approximately 97% of the assets not subject to forbearance activity).

Of the total stock of assets subject to forbearance treatment, 45% were term extensions, 25% interest-only conversions and 18% capitalisations of arrears.

The growth of interest only stock reflects an extension of the definition to include customers who were historically on Capital and Interest repayments and who converted to a mix of capital and interest and interest only; the underlying level of transfers is negligible and the remaining stock reflects legacy policy.

The provision cover on assets subject to forbearance was around 4.6 times that on assets not subject to forbearance.

Ulster Bank

At 30 June 2013, 11.8% of total mortgage assets (£2.3 billion) were subject to a forbearance arrangement, an increase from 10.4% (£2.0 billion) at 31 December 2012. This reflected Ulster Bank's proactive strategies to contact customers in financial difficulty to offer assistance. Forbearance deals agreed during H1 2013 increased by 11% compared to H2 2012. However the number of customers approaching Ulster Bank for assistance for the first time remained broadly stable.

The majority of the forbearance treatments offered by Ulster Bank are short to medium term concessions (interest only conversions and payment concessions). They account for 77% of forbearance assets at 30 June 2013 (85% at 31 December 2012). These concessions are offered for periods of between one and five years and incorporate different levels of repayment based on the customer's ability to pay.

Interest only arrangements represented 32% of forbearance assets at 30 June 2013, a decrease from 46% at 31 December 2012.

Similarly, of those customers offered payment concession (46%), the number of customers who were temporarily permitted to pay less than the interest only fell (6% of forbearance assets at 30 June 2013; 11% at 31 December 2012). Customers who agreed a reduced payment (greater than interest only) and payment holidays accounted for 26% and 7% respectively at 30 June 2013.

Permanent forbearance treatments, capitalisations and term extensions each represented 11% of the forbearance portfolio at 30 June 2013, increasing from 6% and 9% respectively as of 31 December 2012.

Where performing cases are subject to forbearance, they attract a higher provision than assets not subject to forbearance. The majority of forbearance arrangements were in the performing book (73%).

At 30 June 2013, 7% of forbearance customers were subject to one of the new treatments developed to assist customers as part of the longer term strategies.

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Appendix 3 Credit risk (continued)

Problem debt management (continued)

Loans, risk elements in lending (REIL), provisions and impairments
Sector and geographical regional analyses - Group
The tables below analyse gross loans and advances to banks and customers (excluding reverse repos) and related credit metrics by sector and geography (by location of lending office) for the Group, Core and Non-Core.

					Credit metrics				
30 June 2013		Gross loans £m	REIL £m	Provisions £m	REIL as a % of gross loans %	Provisions as a % of REIL %	Provisions as a % of gross loans %	Impairment charge YTD £m	Amounts written-off YTD £m
Government (1)		9,745	-	-	-	-	-	-	-
Finance		38,518	618	315	1.6	51	0.8	33	10
Personal	- mortgages	150,103	6,749	2,036	4.5	30	1.4	284	155
	- unsecured	29,139	2,780	2,270	9.5	82	7.8	253	390
Property		68,132	21,676	10,145	31.8	47	14.9	862	771
Construction		7,722	1,434	682	18.6	48	8.8	125	100
Manufacturing		22,622	708	412	3.1	58	1.8	57	61
Finance leases (2)		14,734	301	203	2.0	67	1.4	(1)	87
Retail, wholesale and repairs		21,668	1,183	622	5.5	53	2.9	47	83
Transport and storage		19,109	1,331	316	7.0	24	1.7	76	111
Health, education and leisure		16,812	1,445	653	8.6	45	3.9	153	36
Hotels and restaurants		8,069	1,551	688	19.2	44	8.5	29	85
Utilities		6,415	253	112	3.9	44	1.7	60	-
Other		28,500	2,059	1,236	7.2	60	4.3	228	206
Latent		-	-	1,980	-	-	-	(36)	-
		441,288	42,088	21,670	9.5	51	4.9	2,170	2,095
of which:									
UK									
- residential mortgages		109,291	2,348	494	2.1	21	0.5	36	24
- personal lending		17,312	2,322	1,991	13.4	86	11.5	175	296
- property		49,646	10,655	4,088	21.5	38	8.2	500	594
- construction		6,023	1,044	487	17.3	47	8.1	105	99
- other		117,822	4,079	2,441	3.5	60	2.1	156	294
Europe									
- residential mortgages		18,438	3,361	1,351	18.2	40	7.3	161	5
- personal lending		1,322	235	219	17.8	93	16.6	10	16
- property		14,045	10,864	5,992	77.4	55	42.7	372	165
- construction		1,362	344	178	25.3	52	13.1	13	-
- other		25,000	4,696	3,269	18.8	70	13.1	478	339

US								
- residential mortgages	22,033	1,013	185	4.6	18	0.8	88	125
- personal lending	9,280	221	60	2.4	27	0.6	67	77
- property	4,143	118	26	2.8	22	0.6	(8)	12
- construction	311	37	8	11.9	22	2.6	7	1
- other	30,873	383	674	1.2	176	2.2	1	34
RoW								
- residential mortgages	341	27	6	7.9	22	1.8	(1)	1
- personal lending	1,225	2	-	0.2	-	-	1	1
- property	298	39	39	13.1	100	13.1	(2)	-
- construction	26	9	9	34.6	100	34.6	-	-
- other	12,497	291	153	2.3	53	1.2	11	12
	441,288	42,088	21,670	9.5	51	4.9	2,170	2,095
Banks	30,415	95	83	0.3	87	0.3	(9)	28

For the notes to this table refer to page 28.

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Appendix 3 Credit risk (continued)

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

Sector and geographical regional analyses - Group (continued)

				Credit metrics				
31 December 2012	Gross loans £m	REIL £m	Provisions £m	REIL as a % of gross loans %	Provisions as a % of REIL %	Provisions as a % of gross loans %	Impairment charge YTD £m	Amounts written-off YTD £m
Government (1)	9,853	-	-	-	-	-	-	-
Finance	42,198	592	317	1.4	54	0.8	145	380
Personal - mortgages	149,625	6,549	1,824	4.4	28	1.2	948	461
- unsecured	32,212	2,903	2,409	9.0	83	7.5	631	793
Property	72,219	21,223	9,859	29.4	46	13.7	2,212	1,080
Construction	8,049	1,483	640	18.4	43	8.0	94	182
Manufacturing	23,787	755	357	3.2	47	1.5	134	203
Finance leases (2)	13,609	442	294	3.2	67	2.2	44	263
Retail, wholesale and repairs	21,936	1,143	644	5.2	56	2.9	230	176
Transport and storage	18,341	834	336	4.5	40	1.8	289	102
Health, education and leisure	16,705	1,190	521	7.1	44	3.1	144	100
Hotels and restaurants	7,877	1,597	726	20.3	45	9.2	176	102
Utilities	6,631	118	21	1.8	18	0.3	(4)	-
Other	30,057	2,177	1,240	7.2	57	4.1	323	395
Latent	-	-	1,960	-	-	-	(74)	-
	453,099	41,006	21,148	9.1	52	4.7	5,292	4,237
of which:								
UK								
- residential mortgages	109,530	2,440	457	2.2	19	0.4	122	32
- personal lending	20,498	2,477	2,152	12.1	87	10.5	479	610
- property	53,730	10,521	3,944	19.6	37	7.3	964	490
- construction	6,507	1,165	483	17.9	41	7.4	100	158
- other	122,029	3,729	2,611	3.1	70	2.1	674	823
Europe								
- residential mortgages	17,836	3,092	1,151	17.3	37	6.5	526	50
- personal lending	1,905	226	208	11.9	92	10.9	38	13
- property	14,634	10,347	5,766	70.7	56	39.4	1,264	441
- construction	1,132	289	146	25.5	51	12.9	(11)	12
- other	27,424	4,451	2,996	16.2	67	10.9	817	539
US								
- residential mortgages	21,929	990	208	4.5	21	0.9	298	377
- personal lending	8,748	199	48	2.3	24	0.5	109	162

- property	3,343	170	29	5.1	17	0.9	(11)	83
- construction	388	8	1	2.1	13	0.3	-	12
- other	29,354	352	630	1.2	179	2.1	(86)	149
RoW								
- residential mortgages	330	27	8	8.2	30	2.4	2	2
- personal lending	1,061	1	1	0.1	100	0.1	5	8
- property	512	185	120	36.1	65	23.4	(5)	66
- construction	22	21	10	95.5	48	45.5	5	-
- other	12,187	316	179	2.6	57	1.5	2	210
	453,099	41,006	21,148	9.1	52	4.7	5,292	4,237
Banks	31,394	134	114	0.4	85	0.4	23	29

For notes to this table refer to page 28.

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Appendix 3 Credit risk (continued)

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

Sector and geographical regional analyses – Core
The tables below analyse gross loans and advances to banks and customers (excluding reverse repos).

30 June 2013	Gross loans £m	REIL £m	Provisions £m	Credit metrics: REIL as a % of gross loans %	Provisions as a % of REIL %	Provisions as a % of gross loans %	Impairment charge YTD £m	Amounts written-off YTD £m
Government (1)	8,449	-	-	-	-	-	-	-
Finance	36,811	207	130	0.6	63	0.4	21	2
Personal - mortgages	147,373	6,473	1,923	4.4	30	1.3	242	89
- unsecured	28,225	2,569	2,149	9.1	84	7.6	224	362
Property	44,714	5,372	1,662	12.0	31	3.7	146	198
Construction	5,781	781	379	13.5	49	6.6	74	50
Manufacturing	21,405	512	274	2.4	54	1.3	49	44
Finance leases (2)	10,552	136	86	1.3	63	0.8	4	17
Retail, wholesale and repairs	20,817	827	417	4.0	50	2.0	46	73
Transport and storage	15,503	895	116	5.8	13	0.7	40	40
Health, education and leisure	16,037	956	400	6.0	42	2.5	132	32
Hotels and restaurants	6,827	1,004	444	14.7	44	6.5	19	59
Utilities	5,466	141	63	2.6	45	1.2	58	-
Other	26,149	1,359	911	5.2	67	3.5	251	161
Latent	-	-	1,322	-	-	-	(39)	-
	394,109	21,232	10,276	5.4	48	2.6	1,267	1,127
of which:								
UK								
- residential mortgages	109,289	2,348	494	2.1	21	0.5	35	23
- personal lending	17,192	2,294	1,973	13.3	86	11.5	173	293
- property	36,273	3,125	880	8.6	28	2.4	174	194
- construction	4,720	659	317	14.0	48	6.7	62	49
- other	107,103	3,084	1,645	2.9	53	1.5	154	206
Europe								
- residential mortgages	18,063	3,330	1,323	18.4	40	7.3	162	5
- personal lending	1,086	147	136	13.5	93	12.5	6	14
- property	4,479	2,191	775	48.9	35	17.3	(15)	-
- construction	726	77	45	10.6	58	6.2	4	-
- other	20,720	2,615	2,037	12.6	78	9.8	439	192
US								
- residential mortgages	19,718	771	100	3.9	13	0.5	46	60

- personal lending	8,742	128	40	1.5	31	0.5	45	55
- property	3,804	56	7	1.5	13	0.2	(13)	4
- construction	309	36	8	11.7	22	2.6	8	1
- other	29,668	286	445	1.0	156	1.5	(13)	23
RoW								
- residential mortgages	303	24	6	7.9	25	2.0	(1)	1
- personal lending	1,205	-	-	-	-	-	-	-
- property	158	-	-	-	-	-	-	-
- construction	26	9	9	34.6	100	34.6	-	-
- other	10,525	52	36	0.5	69	0.3	1	7
	394,109	21,232	10,276	5.4	48	2.6	1,267	1,127
Banks	29,805	94	82	0.3	87	0.3	(9)	28

For the notes to this table refer to page 28.

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Appendix 3 Credit risk (continued)

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

Sector and geographical regional analyses - Core (continued)

				Credit metrics				
31 December 2012	Gross loans (1) £m	REIL £m	Provisions £m	REIL as a % of gross loans %	Provisions as a % of REIL %	Provisions as a % of gross loans %	Impairment charge YTD £m	Amounts written-off YTD £m
Government (1)	8,485	-	-	-	-	-	-	-
Finance	39,658	185	149	0.5	81	0.4	54	338
Personal - mortgages	146,770	6,229	1,691	4.2	27	1.2	786	234
- unsecured	30,366	2,717	2,306	8.9	85	7.6	568	718
Property	43,602	4,672	1,674	10.7	36	3.8	748	214
Construction	6,020	757	350	12.6	46	5.8	119	60
Manufacturing	22,234	496	225	2.2	45	1.0	118	63
Finance leases (2)	9,201	159	107	1.7	67	1.2	35	41
Retail, wholesale and repairs	20,842	791	439	3.8	55	2.1	181	129
Transport and storage	14,590	440	112	3.0	25	0.8	72	21
Health, education and leisure	15,770	761	299	4.8	39	1.9	109	67
Hotels and restaurants	6,891	1,042	473	15.1	45	6.9	138	56
Utilities	5,131	10	5	0.2	50	0.1	-	-
Other	26,315	1,374	794	5.2	58	3.0	190	175
Latent	-	-	1,325	-	-	-	(146)	-
	395,875	19,633	9,949	5.0	51	2.5	2,972	2,116
of which:								
UK								
- residential mortgages	109,511	2,440	457	2.2	19	0.4	122	32
- personal lending	19,562	2,454	2,133	12.5	87	10.9	474	594
- property	35,532	2,777	896	7.8	32	2.5	395	181
- construction	5,101	671	301	13.2	45	5.9	109	47
- other	108,713	2,662	1,737	2.4	65	1.6	499	379
Europe								
- residential mortgages	17,446	3,060	1,124	17.5	37	6.4	521	24
- personal lending	1,540	143	138	9.3	97	9.0	29	11
- property	4,896	1,652	685	33.7	41	14.0	350	6
- construction	513	60	39	11.7	65	7.6	4	10
- other	22,218	2,280	1,711	10.3	75	7.7	362	267
US								
- residential mortgages	19,483	702	102	3.6	15	0.5	141	176
- personal lending	8,209	119	34	1.4	29	0.4	65	112

- property	2,847	112	13	3.9	12	0.5	3	27
- construction	384	5	-	1.3	-	-	1	3
- other	28,267	252	432	0.9	171	1.5	(111)	90
RoW								
- residential mortgages	330	27	8	8.2	30	2.4	2	2
- personal lending	1,055	1	1	0.1	100	0.1	-	1
- property	327	131	80	40.1	61	24.5	-	-
- construction	22	21	10	95.5	48	45.5	5	-
- other	9,919	64	48	0.6	75	0.5	1	154
	395,875	19,633	9,949	5.0	51	2.5	2,972	2,116
Banks	28,881	133	113	0.5	85	0.4	23	29

For the notes to this table refer to page 28.

Appendix 3 Credit risk (continued)

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

Sector and geographical regional analyses - Non-Core

				Credit metrics				
30 June 2013	Gross loans £m	REIL £m	Provisions £m	REIL as a % of gross loans %	Provisions as a % of REIL %	Provisions as a % of gross loans %	Impairment charge YTD £m	Amounts written-off YTD £m
Government (1)	1,296	-	-	-	-	-	-	-
Finance	1,707	411	185	24.1	45	10.8	12	8
Personal - mortgages	2,730	276	113	10.1	41	4.1	42	66
- unsecured	914	211	121	23.1	57	13.2	29	28
Property	23,418	16,304	8,483	69.6	52	36.2	716	573
Construction	1,941	653	303	33.6	46	15.6	51	50
Manufacturing	1,217	196	138	16.1	70	11.3	8	17
Finance leases (2)	4,182	165	117	3.9	71	2.8	(5)	70
Retail, wholesale and repairs	851	356	205	41.8	58	24.1	1	10
Transport and storage	3,606	436	200	12.1	46	5.5	36	71
Health, education and leisure	775	489	253	63.1	52	32.6	21	4
Hotels and restaurants	1,242	547	244	44.0	45	19.6	10	26
Utilities	949	112	49	11.8	44	5.2	2	-
Other	2,351	700	325	29.8	46	13.8	(23)	45
Latent	-	-	658	-	-	-	3	-
	47,179	20,856	11,394	44.2	55	24.2	903	968
of which:								
UK								
- residential mortgages	2	-	-	-	-	-	1	1
- personal lending	120	28	18	23.3	64	15.0	2	3
- property	13,373	7,530	3,208	56.3	43	24.0	326	400
- construction	1,303	385	170	29.5	44	13.0	43	50
- other	10,719	995	796	9.3	80	7.4	2	88
Europe								
- residential mortgages	375	31	28	8.3	90	7.5	(1)	-
- personal lending	236	88	83	37.3	94	35.2	4	2
- property	9,566	8,673	5,217	90.7	60	54.5	387	165
- construction	636	267	133	42.0	50	20.9	9	-
- other	4,280	2,081	1,232	48.6	59	28.8	39	147
US								
- residential mortgages	2,315	242	85	10.5	35	3.7	42	65
- personal lending	538	93	20	17.3	22	3.7	22	22

- property	339	62	19	18.3	31	5.6	5	8
- construction	2	1	-	50.0	-	-	(1)	-
- other	1,205	97	229	8.0	236	19.0	14	11
RoW								
- residential mortgages	38	3	-	7.9	-	-	-	-
- personal lending	20	2	-	10.0	-	-	1	1
- property	140	39	39	27.9	100	27.9	(2)	-
- construction	-	-	-	-	-	-	-	-
- other	1,972	239	117	12.1	49	5.9	10	5
	47,179	20,856	11,394	44.2	55	24.2	903	968
Banks	610	1	1	0.2	100	0.2	-	-

For the notes to this table refer to page 28.

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Appendix 3 Credit risk (continued)

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

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

				Credit metrics				
31 December 2012	Gross loans £m	REIL £m	Provisions £m	REIL as a % of gross loans %	Provisions as a % of REIL %	Provisions as a % of gross loans %	Impairment charge YTD £m	Amounts written-off YTD £m
Government (1)	1,368	-	-	-	-	-	-	-
Finance	2,540	407	168	16.0	41	6.6	91	42
Personal - mortgages	2,855	320	133	11.2	42	4.7	162	227
- unsecured	965	186	103	19.3	55	10.7	63	75
Property	28,617	16,551	8,185	57.8	49	28.6	1,464	866
Construction	2,029	726	290	35.8	40	14.3	(25)	122
Manufacturing	1,553	259	132	16.7	51	8.5	16	140
Finance leases (2)	4,408	283	187	6.4	66	4.2	9	222
Retail, wholesale and repairs	1,094	352	205	32.2	58	18.7	49	47
Transport and storage	3,751	394	224	10.5	57	6.0	217	81
Health, education and leisure	935	429	222	45.9	52	23.7	35	33
Hotels and restaurants	986	555	253	56.3	46	25.7	38	46
Utilities	1,500	108	16	7.2	15	1.1	(4)	-
Other	3,742	803	446	21.5	56	11.9	133	220
Latent	-	-	635	-	-	-	72	-
	56,343	21,373	11,199	37.9	52	19.9	2,320	2,121
of which:								
UK								
- residential mortgages	19	-	-	-	-	-	-	-
- personal lending	55	23	19	41.8	83	34.5	5	16
- property	18,198	7,744	3,048	42.6	39	16.7	569	309
- construction	1,406	494	182	35.1	37	12.9	(9)	111
- other	13,316	1,067	874	8.0	82	6.6	175	444
Europe								
- residential mortgages	390	32	27	8.2	84	6.9	5	26
- personal lending	365	83	70	22.7	84	19.2	9	2
- property	9,738	8,695	5,081	89.3	58	52.2	914	435
- construction	619	229	107	37.0	47	17.3	(15)	2
- other	5,206	2,171	1,285	41.7	59	24.7	455	272
US								
- residential mortgages	2,446	288	106	11.8	37	4.3	157	201
- personal lending	539	80	14	14.8	18	2.6	44	50

- property	496	58	16	11.7	28	3.2	(14)	56
- construction	4	3	1	75.0	33	25.0	(1)	9
- other	1,087	100	198	9.2	198	18.2	25	59
RoW								
- personal lending	6	-	-	-	-	-	5	7
- property	185	54	40	29.2	74	21.6	(5)	66
- other	2,268	252	131	11.1	52	5.8	1	56
	56,343	21,373	11,199	37.9	52	19.9	2,320	2,121
Banks	477	1	1	0.2	100	0.2	-	-

Notes:
(1) Includes central and local government.
(2) Includes instalment credit.
(3) Core, Non-Core split excludes balances in relation to Direct Line Group (loans to customers of £881 million and loans to banks of £2,036 million).

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Appendix 3 Credit risk (continued)

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

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

	UK Retail £m	UK Corporate £m	Wealth £m	International Banking £m	Ulster Bank £m	US Retail & Commercial £m	Markets £m	Other £m	Core £m	Non-Core £m	Total £m
At 1 January 2013	4,569	5,452	248	422	7,533	1,146	396	-	19,766	21,374	41,140
Currency translation and other adjustments	-	11	4	10	342	72	19	-	458	642	1,100
Additions	609	2,319	75	213	1,551	102	8	1	4,878	1,978	6,856
Transfers (1)	(95)	280	-	107	-	-	-	-	292	(4)	288
Transfers to performing book	-	(33)	(2)	(20)	-	-	-	-	(55)	(25)	(80)
Repayments	(494)	(1,461)	(41)	(48)	(739)	(49)	(26)	-	(2,858)	(2,140)	(4,998)
Amounts written-off	(300)	(412)	(8)	(156)	(109)	(138)	(32)	-	(1,155)	(968)	(2,123)
At 30 June 2013	4,289	6,156	276	528	8,578	1,133	365	1	21,326	20,857	42,183

	Non-Core (by donating division)					
	UK Corporate £m	International Banking £m	Ulster Bank £m	US Retail & Commercial £m	Other £m	Total £m
At 1 January 2013	2,622	6,907	11,399	418	28	21,374
Currency translation and other adjustments	(1)	183	447	26	(13)	642
Additions	855	352	697	70	4	1,978
Transfers (1)	(4)	-	-	-	-	(4)
Transfers to performing book	(3)	(19)	(2)	-	(1)	(25)
Repayments	(840)	(879)	(399)	(20)	(2)	(2,140)
Amounts written-off	(260)	(379)	(228)	(97)	(4)	(968)
At 30 June 2013	2,369	6,165	11,914	397	12	20,857

For the note to this table refer to the following page.

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Appendix 3 Credit risk (continued)

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

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

	UK Retail £m	UK Corporate £m	Wealth £m	International Banking £m	Ulster Bank £m	US Retail & Commercial £m	Markets £m	Core £m	Non-Core £m	Total £m
At 1 January 2012	4,599	5,001	211	1,632	5,523	1,007	414	18,387	24,007	42,394
Currency translation and other adjustments	54	17	(3)	(9)	(184)	(13)	(33)	(171)	(491)	(662)
Additions	867	1,420	66	121	1,570	220	30	4,294	2,672	6,966
Transfers (1)	1	13	(6)	(101)	-	-	-	(93)	(6)	(99)
Transfers to performing book	-	(77)	(7)	(663)	-	-	(9)	(756)	(352)	(1,108)
Repayments	(592)	(1,280)	(29)	(88)	(647)	-	(16)	(2,652)	(1,808)	(4,460)
Amounts written-off	(299)	(218)	(3)	(210)	(28)	(192)	(41)	(991)	(934)	(1,925)
At 30 June 2012	4,630	4,876	229	682	6,234	1,022	345	18,018	23,088	41,106

	Non-Core (by donating division)					
	UK Corporate £m	International Banking £m	Ulster Bank £m	US Retail & Commercial £m	Other £m	Total £m
At 1 January 2012	3,685	8,051	11,675	486	110	24,007
Currency translation and other adjustments	(65)	(44)	(312)	(7)	(63)	(491)
Additions	797	1,162	651	58	4	2,672
Transfers (1)	4	(10)	-	-	-	(6)
Transfers to performing book	(100)	(252)	-	-	-	(352)
Repayments	(722)	(470)	(612)	-	(4)	(1,808)
Amounts written-off	(254)	(456)	(48)	(162)	(14)	(934)
At 30 June 2012	3,345	7,981	11,354	375	33	23,088

Note:
(1) Represents transfers between REIL and potential problem loans.

Appendix 3 Credit risk (continued)

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

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

	UK Retail £m	UK Corporate £m	Wealth £m	International Banking £m	Ulster Bank £m	US R&C (1) £m	Total R&C (1) £m	Markets £m	Other £m	Total Core £m	Non-Core £m	Group £m
At 1 January 2013	2,629	2,432	109	391	3,910	285	9,756	305	1	10,062	11,200	21,262
Currency translation and other adjustments	-	10	1	(3)	167	18	193	13	1	207	329	536
Amounts written-off	(300)	(412)	(8)	(156)	(109)	(138)	(1,123)	(32)	-	(1,155)	(968)	(2,123)
Recoveries of amounts previously written-off	22	5	-	12	1	50	90	-	-	90	31	121
Charged to income statement	169	379	7	153	503	51	1,262	(3)	(1)	1,258	903	2,161
Unwind of discount (2)	(39)	(19)	(2)	(2)	(42)	-	(104)	-	-	(104)	(100)	(204)
At 30 June 2013	2,481	2,395	107	395	4,430	266	10,074	283	1	10,358	11,395	21,753
Individually assessed												
- banks	-	-	-	7	-	-	7	75	-	82	1	83
- customers	-	1,020	94	270	1,381	61	2,826	201	1	3,028	10,047	13,075
Collectively assessed	2,316	1,069	-	-	2,428	113	5,926	-	-	5,926	689	6,615
Latent	165	306	13	118	621	92	1,315	7	-	1,322	658	1,980
	2,481	2,395	107	395	4,430	266	10,074	283	1	10,358	11,395	21,753

For the notes to this table refer to page 33.

Appendix 3 Credit risk (continued)

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

Impairment provisions flow statement (continued)

	UK Retail £m	UK Corporate £m	Wealth £m	International Banking £m	Ulster Bank £m	US R&C (1) £m	Total R&C (1) £m	Markets £m	Total Core £m	Non-Core £m	Group £m
At 1 January 2012	2,679	2,061	81	851	2,749	455	8,876	311	9,187	11,487	20,674
Currency translation and other adjustments	18	108	-	(11)	(91)	(7)	17	(7)	10	(334)	(324)
Amounts written-off	(299)	(218)	(3)	(210)	(28)	(192)	(950)	(41)	(991)	(934)	(1,925)
Recoveries of amounts previously written-off	72	6	-	7	-	41	126	1	127	53	180
Charged to income statement	295	357	22	62	717	43	1,496	19	1,515	1,215	2,730
Unwind of discount (2)	(46)	(31)	(1)	(5)	(40)	-	(123)	-	(123)	(134)	(257)
At 30 June 2012	2,719	2,283	99	694	3,307	340	9,442	283	9,725	11,353	21,078
Individually assessed											
- banks	-	-	2	40	-	-	42	76	118	1	119
- customers	-	921	86	492	1,195	67	2,761	195	2,956	10,070	13,026
Collectively assessed	2,517	1,066	-	2	1,603	141	5,329	-	5,329	675	6,004
Latent	202	296	11	160	509	132	1,310	12	1,322	607	1,929
	2,719	2,283	99	694	3,307	340	9,442	283	9,725	11,353	21,078

For the notes to this table refer to the following page.

Appendix 3 Credit risk (continued)

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

Impairment provisions flow statement (continued)

	Non-Core (by donating division)					
	UK Corporate	International Banking	Ulster Bank	US R&C (1)	Other	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2013	1,167	2,815	6,933	257	28	11,200
Currency translation and other adjustments	4	67	240	16	2	329
Amounts written-off	(260)	(379)	(228)	(97)	(4)	(968)
Recoveries of amounts previously written-off	6	4	-	20	1	31
Charged to income statement	156	237	431	81	(2)	903
Unwind of discount (2)	(8)	(22)	(69)	-	(1)	(100)
At 30 June 2013	1,065	2,722	7,307	277	24	11,395
Individually assessed						
- banks	-	1	-	-	-	1
- customers	664	2,509	6,841	25	8	10,047
Collectively assessed	346	-	239	88	16	689
Latent	55	212	227	164	-	658
	1,065	2,722	7,307	277	24	11,395
At 1 January 2012	1,633	3,027	6,363	416	48	11,487
Currency translation and other adjustments	(112)	(39)	(152)	(10)	(21)	(334)
Amounts written-off	(254)	(457)	(48)	(162)	(13)	(934)
Recoveries of amounts previously written-off	9	7	-	34	3	53
Charged to income statement	143	529	455	85	3	1,215
Unwind of discount (2)	(23)	(20)	(91)	-	-	(134)
At 30 June 2012	1,396	3,047	6,527	363	20	11,353
Individually assessed						
- banks	-	1	-	-	-	1
- customers	908	2,811	6,321	30	-	10,070
Collectively assessed	428	26	91	113	17	675
Latent	60	209	115	220	3	607
	1,396	3,047	6,527	363	20	11,353

Notes:
(1) US Retail & Commercial.
(2) Recognised in interest income.

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Appendix 3 Credit risk (continued)

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

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

Half year ended 30 June 2013	UK Retail £m	UK Corporate £m	Wealth £m	International Banking £m	Ulster Bank £m	US R&C £m	Total R&C £m	Markets £m	Other £m	Total Core £m	Non-Core £m	Group £m
Individually assessed	-	270	7	152	213	-	642	8	-	650	822	1,472
Collectively assessed	195	100	-	-	282	80	657	-	(1)	656	78	734
Latent loss	(26)	9	-	1	8	(29)	(37)	(2)	-	(39)	3	(36)
Loans to customers	169	379	7	153	503	51	1,262	6	(1)	1,267	903	2,170
Loans to banks	-	-	-	-	-	-	-	(9)	-	(9)	-	(9)
Securities	-	-	-	1	-	-	1	62	(2)	61	(72)	(11)
Charge to income statement	169	379	7	154	503	51	1,263	59	(3)	1,319	831	2,150
Half year ended 30 June 2012												
Individually assessed	-	229	21	50	262	27	589	7	-	596	1,094	1,690
Collectively assessed	294	171	-	-	407	101	973	-	-	973	156	1,129
Latent loss	1	(43)	1	-	48	(85)	(78)	-	-	(78)	(35)	(113)
Loans to customers	295	357	22	50	717	43	1,484	7	-	1,491	1,215	2,706
Loans to banks	-	-	-	12	-	-	12	12	-	24	-	24
Securities	-	-	-	-	-	4	4	2	32	38	(119)	(81)
Charge to income statement	295	357	22	62	717	47	1,500	21	32	1,553	1,096	2,649

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Appendix 3 Credit risk (continued)

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

Impairment charge analysis (continued)

	Non-Core (by donating division)					
	UK Corporate	International Banking	Ulster Bank	US R&C	Other	Total
Half year ended 30 June 2013	£m	£m	£m	£m	£m	£m
Individually assessed	155	236	431	1	(1)	822
Collectively assessed	3	-	9	66	-	78
Latent loss	(2)	1	(9)	14	(1)	3
Loans to customers	156	237	431	81	(2)	903
Securities	-	(72)	-	-	-	(72)
Charge to income statement	156	165	431	81	(2)	831
Half year ended 30 June 2012						
Individually assessed	144	529	440	(19)	-	1,094
Collectively assessed	33	-	9	109	5	156
Latent loss	(34)	-	6	(5)	(2)	(35)
Loans to customers	143	529	455	85	3	1,215
Securities	-	(119)	-	-	-	(119)
Charge to income statement	143	410	455	85	3	1,096

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Appendix 3 Credit risk (continued)

Key loan portfolios

Commercial real estate

The commercial real estate sector comprised exposures to entities involved in the development of, or investment in, commercial and residential properties (including housebuilders). The analysis of lending utilisations below excludes rate risk management and contingent obligations.

	30 June 2013			31 December 2012		
	Investment	Development	Total	Investment	Development	Total
By division (1)	£m	£m	£m	£m	£m	£m
Core						
UK Corporate	22,389	3,618	26,007	22,504	4,091	26,595
Ulster Bank	3,634	742	4,376	3,575	729	4,304
US Retail & Commercial	3,956	2	3,958	3,857	3	3,860
International Banking	782	234	1,016	849	315	1,164
Markets	526	10	536	630	57	687
	31,287	4,606	35,893	31,415	5,195	36,610
Non-Core						
UK Corporate	1,687	949	2,636	2,651	983	3,634
Ulster Bank	3,441	7,404	10,845	3,383	7,607	10,990
US Retail & Commercial	327	-	327	392	-	392
International Banking	9,392	14	9,406	11,260	154	11,414
	14,847	8,367	23,214	17,686	8,744	26,430
Total	46,134	12,973	59,107	49,101	13,939	63,040

For the note to this table refer to page 38.

Appendix 3 Credit risk (continued)

Key loan portfolios: Commercial real estate (continued)

By geography (1)	Investment Commercial £m	Investment Residential £m	Total £m	Development Commercial £m	Development Residential £m	Total £m	Total £m
30 June 2013							
UK (excluding NI) (2)	23,570	5,425	28,995	767	4,071	4,838	33,833
Ireland (ROI and NI) (2)	4,679	1,029	5,708	2,125	5,754	7,879	13,587
Western Europe (other)	5,649	366	6,015	24	40	64	6,079
US	4,131	1,020	5,151	-	2	2	5,153
RoW (2)	265	-	265	101	89	190	455
	38,294	7,840	46,134	3,017	9,956	12,973	59,107
31 December 2012							
UK (excluding NI) (2)	25,864	5,567	31,431	839	4,777	5,616	37,047
Ireland (ROI and NI) (2)	4,651	989	5,640	2,234	5,712	7,946	13,586
Western Europe (other)	5,995	370	6,365	22	33	55	6,420
US	4,230	981	5,211	-	15	15	5,226
RoW (2)	454	-	454	65	242	307	761
	41,194	7,907	49,101	3,160	10,779	13,939	63,040

By geography (1)	Investment Core £m	Investment Non-Core £m	Development Core £m	Development Non-Core £m	Total £m
30 June 2013					
UK (excluding NI) (2)	23,224	5,771	3,708	1,130	33,833
Ireland (ROI and NI) (2)	2,911	2,797	674	7,205	13,587
Western Europe (other)	336	5,679	32	32	6,079
US	4,657	494	2	-	5,153
RoW	159	106	190	-	455
	31,287	14,847	4,606	8,367	59,107
31 December 2012					
UK (excluding NI) (2)	23,312	8,119	4,184	1,432	37,047
Ireland (ROI and NI) (2)	2,877	2,763	665	7,281	13,586
Western Europe (other)	403	5,962	24	31	6,420
US	4,629	582	15	-	5,226
RoW	194	260	307	-	761

31,415	17,686	5,195	8,744	63,040

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

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Appendix 3 Credit risk (continued)

Key loan portfolios: Commercial real estate (continued)

By sub-sector (1)	UK (excl NI) (2) £m	Ireland (ROI and NI) (2) £m	Western Europe £m	US £m	RoW £m	Total £m
30 June 2013						
Residential	9,496	6,783	406	1,022	89	17,796
Office	5,485	978	1,802	59	53	8,377
Retail	7,153	1,572	1,280	121	126	10,252
Industrial	3,246	479	119	15	-	3,859
Mixed/other	8,453	3,775	2,472	3,936	187	18,823
	33,833	13,587	6,079	5,153	455	59,107
31 December 2012						
Residential	10,344	6,701	403	996	242	18,686
Office	6,112	1,132	1,851	99	176	9,370
Retail	7,529	1,492	1,450	117	129	10,717
Industrial	3,550	476	143	4	39	4,212
Mixed/other	9,512	3,785	2,573	4,010	175	20,055
	37,047	13,586	6,420	5,226	761	63,040

Notes:

(1) Excludes commercial real estate lending in Wealth as these loans are generally supported by personal guarantees in addition to collateral. This portfolio, which totalled £1.3 billion at 30 June 2013 (31 December 2012 - £1.4 billion), continues to perform in line with expectations and requires minimal provision.

(2) ROI: Republic of Ireland; NI: Northern Ireland; RoW: Rest of World.

Key points

· In line with the Group's strategy, the overall exposure to commercial real estate fell by £3.9 billion or 6% during H1 to £59.1 billion. The limited growth in Core exposures at Ulster Bank and US Retail & Commercial was attributable to foreign exchange fluctuations. The overall mix of geography, sub-sector and investment and development remained broadly unchanged.

· Most of the decrease was in Non-Core and was due to repayments, asset sales and write-offs. The Non-Core portfolio totalled £23.2 billion (39% of the portfolio) at 30 June 2013 (31 December 2012 - £26.4 billion or 42% of the portfolio).

· Following the successful issuances of CMBS, the amount of US commercial real estate exposure held in inventory was reduced accordingly.

·

The UK portfolio was focused on London and South East England. Approximately 46% of the portfolio was held in these areas at 30 June 2013 (31 December 2012 - 43%).

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Appendix 3 Credit risk (continued)

Key loan portfolios: Commercial real estate (continued)

Maturity profile of portfolio	UK Corporate £m	Ulster Bank £m	US Retail & Commercial £m	International Banking £m	Markets £m	Total £m
30 June 2013						
Core						
< 1 year (1)	7,721	2,977	774	296	12	11,780
1-2 years	3,561	350	739	359	134	5,143
2-3 years	4,953	155	771	245	56	6,180
> 3 years	9,344	894	1,674	116	334	12,362
Not classified (2)	428	-	-	-	-	428
Total	26,007	4,376	3,958	1,016	536	35,893
Non-Core						
< 1 year (1)	1,717	9,288	137	5,157	-	16,299
1-2 years	155	1,240	42	1,757	-	3,194
2-3 years	94	88	34	499	-	715
> 3 years	515	229	114	1,993	-	2,851
Not classified (2)	155	-	-	-	-	155
Total	2,636	10,845	327	9,406	-	23,214
31 December 2012						
Core						
< 1 year (1)	8,639	3,000	797	216	59	12,711
1-2 years	3,999	284	801	283	130	5,497
2-3 years	3,817	215	667	505	-	5,204
> 3 years	9,597	805	1,595	160	498	12,655
Not classified (2)	543	-	-	-	-	543
Total	26,595	4,304	3,860	1,164	687	36,610
Non-Core						
< 1 year (1)	2,071	9,498	138	4,628	-	16,335
1-2 years	192	1,240	79	3,714	-	5,225
2-3 years	99	38	43	1,137	-	1,317
> 3 years	1,058	214	132	1,935	-	3,339
Not classified (2)	214	-	-	-	-	214
Total	3,634	10,990	392	11,414	-	26,430

Notes:

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

Key points

- The overall maturity profile remained relatively unchanged during H1 2013.

- The majority of Ulster Bank's commercial real estate portfolio was categorised as under 1 year owing to the high level of non-performing assets in the portfolio.

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Appendix 3 Credit risk (continued)

Key loan portfolios: Commercial real estate (continued)

Portfolio by AQ band	AQ1-AQ2 £m	AQ3-AQ4 £m	AQ5-AQ6 £m	AQ7-AQ8 £m	AQ9 £m	AQ10 £m	Total £m
30 June 2013							
Core	570	6,617	15,635	6,073	1,240	5,758	35,893
Non-Core	177	399	2,518	2,321	230	17,569	23,214
	747	7,016	18,153	8,394	1,470	23,327	59,107
31 December 2012							
Core	767	6,011	16,592	6,575	1,283	5,382	36,610
Non-Core	177	578	3,680	3,200	1,029	17,766	26,430
	944	6,589	20,272	9,775	2,312	23,148	63,040

Key points

- AQ10 was broadly flat with reductions in Non-Core offset by increases in Ulster Bank. The high proportion of the portfolio in AQ10 continued to be driven by exposure in Non-Core (Ulster Bank and International Banking) and Core (Ulster Bank).
- Of the total portfolio of £59.1 billion at 30 June 2013, £27.2 billion (31 December 2012 - £28.1 billion) was managed within the Group’s standard credit processes. Another £3.5 billion (31 December 2012 - £5.1 billion) received varying degrees of heightened credit management under the Group’s Watchlist process. The decrease in the portfolio managed in the Group’s Watchlist process occurred mainly in Non-Core and UK Corporate. The remaining £28.4 billion (31 December 2012 - £29.8 billion) was managed within GRG and included Watchlist and non-performing exposures.

The table below analyses commercial real estate (Core and Non-Core) lending by loan-to-value (LTV) ratio which represents loan value before provisions relative to the value of the property financed. Due to market conditions in Ireland and to a lesser extent in the UK, there is a shortage of market-based data on which to base property valuations. Where external valuations are difficult to obtain or cannot be relied upon, the Group deploys a range of alternative approaches to assess property values, including internal expert judgement and indexation.

	Ulster Bank			Rest of the Group			Group		
Loan-to-value	Performing £m	Non-performing £m	Total £m	Performing £m	Non-performing £m	Total £m	Performing £m	Non-performing £m	Total £m
30 June 2013									
<= 50%	129	38	167	7,760	253	8,013	7,889	291	8,180
> 50% and <= 70%	328	141	469	10,972	519	11,491	11,300	660	11,960
> 70% and <= 90%	232	250	482	5,139	1,049	6,188	5,371	1,299	6,670

> 90% and <= 100%	264	352	616	1,138	645	1,783	1,402	997	2,399
> 100% and <= 110%	56	496	552	843	694	1,537	899	1,190	2,089
> 110% and <= 130%	251	632	883	737	1,551	2,288	988	2,183	3,171
> 130% and <= 150%	338	529	867	350	1,275	1,625	688	1,804	2,492
> 150%	468	8,005	8,473	237	3,006	3,243	705	11,011	11,716
Total with LTVs	2,066	10,443	12,509	27,176	8,992	36,168	29,242	19,435	48,677
Minimal security (1)	12	1,673	1,685	59	198	257	71	1,871	1,942
Other (2)	128	899	1,027	6,351	1,110	7,461	6,479	2,009	8,488
Total	2,206	13,015	15,221	33,586	10,300	43,886	35,792	23,315	59,107
Total portfolio average LTV (3)	125%	291%	263%	65%	150%	86%	69%	226%	132%

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Appendix 3 Credit risk (continued)

Key loan portfolios: Commercial real estate (continued)

	Ulster Bank			Rest of the Group			Group		
Loan-to-value	Performing £m	Non-performing £m	Total £m	Performing £m	Non-performing £m	Total £m	Performing £m	Non-performing £m	Total £m
31 December 2012 (4)									
<= 50%	141	18	159	7,210	281	7,491	7,351	299	7,650
> 50% and <= 70%	309	58	367	12,161	996	13,157	12,470	1,054	13,524
> 70% and <= 90%	402	164	566	6,438	1,042	7,480	6,840	1,206	8,046
> 90% and <= 100%	404	137	541	1,542	2,145	3,687	1,946	2,282	4,228
> 100% and <= 110%	111	543	654	1,019	1,449	2,468	1,130	1,992	3,122
> 110% and <= 130%	340	619	959	901	1,069	1,970	1,241	1,688	2,929
> 130% and <= 150%	353	774	1,127	322	913	1,235	675	1,687	2,362
> 150%	1,000	7,350	8,350	595	1,962	2,557	1,595	9,312	10,907
Total with LTVs	3,060	9,663	12,723	30,188	9,857	40,045	33,248	19,520	52,768
Minimal security (1)	8	1,615	1,623	3	13	16	11	1,628	1,639
Other (2)	137	811	948	6,494	1,191	7,685	6,631	2,002	8,633
Total	3,205	12,089	15,294	36,685	11,061	47,746	39,890	23,150	63,040
Total portfolio average LTV (3)	136%	286%	250%	65%	125%	80%	71%	206%	122%

Notes:

(1) In 2012, the Group reclassified loans with limited (defined as LTV>1,000%) or non-physical security as minimal security, of which a majority were commercial real estate development loans in Ulster Bank. Total portfolio average LTV is quoted net of loans with minimal security given that the anticipated recovery rate is less than 10%. Provisions are marked against these loans where required to reflect the relevant asset quality and recovery profile.

(2) Other non-performing loans of £2.0 billion (31 December 2012 - £1.9 billion) were subject to the Group's standard provisioning policies. Other performing loans of £6.5 billion (31 December 2012 - £6.6 billion) included general corporate loans, typically unsecured, to commercial real estate companies, and major UK homebuilders. The credit quality of these exposures was consistent with that of the performing portfolio overall.

(3) Weighted average by exposure.

(4)

31 December 2012 LTV revised to reflect refinement to security value reporting implemented during the first half of 2013.

Key points

- In the first half of 2013, LTV ratios were affected by difficult, although improving, market conditions as well as refinements to the Group's estimation approach. These factors contributed to an increase in the amount of lending with higher LTV buckets, which were also affected by a few large borrowers. Commercial real estate loans are assessed in accordance with the Group's normal provisioning policies, which rely on 90 days past due measures coupled with management judgment to identify evidence of impairment, such as significant current financial difficulties likely to lead to material decreases in future cash flows. Provisions as a percentage of REIL for commercial real estate was 47% at 30 June 2013.
- Interest payable on outstanding loans was covered 3.05 times and 1.59 times within UK Corporate and International Banking respectively, at 30 June 2013 (31 December 2012 - 2.96 times and 1.50 times, respectively). The US Retail & Commercial portfolio is managed on the basis of debt service coverage, which includes scheduled principal amortisation as well as interest payable. The average debt service coverage was 1.46x at 30 June 2013 (31 December 2012 - 1.34x). As a number of different approaches are used within the Group and across geographies to calculate interest coverage ratios, they may not be comparable for different portfolio types and legal entities.

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Appendix 3 Credit risk (continued)

Key loan portfolios: Commercial real estate (continued)
Credit quality metrics relating to commercial real estate lending were as follows:

	Total		Non-Core	
	30 June 2013	31 December 2012	30 June 2013	31 December 2012
Lending (gross)	£59.1bn	£63.0bn	£23.2bn	£26.4bn
Of which REIL	£22.3bn	£22.1bn	£16.6bn	£17.1bn
Provisions	£10.4bn	£10.1bn	£8.6bn	£8.3bn
REIL as a % of gross loans to customers	37.7%	35.1%	71.6%	64.8%
Provisions as a % of REIL	47%	46%	52%	49%

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

Ulster Bank is a significant contributor to Non-Core commercial real estate lending. For further information refer to the section on Ulster Bank Group (Core and Non-Core) on page 51.

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

	30 June 2013 £m	31 December 2012 £m
UK Retail	98,296	99,062
Ulster Bank	19,750	19,162
RBS Citizens	21,577	21,538
Wealth	8,722	8,786
	148,345	148,548

Appendix 3 Credit risk (continued)

Key loan portfolios: Residential mortgages (continued)
The table below shows LTVs for the Group's residential mortgage portfolio split between performing (AQ1-AQ9) and non-performing (AQ10), with the average LTV calculated on a weighted value basis. Loan balances are shown as at 30 June 2013 whereas property values are calculated using property index movements since the last formal valuation.

	UK Retail			Ulster Bank			RBS Citizens (1)			Wealth
Loan-to-value	Performing £m	Non-performing £m	Total £m	Performing £m	Non-performing £m	Total £m	Performing £m	Non-performing £m	Total £m	£m
30 June 2013										
<= 50%	23,485	350	23,835	1,799	174	1,973	4,250	60	4,310	3,973
> 50% and <= 70%	29,792	500	30,292	1,627	182	1,809	5,035	85	5,120	2,739
> 70% and <= 90%	32,155	791	32,946	2,023	271	2,294	6,627	126	6,753	1,093
> 90% and <= 100%	5,644	343	5,987	1,162	170	1,332	1,932	59	1,991	80
> 100% and <= 110%	2,798	255	3,053	1,185	177	1,362	1,195	37	1,232	74
> 110% and <= 130%	1,431	197	1,628	2,430	424	2,854	1,181	37	1,218	42
> 130% and <= 150%	50	16	66	2,202	512	2,714	373	11	384	15
> 150%	-	-	-	3,778	1,619	5,397	250	9	259	34
Total with LTVs	95,355	2,452	97,807	16,206	3,529	19,735	20,843	424	21,267	8,050
Other (2)	477	12	489	-	15	15	308	2	310	672
Total	95,832	2,464	98,296	16,206	3,544	19,750	21,151	426	21,577	8,722
Total portfolio average LTV (3)	65%	78%	65%	112%	140%	117%	73%	81%	73%	51%
Average LTV on new originations during the year (3)			64%			73%			65%	n/a

For the notes to this table refer to the following page.

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Appendix 3 Credit risk (continued)

Key loan portfolios: Residential mortgages (continued)

	UK Retail			Ulster Bank			RBS Citizens (1)		
	Performing	Non-performing	Total	Performing	Non-performing	Total	Performing	Non-performing	
Loan-to-value	£m	£m	£m	£m	£m	£m	£m	£m	
31 December 2012									
<= 50%	22,306	327	22,633	2,182	274	2,456	4,167	51	
> 50% and <= 70%	27,408	457	27,865	1,635	197	1,832	4,806	76	
> 70% and <= 90%	34,002	767	34,769	2,019	294	2,313	6,461	114	
> 90% and <= 100%	7,073	366	7,439	1,119	156	1,275	2,011	57	
> 100% and <= 110%	3,301	290	3,591	1,239	174	1,413	1,280	43	
> 110% and <= 130%	1,919	239	2,158	2,412	397	2,809	1,263	42	
> 130% and <= 150%	83	26	109	2,144	474	2,618	463	14	
> 150%	-	-	-	3,156	1,290	4,446	365	14	
Total with LTVs	96,092	2,472	98,564	15,906	3,256	19,162	20,816	411	2
Other (2)	486	12	498	-	-	-	292	19	
Total	96,578	2,484	99,062	15,906	3,256	19,162	21,108	430	2
Total portfolio average LTV (3)	66%	80%	67%	108%	132%	112%	75%	86%	
Average LTV on new originations during the year (3)			65%			74%			

Notes:
(1) Includes residential mortgages and home equity loans and lines (refer to page 46 for a breakdown of balances).
(2) Where no indexed LTV is held.
(3) For all divisions except Wealth, average LTV weighted by value is calculated using the LTV on each individual mortgage and applying a weighting based on the value of each mortgage. For Wealth, LTVs are at point of origination and portfolio average LTVs are calculated on a ratio basis (ratio of outstanding balances to total property value). Wealth non-performing mortgage loans were minimal at £127 million (31 December 2012 - £108 million)

Key loan portfolios: Residential mortgages (continued)

Key points

UK Retail

- The UK Retail mortgage portfolio totalled £98.3 billion at 30 June 2013, a decrease of 0.8% from 31 December 2012. The assets were prime mortgages and included £8.5 billion (8.6% of the total portfolio) of residential buy-to-let lending. As at June 2013 approximately 40% of the portfolio consisted of fixed rate, 5% a combination of fixed and variable rates and the remainder variable rate mortgages (including those on managed rates).

- During Q1 mortgage advisors were retrained in advance of the requirements of the Mortgage Market Review. As a result, new business volumes through the branch and telephone distribution channels fell. Gross new mortgage lending amounted to £5.5 billion in the first half of 2013 and average LTV by volume was 59.0% compared to 61.3% for 31 December 2012. The average LTV calculated by weighted loan-to-value of lending was 63.6% (31 December 2012 - 65.2%). The ratio of total lending to total property valuations was 55.2% (31 December 2012 - 56.3%).

- Based on the Halifax Price Index at March 2013, the portfolio average indexed LTV by volume was 56.5% (31 December 2012 - 58.1%) and 65.0% by weighted value of debt outstanding (31 December 2012 - 66.8%). The ratio of total outstanding balances to total indexed property valuations was 47.1% (31 December 2012 - 48.5%).
- The arrears rate (defined as more than three payments in arrears, excluding repossessions and shortfalls post property sale), was broadly stable at 1.4% (31 December 2012 - 1.5%).

- The impairment charge for mortgage loans was £25.5 million for the half year to June 2013 compared with £33.9 million in H2 2012.

Ulster Bank

- Ulster Bank's residential mortgage portfolio totalled £19.7 billion at 30 June 2013, with 88% in the Republic of Ireland and 12% in Northern Ireland.

- The assets included £2.3 billion (12% of total) of residential buy-to-let loans. The interest rate product mix was approximately 67% on tracker rate, 23% on variable rate and 10% on fixed rate products.

- The average individual LTV on new originations was 73% in H1 2013, (74% in H2 2012); the volume of new business remained very low. The maximum LTV available to Ulster Bank customers was 90% with the exception of a specific Northern Ireland scheme which permits LTVs of up to 95% (although Ulster Bank's exposure is capped at 85% LTV).

- The House Price Index was stable during H1 2013 so the underlying portfolio LTVs were unchanged. The reported increase in average portfolio LTV (112% at 31 December 2012 compared to 117% at 30 June 2013) resulted from refinements in the calculation to align with the LTV used for other purposes.

Appendix 3 Credit risk (continued)

Key loan portfolios: Residential mortgages (continued)

Key points (continued)

RBS Citizens

- RBS Citizens residential real estate portfolio totalled £21.6 billion at 30 June 2013 (31 December 2012 - £21.5 billion). The Core business comprised 89% of the portfolio.

- The portfolio comprised £6.2 billion (Core - £5.8 billion; Non-Core - £0.4 billion) of first lien residential mortgages (1% in second lien position) and £15.4 billion (Core - £13.5 billion; Non-Core - £1.9 billion) of home equity loans and lines (first and second liens). Home equity Core consisted of 48% in first lien position while Non-Core consisted of 95% in second lien position.

- RBS Citizens continues to focus on the 'footprint states' in the regions of New England, the Mid Atlantic and the Mid West. At 30 June 2013, £18.2 billion (84% of the total portfolio) was within footprint.

- Of the total residential real estate portfolio, 11% was in the Non-Core portfolio, of which the serviced by others (SBO) element was the largest component (75%). The SBO portfolio consisted of purchased pools of home equity loans and lines. In Q2 2013, 5.8% (annualised) of the portfolio was charged-off, an improvement from 2012 when the full year charge-off rate was 7.4%. Excluding one-time events the 2012 full year charge-off rate was 6.8%. The high rate was due to significant lending in out-of-footprint geographies, high (95%) second lien concentrations, and high LTV exposures (108% weighted average LTV at 30 June 2013). The SBO book was closed to new purchases from the third quarter of 2007 and is in run-off, with exposure down from £1.8 billion at 31 December 2012 to £1.7 billion at 30 June 2013. The arrears rate of the SBO portfolio continued to decrease (1.6% at 30 June 2013 compared to 1.9% at 31 December 2012) due primarily to portfolio liquidation (with highest risk borrowers charged-off) as well as more effective account servicing and collections.

- The current weighted average LTV of the real estate portfolio decreased to 73% at 30 June 2013 from 75% at 31 December 2012, driven by increases in the Case-Shiller home price index from Q3 2012 to Q4 2012. The weighted average LTV of the real estate portfolio excluding SBO was 70%.

Appendix 3 Credit risk (continued)

Key loan portfolios (continued)

Interest only retail loans
The Group's principal interest only retail loan portfolios include interest only mortgage lending in UK Retail, Ulster Bank and Wealth and RBS Citizens' portfolios of home equity lines of credit (HELOC) and interest only mortgage portfolios. The table below analyses these interest only retail loans.

	30 June 2013		31 December 2012	
	Mortgages £bn	Other loans £bn	Mortgages £bn	Other loans £bn
Variable rate	37.2	4.8	38.5	4.7
Fixed rate	8.2	0.5	8.1	0.8
Interest only loans	45.4	5.3	46.6	5.5
Mixed repayment (1)	8.5	-	8.8	-
Total	53.9	5.3	55.4	5.5

Note:
(1) Mortgages with partial interest only and partial capital repayments.

The Group has reduced its exposure to interest only mortgages. UK Retail stopped offering interest only mortgages to residential owner occupied customers with effect from 1 December 2012. Interest only repayment remains an option for buy-to-let mortgages. Ulster Bank withdrew interest only as a standard mortgage offering for new lending in the Republic of Ireland in 2010 and in Northern Ireland in 2012. Interest only mortgages are now granted on a very limited basis to high net worth customers or as part of its forbearance programme. RBS Citizens offers its customers interest only mortgages and conventional HELOC that enter an amortising repayment period after the interest only period. Wealth offers interest only mortgages to its high net worth customers.

The tables below analyse the Group's interest only mortgage and HELOC portfolios (excluding mixed repayment mortgages) by type, by contractual year of maturity and by originating division.

30 June 2013	2013 (1) £bn	2014-15 £bn	2016-20 £bn	2021-25 £bn	2026-30 £bn	2031-40 £bn	After 2040 £bn	Total £bn
Bullet principal repayment (2)	1.0	2.8	6.9	5.8	7.9	9.7	0.6	34.7
Conversion to amortising (2,3)	0.2	1.4	5.8	3.1	0.1	0.1	-	10.7
Total	1.2	4.2	12.7	8.9	8.0	9.8	0.6	45.4

31 December 2012	2013 (1) £bn	2014-15 £bn	2016-20 £bn	2021-25 £bn	2026-30 £bn	2031-40 £bn	After 2040 £bn	Total £bn

Bullet principal repayment (2)	1.4	2.9	6.8	5.9	8.1	9.9	0.7	35.7
Conversion to amortising (2,3)	0.5	1.7	5.8	2.7	0.1	0.1	-	10.9
Total	1.9	4.6	12.6	8.6	8.2	10.0	0.7	46.6

Notes:

(1) 2013 includes a small pre-2013 maturity exposure.

(2) Includes £2.1 billion (31 December - £2.2 billion) of repayment mortgages that have been granted interest only concessions (forbearance).

(3) Maturity date relates to the expiry of the interest only period.

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Appendix 3 Credit risk (continued)

Key loan portfolios: Interest only retail loans (continued)

30 June 2013	Bullet principal repayment £bn	Conversion to amortising £bn	Total £bn	% divisional mortgage lending %
Division				
UK Retail	27.0	-	27.0	27.5
Ulster Bank	1.4	1.2	2.6	13.2
RBS Citizens	0.4	9.5	9.9	45.9
Wealth	5.9	-	5.9	67.6
Total	34.7	10.7	45.4	
31 December 2012				
Division				
UK Retail	28.1	-	28.1	28.4
Ulster Bank	1.4	1.8	3.2	16.7
RBS Citizens	0.5	9.0	9.5	44.1
Wealth	5.7	0.1	5.8	66.0
Total	35.7	10.9	46.6	

UK Retail

UK Retail’s interest only mortgages require full principal repayment (bullet) at the time of maturity. Typically such loans have terms of between 15 and 20 years. Contact strategies are in place to remind customers of their need to have an adequate repayment vehicle throughout the mortgage term. Of the bullet loans that matured in 2012, 60% had been fully repaid by 30 June 2013. The unpaid balance totalled £83 million, 93% of which continued to meet agreed payment arrangements (including balances that have been restructured on a capital repayment basis with eight months of the contract date; customers are allowed eight months leeway for their investment plan to mature and cashed in to repay the mortgage). Of the remaining loans, 72% had an indexed LTV of 70% or less with only 11.4% above 90%. Customers may be offered a short extension to the term of an interest only mortgage or a conversion of an interest only mortgage to one featuring repayment of both capital and interest, subject to affordability and characteristics such as the customers’ income and ultimate repayment vehicle. The majority of term extensions in UK Retail are classified as forbearance.

Ulster Bank

Ulster Bank’s interest only mortgages require full principal repayment (bullet) at the time of maturity; or payment of both capital and interest from the end of the interest only period, typically seven years, so that customers meet their contractual repayment obligations. For bullet customers, contact strategies are in place to remind them of the need to repay principal at the end of the mortgage term.

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Explanation of Responses:

Appendix 3 Credit risk (continued)

Key loan portfolios: Interest only retail loans (continued)
Of the bullet mortgages that matured in 2012 (£0.7 million), 29% had fully repaid by 30 June 2013 leaving residual balances of £0.5 million, 88% of which were meeting the terms of a revised repayment schedule. Of the amortising loans that matured in 2012 (£269 million), 68% were meeting the terms of a revised repayment schedule.

Ulster Bank also offers temporary interest only periods to customers as part of its forbearance programme. An interest only period of up to two years, is permitted after which the customer enters an amortising repayment period following further assessment of the customer's circumstances. The affordability assessment conducted at the end of the forbearance period takes into consideration the repayment of the arrears that have accumulated based on original terms during the forbearance period. The customer's delinquency status does not deteriorate further while forbearance repayments are maintained. Term extensions in respect of existing interest only mortgages are offered only under a forbearance arrangement.

RBS Citizens
RBS Citizens has two portfolios of interest only loans. The first is a legacy portfolio of interest only HELOC loans (£0.4 billion at 30 June 2013) for which repayment of principal is due at maturity. The majority of these loans are due to mature between 2013 and 2015. Of those that matured in 2012, 67% had fully repaid by 30 June 2013 with residual balances of £30 million, 90% of which remained up-to-date with the terms of a revised repayment schedule. The second is an interest only portfolio of loans that convert to amortising after an interest only period of typically 10 years (£9.5 billion at June 2013 of which £8.8 billion were HELOCs). For these loans, the typical payments increase is currently 168% (average increase calculated at £221 per month). Delinquency rates showed a modest increase in the over 30 days' arrears rate.
The table below analyses the Group's retail mortgage portfolio between interest only mortgages (excluding mixed repayment mortgages) and other mortgage loans.

30 June 2013	Interest only £bn	Other £bn	Total £bn
Arrears status			
Current	43.2	95.1	138.3
1 to 90 days in arrears	1.1	3.3	4.4
90+ days in arrears	1.1	4.5	5.6
Total	45.4	102.9	148.3
Current LTV			
<= 50%	10.4	23.7	34.1
> 50% and <= 70%	12.9	27.1	40.0
> 70% and <= 90%	13.1	30.0	43.1
> 90% and <= 100%	3.2	6.2	9.4
> 100% and <= 110%	2.2	3.5	5.7
> 110% and <= 130%	1.6	4.1	5.7
> 130% and <= 150%	0.6	2.6	3.2
> 150%	1.2	4.5	5.7

Total with LTVs	45.2	101.7	146.9
Other	0.2	1.2	1.4
Total	45.4	102.9	148.3

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Appendix 3 Credit risk (continued)

Key loan portfolios: Interest only retail loans (continued)

31 December 2012	Interest only £bn	Other £bn	Total £bn
Arrears status			
Current	44.4	94.4	138.8
1 to 90 days in arrears	1.0	3.3	4.3
90+ days in arrears	1.2	4.2	5.4
Total	46.6	101.9	148.5
Current LTV			
<= 50%	10.3	22.9	33.2
> 50% and <= 70%	12.4	25.0	37.4
> 70% and <= 90%	13.6	31.2	44.8
> 90% and <= 100%	3.6	7.3	10.9
> 100% and <= 110%	2.4	4.0	6.4
> 110% and <= 130%	2.0	4.3	6.3
> 130% and <= 150%	0.8	2.4	3.2
> 150%	1.2	3.7	4.9
Total with LTVs	46.3	100.8	147.1
Other	0.3	1.1	1.4
Total	46.6	101.9	148.5

Key loan portfolios (continued)

Ulster Bank Group (Core and Non-Core)

Overview
At 30 June 2013, Ulster Bank Group accounted for 10% of the Group's total gross loans to customers (31 December 2012 - 10%) and 8% of the Group's Core gross loans to customers (31 December 2012 - 8%). During the period, there was a modest improvement in the economic outlook for Ireland with key economic indicators such as tax revenue, house price indices and GDP growth forecast stabilising.

The impairment charge of £929 million for H1 2013 (H2 2012 - £1,174 million) was driven by a combination of new defaulting customers and higher provisions on existing defaulted cases as security values deteriorated.

Provisions as a percentage of risk elements in lending were 57% at 30 June 2013 in line with year end. Ulster Bank impairment provisions take into account recovery strategies for its commercial real estate portfolio, as currently there is very limited liquidity in the Irish commercial and development market.

Risk elements in lending were £20.4 billion at 30 June 2013 (31 December 2012 - £18.8 billion). This included exposures of £1.2 billion relating to corporate customers which were 90 days past due but subject to on-going renegotiations and awaiting final agreement with the customers. The increase was also driven by foreign exchange movements of £0.7 billion, partially offset by write-offs totalling £0.3 billion.

Core
The impairment charge for H1 2013 of £503 million (H2 2012 - £647 million), while representing a decrease of £144 million on H2 2012, reflected the difficult economic climate in Ireland and its impact on default levels, particularly in the corporate portfolios. The mortgage sector accounted for £181 million (36%) of the total H1 2013 impairment charge (H2 2012 - £290 million), representing a decrease of £109 million.

Non-Core
The impairment charge for H1 2013 was £426 million (H2 2012 - £527 million), with the commercial real estate sector accounting for £372 million (87%).

Appendix 3 Credit risk (continued)

Key loan portfolios: Ulster Bank Group (Core and Non-Core) (continued)
The table below analyses Ulster Bank Group's loans, REIL and impairments by sector.

				Credit metrics				
Sector analysis	Gross loans £m	REIL £m	Provisions £m	REIL as a % of gross loans %	Provisions as a % of REIL %	Provisions as a % of gross loans %	YTD Impairment charge £m	YTD Amounts written-off £m
30 June 2013								
Core								
Mortgages	19,750	3,429	1,758	17.4	51	8.9	181	10
Commercial real estate								
- investment	3,634	1,895	696	52.1	37	19.2	97	11
- development	742	485	224	65.4	46	30.2	26	-
Other corporate	7,542	2,561	1,554	34.0	61	20.6	186	65
Other lending	1,287	208	198	16.2	95	15.4	13	23
	32,955	8,578	4,430	26.0	52	13.4	503	109
Non-Core								
Commercial real estate								
- investment	3,441	3,248	1,572	94.4	48	45.7	129	15
- development	7,404	7,282	4,863	98.4	67	65.7	243	205
Other corporate	1,558	1,296	797	83.2	61	51.2	54	4
	12,403	11,826	7,232	95.3	61	58.3	426	224
Ulster Bank Group								
Mortgages	19,750	3,429	1,758	17.4	51	8.9	181	10
Commercial real estate								
- investment	7,075	5,143	2,268	72.7	44	32.1	226	26
- development	8,146	7,767	5,087	95.3	65	62.4	269	205
Other corporate	9,100	3,857	2,351	42.4	61	25.8	240	69
Other lending	1,287	208	198	16.1	95	15.4	13	23
	45,358	20,404	11,662	45.0	57	25.7	929	333

Appendix 3 Credit risk (continued)

Key loan portfolios: Ulster Bank Group (Core and Non-Core) (continued)

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

Geographical analysis: Commercial real estate

	Investment		Development		
Exposure by geography	Commercial £m	Residential £m	Commercial £m	Residential £m	Total £m
30 June 2013					

ROI	3,523	820	1,502	3,793	9,638
NI	1,064	209	623	1,961	3,857
UK (excluding NI)	1,363	81	78	171	1,693
RoW	14	1	8	10	33
	5,964	1,111	2,211	5,935	15,221
31 December 2012					
ROI	3,546	779	1,603	3,653	9,581
NI	1,083	210	631	2,059	3,983
UK (excluding NI)	1,239	86	82	290	1,697
RoW	14	1	8	10	33
	5,882	1,076	2,324	6,012	15,294

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Appendix 3 Credit risk (continued)

Key loan portfolios: Ulster Bank Group (Core and Non-Core) (continued)

Key points

- The commercial real estate lending portfolio for Ulster Bank Group (Core and Non-Core) totalled £15.2 billion at 30 June 2013 (against which provisions of £7.4 billion were held on REIL of £12.9 billion), of which £10.8 billion or 71% was in Non-Core. The geographic split of the total Ulster Bank Group commercial real estate portfolio remained similar to 31 December 2012, with 63.3% in Republic of Ireland (31 December 2012 - 62.6%), 25.3% in Northern Ireland (31 December 2012 - 26.0%), 11.1% in the UK excluding Northern Ireland (31 December 2012 - 11.1%) and the balance (<0.1%) in the Rest of World (primarily Europe).

- Commercial real estate continues to be the sector driving the Ulster Bank Group defaulted loan book. Exposure to this sector fell by £73 million in the six months from 31 December 2012 despite an increase of £480 million due to foreign exchange movements. In line with the Group's sector concentration risk reduction strategy, exposure to commercial real estate fell by £73 million over the period. The decline was driven by repayments of £354 million and write-offs of £200 million, partially offset by adverse exchange rate movements of £480 million.

- The outlook for the property sector remains challenging. While there appear to be some signs of stabilisation in the main urban centres, the outlook remains negative for secondary property locations on the island of Ireland.

- During H1, Ulster Bank saw further migration of commercial real estate exposures managed under the Group's watchlist process, where various measures may be agreed to assist customers whose loans are performing but who are experiencing temporary financial difficulties.

Residential mortgages

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

	30 June 2013 £m	31 December 2012 £m
ROI	17,476	16,873
NI	2,274	2,289
	19,750	19,162

Appendix 3 Credit risk (continued)

Credit risk assets

Credit risk assets analysed in this appendix are presented to supplement the balance sheet related credit risk analyses on pages 2 to 12. Credit risk assets consist of:

- Lending - cash and balances at central banks and loans and advances to banks and customers (including overdraft facilities, instalment credit and finance leases);
- Rate risk management, which includes exposures arising from foreign exchange transactions, interest rate swaps, credit default swaps and options. Exposures are mitigated by (i) offsetting in-the-money and out-of-the-money transactions where such transactions are governed by legally enforcing netting agreements; and (ii) the receipt of financial collateral (primarily cash and bonds) using industry standard collateral agreements.
- Contingent obligations, primarily letters of credit and guarantees.

Credit risk assets exclude issuer risk (primarily debt securities) and reverse repurchase arrangements. They take account of legal netting arrangements that provide a right of legal set-off but do not meet the offset criteria under IFRS.

Divisional analysis of credit risk assets	30 June 2013 £m	31 December 2012 £m
UK Retail	112,755	114,120
UK Corporate	99,223	101,148
Wealth	20,588	19,913
International Banking	60,698	64,518
Ulster Bank	34,650	34,232
US Retail & Commercial	58,139	55,036
Retail & Commercial	386,053	388,967
Markets	89,901	106,336
Other	81,496	65,186
Core	557,450	560,489
Non-Core	55,140	65,220
	612,590	625,709

Key points

- The trends in the portfolio continue to reflect the Group’s strategy, with the £13.1 billion reduction in overall credit risk assets driven by a decrease in exposure in the Non-Core division. At 30 June 2013, Non-Core accounted for 9% of the overall Group credit assets (31 December 2012 - 10%).
- Exposure in the Retail & Commercial divisions remained broadly stable, with a fall in International Banking offset by growth in US Retail & Commercial and Wealth. The reduction in International Banking was spread across all sectors and geographies. The increase in US Retail & Commercial was predominantly due to exchange rate movements.
- Exposure in Markets declined during the period, primarily driven by a reduction in CDS activities. There was also a reduction in other rate risk management products, reduced placement activity with central banks and in securitisation exposure. This was offset by an increase in ‘Other’ (predominantly consisting of Group Treasury’s

exposure to central banks in the UK, US and Germany) which is a function of the Group's liquidity requirements and cash positions.

Non-Core declined by £10.1 billion (15.5% of the 2012 portfolio) during the period, mainly due to repayments, run offs, and disposals. The property, TMT and natural resources sectors accounted for 76% of the reduction in Non-Core.

Credit risk assets (continued)

Asset quality

The Group categorises exposures by credit grade for risk management and reporting purposes. Customers are assigned credit grades based on various credit grading models that reflect the key drivers of default for each customer type. All credit grades across the Group map to both a Group level asset quality scale, used for external financial reporting, and, for wholesale exposures, a master grading scale which is used for internal management reporting across portfolios. As a result, measures of risk exposure may be readily aggregated and reported at increasing levels of granularity depending on stakeholder or business need.

The table below shows credit risk assets by asset quality (AQ) band:

		30 June 2013				31 December 2012			
Asset quality band	Probability of default range	Core £m	Non-Core £m	Total £m	Total %	Core £m	Non-Core £m	Total £m	Total %
AQ1	0% - 0.034%	139,949	4,603	144,552	23.6	131,772	7,428	139,200	22.2
AQ2	0.034% - 0.048%	25,694	2,410	28,104	4.6	25,334	2,241	27,575	4.4
AQ3	0.048% - 0.095%	44,179	1,661	45,840	7.5	43,925	2,039	45,964	7.3
AQ4	0.095% - 0.381%	103,893	5,910	109,803	17.9	112,589	6,438	119,027	19.0
AQ5	0.381% - 1.076%	89,845	5,411	95,256	15.5	92,130	7,588	99,718	15.9
AQ6	1.076% - 2.153%	47,558	4,008	51,566	8.4	45,808	5,525	51,333	8.2
AQ7	2.153% - 6.089%	33,664	3,681	37,345	6.1	32,720	5,544	38,264	6.1
AQ8	6.089% - 17.222%	10,826	1,691	12,517	2.0	13,091	1,156	14,247	2.4
AQ9	17.222% - 100%	8,509	1,697	10,206	1.7	8,849	2,073	10,922	1.8
AQ10	100%	22,830	22,204	45,034	7.4	21,562	22,845	44,407	7.1
Other (1)		30,503	1,864	32,367	5.3	32,709	2,343	35,052	5.6
		557,450	55,140	612,590	100	560,489	65,220	625,709	100

Note:

(1) ‘Other’ largely comprises assets covered by the standardised approach, for which a probability of default equivalent to those assigned to assets covered by the internal ratings based approach is not available.

Appendix 3 Credit risk (continued)

Credit risk assets: Asset quality (continued)

AQ10 credit risk assets by division	30 June 2013 AQ10 £m	30 June 2013 % of divisional credit risk assets %	31 December 2012 AQ10 £m	31 December 2012 % of divisional credit risk assets %
UK Retail	4,883	4.3	4,998	4.4
UK Corporate	6,664	6.7	6,310	6.2
International Banking	654	1.1	612	0.9
Ulster Bank	9,366	27.0	8,236	24.1
US Retail & Commercial	636	1.1	633	1.2
Retail & Commercial	22,203	5.8	20,789	5.3
Markets	627	0.7	773	0.7
Core	22,830	4.1	21,562	3.8
Non-Core	22,204	40.3	22,845	35.0
	45,034	7.4	44,407	7.1

Key points

Trends in asset quality of the Group's credit risk exposures in the first half of 2013 reflected changes in the composition of the Core portfolio and the run-off of Non-Core assets.

The increase in the Group's Core exposures within the AQ1 band reflected the increase in the Group Treasury's exposure to sovereigns.

Defaulted assets (AQ10) in the Core divisions were concentrated in the personal (41%) and property (29%) sectors, with the remainder spread across other corporate sectors. Core defaulted assets in the personal sector were spread evenly between UK Retail and Ulster Bank, and remained stable over the period. The transport sector showed further signs of stress, with defaulted assets in the shipping sub-sector increasing during the period in UK Corporate.

Weaknesses in the commercial real estate market continued to be the main cause of defaulted assets within Non-Core, with approximately 85% of the defaulted assets in Non-Core in that sector.

Given the weak Irish economy, the stock of defaulted assets in the Ulster Bank portfolio continued to grow, driven by the exposure to the personal and property sectors. Refer to the Risk management section on Ulster Bank Group (Core and Non-Core) for more details.

Appendix 3 Credit risk (continued)

Credit risk assets: By sector and geographical region

30 June 2013	UK £m	Western Europe (excl. UK) £m	North America £m	Asia Pacific £m	Latin America £m	Other (1) £m	Total £m	Core £m	Non-Core £m
Personal	127,674	19,629	31,140	1,451	45	968	180,907	177,314	3,593
Banks	2,440	32,370	5,621	7,413	1,364	2,067	51,275	50,813	462
Other financial institutions	17,980	13,703	9,420	2,661	3,951	591	48,306	43,574	4,732
Sovereign (2)	46,404	17,255	27,097	2,798	50	969	94,573	92,924	1,649
Property	52,009	22,744	6,498	769	2,035	1,259	85,314	57,053	28,261
Natural resources	5,846	4,869	6,381	4,453	1,743	1,370	24,662	22,250	2,412
Manufacturing	9,159	5,624	6,373	2,035	378	1,136	24,705	23,717	988
Transport (3)	12,616	5,346	4,029	4,860	2,136	4,607	33,594	26,450	7,144
Retail and leisure	16,802	4,773	5,246	944	539	712	29,016	26,173	2,843
Telecommunications, media and technology	3,647	2,877	3,205	1,623	30	395	11,777	10,025	1,752
Business services	16,685	3,194	6,521	913	963	185	28,461	27,157	1,304
	311,262	132,384	111,531	29,920	13,234	14,259	612,590	557,450	55,140
31 December 2012									
Personal	129,431	19,256	30,664	1,351	39	926	181,667	177,880	3,787
Banks	5,023	36,573	6,421	8,837	1,435	2,711	61,000	60,609	391
Other financial institutions	20,997	13,398	10,189	2,924	4,660	789	52,957	47,425	5,532
Sovereign (2)	38,870	26,002	14,265	2,887	64	1,195	83,283	81,636	1,647
Property	54,831	23,220	7,051	1,149	2,979	1,280	90,510	56,566	33,944
Natural resources	6,103	5,911	6,758	4,129	690	1,500	25,091	21,877	3,214
Manufacturing	9,656	5,587	6,246	2,369	572	1,213	25,643	24,315	1,328
Transport (3)	12,298	5,394	4,722	5,065	2,278	4,798	34,555	26,973	7,582
Retail and leisure	17,229	5,200	4,998	1,103	270	658	29,458	26,203	3,255
Telecommunications, media and technology	4,787	3,572	3,188	1,739	127	346	13,759	10,815	2,944
Business services	17,089	3,183	5,999	581	780	154	27,786	26,190	1,596
	316,314	147,296	100,501	32,134	13,894	15,570	625,709	560,489	65,220

Notes:

(1) Comprises Central and Eastern Europe, the Middle East, Central Asia and Africa, and supranationals such as the World Bank.

(2) Includes central bank exposures.

(3) Excludes net investment in operating leases in shipping and aviation portfolios as they are accounted for as property, plant and equipment. However, operating leases are included in the monitoring and management of

these portfolios.

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Appendix 3 Credit risk (continued)

Credit risk assets: By sector and geographical region (continued)

Key points

Conditions in financial markets and evolution of the Group's strategy continued to impact on the composition of its portfolio during 2012 and into the first half of 2013. The following key trends were observed:

- A 14% increase in exposures to sovereign, driven by an increase in the Group's placing of deposits with central banks;
- A 16% decrease in exposures to banks, partly reflecting the reduction in CDS activities. There was also a general reduction in activity in eurozone peripheral countries as risk appetite was reduced.
- A 9% decrease in exposures to other financial institutions partly driven by a reduction in exposure to securitisation vehicles; and
- A 6% decrease in exposures to the property sector.

The Group's sovereign portfolio comprised exposures to central governments, central banks and sub-sovereigns such as local authorities, primarily in the Group's key markets in the UK, Western Europe and the US. It predominantly comprised cash balances placed with central banks such as the Bank of England, the Federal Reserve and within the Eurosystem (including the European Central Bank and central banks in the Eurozone). Asset quality of this portfolio was high with 95% assigned an internal rating in the AQ1 asset quality band. Exposure to sovereigns fluctuated according to the Group's liquidity requirements and cash positions, which determine the level of cash placed with central banks.

The banking sector was one of the largest in the Group's portfolio. Exposures were well diversified geographically, largely collateralised, and tightly controlled through a combination of a single name concentration framework and a suite of credit policies designed to ensure compliance with sector and country limits. The decrease in exposure was primarily the result of reduced activity with European counterparties.

The Group's exposure to the property sector totalled £85.3 billion at 30 June 2013 (a 6% decline from 31 December 2012), the majority of which related to commercial real estate (refer to the Risk Management section on commercial real estate for further details). The remainder comprised lending to construction companies (10%), housing associations (10%) and building material groups (3%) which remained stable during the period.

Exposure to the transport sector included asset-backed exposure to ocean-going vessels. The cyclical downturn observed in the shipping sector since 2008 showed no sign of improvement in H1 2013, with an oversupply of vessels and lower charter rates continuing. Defaulted assets (AQ10) within the shipping sector represented 9% of the total exposure to this sector (31 December 2012 - 5%), the majority of which arose in UK Corporate.

Exposure to the retail and leisure sector remained broadly stable during the period. The market outlook for this sector remained challenging and efforts were made to rebalance the portfolio towards sectors perceived to be resilient to macroeconomic volatility (e.g. food and beverages), leading to stable credit metrics overall.

Appendix 4

Market risk

Appendix 4 Market risk

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Appendix 4 Market risk (continued)

Trading revenues

The graph below shows the daily distribution of trading and related revenues for Markets for the half years ended 30 June 2013 and 30 June 2012.

Note:

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

Key points

- Markets focused on reducing its balance sheet and lowering risk during H1 2013. This combined with a weaker trading performance and market uncertainty following the Federal Reserve's comments about a tapering of quantitative easing, limiting opportunities for income generation. In contrast, H1 2012 performance was stronger as global markets were boosted by the European Central Bank's Long Term Refinancing Operation.

- The average daily revenue earned by Markets' trading activities in H1 2013 was £12 million, compared with £22 million in H1 2012. The standard deviation of the daily revenues decreased from £16 million to £11 million. The number of days with negative revenue increased to 13 from nine. The most frequent daily revenue range was between £10 million and £15 million, which occurred 27 times. In H1 2012, the most frequent daily revenue range was between £20 million and £25 million, which occurred 19 times.

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Appendix 4 Market risk (continued)

Structured credit portfolio

The structured credit portfolio is within Non-Core. These assets are managed on a third party asset and risk-weighted assets basis. The table below shows the open market risk in the structured credit portfolio.

	Drawn notional					Fair value				
	CDOs (1)	CLOs (2)	MBS (3)	Other ABS (4)	Total	CDOs (1)	CLOs (2)	MBS (3)	Other ABS (4)	Total
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1-2 years	-	-	-	26	26	-	-	-	22	22
3-4 years	-	-	20	48	68	-	-	20	45	65
4-5 years	-	-	39	-	39	-	-	37	-	37
5-10 years	-	399	25	-	424	-	385	20	-	405
>10 years	267	128	228	232	855	112	121	163	141	537
	267	527	312	306	1,412	112	506	240	208	1,066
31 December 2012										
1-2 years	-	-	-	80	80	-	-	-	74	74
3-4 years	-	-	27	82	109	-	-	24	76	100
4-5 years	-	-	95	-	95	-	-	86	-	86
5-10 years	-	310	92	-	402	-	295	44	-	339
>10 years	289	279	380	398	1,346	116	256	253	254	879
	289	589	594	560	2,032	116	551	407	404	1,478

Notes:

(1) Collateralised debt obligations.

(2) Collateralised loan obligations.

(3) Mortgage-backed securities.

(4) Asset-backed securities.

Key point

· The drawn notional and fair value decreased to £1.4 billion and £1.1 billion respectively reflecting the sale of underlying assets from CDO collateral pools and legacy conduits. The reductions were across all asset classes.

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Appendix 4 Market risk (continued)

Market risk capital

Minimum capital requirements

The following table analyses the principal model-based contributors to the market risk minimum capital requirement, calculated in accordance with Basel 2.5.

	30 June 2013				Period end 31 December 2012
	Average (1)	Maximum (1)	Minimum (1)	Period end	
	£m	£m	£m	£m	£m
Value-at-risk (VaR) (1)	825	875	783	810	825
Stressed VaR (SVaR)	1,185	1,266	1,120	1,134	1,226
Incremental risk charge (IRC)	426	458	405	414	467
All price risk (APR)	12	13	10	12	12

Note:

(1) The average, maximum and minimum are based on the monthly Pillar 1 model based capital requirements.

Key points

- SVaR increased slightly in January as the Markets Delta business repositioned its exposures to longer-dated maturities. The SVaR then decreased over the remainder of H1 2013, reflecting continued de-risking by a number of Markets businesses.

- The IRC fell in January 2013 as Markets businesses reduced exposures, then increased in April 2013 as the Markets Delta business repositioned its exposure to peripheral eurozone countries. The IRC then fell as the business reduced its exposures to European and peripheral eurozone countries over the remainder of the period.

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Appendix 5

Country risk

Appendix 5 Country risk

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Total eurozone

						HFT debt securities			Net			
	Lending	REIL	Provisions	AFS and LAR debt securities	AFS reserves	Long	Short	Total debt securities	Derivatives	Repos	Balance sheet	Off-ba
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Government	661	-	-	9,868	38	18,918	9,294	19,492	1,616	-	21,769	
Central bank	13,286	-	-	-	-	-	-	-	23	-	13,309	
Other banks	4,930	-	-	4,352	(164)	875	685	4,542	21,383	1,316	32,171	
Other FI	3,660	-	-	9,193	(866)	858	363	9,688	7,767	867	21,982	
Corporate	36,983	14,948	8,019	124	-	526	77	573	2,796	23	40,375	2
Personal	19,065	3,612	1,939	-	-	-	-	-	-	-	19,065	
	78,585	18,560	9,958	23,537	(992)	21,177	10,419	34,295	33,585	2,206	148,671	4
31 December 2012												
Government	678	-	-	11,487	267	17,430	8,469	20,448	1,797	-	22,923	
Central bank	21,969	-	-	-	-	-	-	-	35	-	22,004	
Other banks	4,257	-	-	5,588	(509)	1,021	611	5,998	25,956	1,161	37,372	
Other FI	4,237	-	-	9,367	(1,081)	1,261	142	10,486	7,595	727	23,045	
Corporate	37,351	14,253	7,451	794	33	311	115	990	3,594	24	41,959	2
Personal	18,512	3,351	1,733	-	-	-	-	-	1	-	18,513	
	87,004	17,604	9,184	27,236	(1,290)	20,023	9,337	37,922	38,978	1,912	165,816	4

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Appendix 5 Country risk (continued)

Total eurozone (continued)

	30 June 2013				31 December 2012			
	Notional		Fair value		Notional		Fair value	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
CDS by reference entity	£m	£m	£m	£m	£m	£m	£m	£m
Government	45,910	44,223	1,896	(2,065)	40,154	38,580	1,407	(1,405)
Other banks	6,035	5,692	137	(104)	13,249	13,014	266	(217)
Other FI	5,671	4,674	149	(130)	11,015	9,704	104	(92)
Corporate	14,255	11,732	(221)	233	39,639	35,851	(455)	465
	71,871	66,321	1,961	(2,066)	104,057	97,149	1,322	(1,249)

CDS bought protection: counterparty analysis by internal asset quality band

	AQ1		AQ2-AQ3		AQ4-AQ9		AQ10		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Banks	6,822	245	29,424	893	5,743	221	-	-	41,989	1,359
Other FI	10,784	170	16,386	442	1,734	(12)	978	2	29,882	602
	17,606	415	45,810	1,335	7,477	209	978	2	71,871	1,961
31 December 2012										
Banks	8,828	126	34,862	597	8,056	204	-	-	51,746	927
Other FI	23,912	88	23,356	319	4,111	(17)	932	5	52,311	395
	32,740	214	58,218	916	12,167	187	932	5	104,057	1,322

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Appendix 5 Country risk (continued)

Eurozone periphery

						HFT debt securities			Net			
	Lending	REIL	Provisions	AFS and LAR debt securities	AFS reserves	Long	Short	Total debt securities	Derivatives	Repos	Balance sheet	Off-balan sh
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Government	42	-	-	688	(101)	4,428	2,853	2,263	108	-	2,413	
Central bank	138	-	-	-	-	-	-	-	-	-	138	
Other banks	251	-	-	3,715	(388)	102	160	3,657	3,682	88	7,678	
Other FI	782	-	-	2,069	(376)	268	165	2,172	760	137	3,851	1,2
Corporate	24,008	13,179	7,446	78	-	275	3	350	1,332	-	25,690	5,2
Personal	18,849	3,590	1,920	-	-	-	-	-	-	-	18,849	6
	44,070	16,769	9,366	6,550	(865)	5,073	3,181	8,442	5,882	225	58,619	7,2
31 December 2012												
Government	51	-	-	644	(132)	3,686	2,698	1,632	134	-	1,817	
Central bank	107	-	-	-	-	-	-	-	-	-	107	
Other banks	299	-	-	3,551	(660)	165	131	3,585	4,093	476	8,453	
Other FI	812	-	-	2,065	(541)	466	40	2,491	746	103	4,152	1,4
Corporate	24,362	12,146	6,757	192	2	128	40	280	1,678	-	26,320	5,4
Personal	18,292	3,347	1,713	-	-	-	-	-	1	-	18,293	6
	43,923	15,493	8,470	6,452	(1,331)	4,445	2,909	7,988	6,652	579	59,142	7,5

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Appendix 5 Country risk (continued)

Eurozone periphery (continued)

	30 June 2013				31 December 2012			
	Notional		Fair value		Notional		Fair value	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
CDS by reference entity	£m	£m	£m	£m	£m	£m	£m	£m
Government	28,778	28,485	1,789	(2,058)	24,785	24,600	1,452	(1,459)
Other banks	1,848	1,762	98	(80)	6,023	5,996	230	(202)
Other FI	1,333	1,151	40	(32)	2,592	2,350	76	(67)
Corporate	2,406	1,700	37	(31)	5,824	5,141	52	(47)
	34,365	33,098	1,964	(2,201)	39,224	38,087	1,810	(1,775)

CDS bought protection: counterparty analysis by internal asset quality band

	AQ1		AQ2-AQ3		AQ4-AQ9		AQ10		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Banks	3,499	208	14,867	921	4,410	166	-	-	22,776	1,295
Other FI	3,323	192	7,568	465	420	12	278	-	11,589	669
	6,822	400	22,435	1,386	4,830	178	278	-	34,365	1,964
31 December 2012										
Banks	3,517	153	14,725	780	5,153	214	-	-	23,395	1,147
Other FI	5,647	240	9,021	401	896	22	265	-	15,829	663
	9,164	393	23,746	1,181	6,049	236	265	-	39,224	1,810

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Appendix 5 Country risk (continued)

Eurozone periphery by country: Ireland

	Lending	REIL	Provisions	AFS and LAR debt securities	AFS reserves	HFT debt securities Long	HFT debt securities Short	Total debt securities	Net Derivatives	Repos	Balance sheet	Off-balan she
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£
Government	42	-	-	137	(14)	34	26	145	-	-	187	
Central bank	116	-	-	-	-	-	-	-	-	-	116	
Other banks	88	-	-	113	(3)	19	(3)	135	625	88	936	
Other FI	519	-	-	85	-	133	11	207	586	137	1,449	6
Corporate	18,062	12,070	6,853	-	-	155	-	155	320	-	18,537	1,7
Personal	18,452	3,528	1,891	-	-	-	-	-	-	-	18,452	5
	37,279	15,598	8,744	335	(17)	341	34	642	1,531	225	39,677	2,9
31 December 2012												
Government	42	-	-	127	(23)	79	56	150	2	-	194	
Central bank	73	-	-	-	-	-	-	-	-	-	73	
Other banks	98	-	-	191	(6)	18	1	208	695	476	1,477	
Other FI	532	-	-	46	-	325	2	369	583	103	1,587	6
Corporate	17,921	11,058	6,226	60	-	-	-	60	411	-	18,392	1,8
Personal	17,893	3,286	1,686	-	-	-	-	-	1	-	17,894	5
	36,559	14,344	7,912	424	(29)	422	59	787	1,692	579	39,617	2,9

Appendix 5 Country risk (continued)

Eurozone periphery by country: Ireland (continued)

	30 June 2013				31 December 2012			
	Notional		Fair value		Notional		Fair value	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
CDS by reference entity	£m	£m	£m	£m	£m	£m	£m	£m
Government	2,599	2,607	38	(78)	2,486	2,525	72	(71)
Other banks	1	1	-	-	43	32	1	(2)
Other FI	343	279	5	(14)	759	677	21	(33)
Corporate	174	113	(9)	9	236	165	(17)	17
	3,117	3,000	34	(83)	3,524	3,399	77	(89)

CDS bought protection: counterparty analysis by internal asset quality band

	AQ1		AQ2-AQ3		AQ4-AQ9		AQ10		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Banks	211	-	1,443	23	14	-	-	-	1,668	23
Other FI	465	12	848	(6)	136	5	-	-	1,449	11
	676	12	2,291	17	150	5	-	-	3,117	34
31 December 2012										
Banks	214	6	1,461	41	32	(1)	-	-	1,707	46
Other FI	528	16	970	7	319	8	-	-	1,817	31
	742	22	2,431	48	351	7	-	-	3,524	77

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Appendix 5 Country risk (continued)

Eurozone periphery by country: Ireland (continued)

Key points

- Ulster Bank Group's (UBG) Irish exposure comprises personal lending (largely mortgages) and corporate lending and commitments, as well as some lending to financial institutions (refer to the UBG section on page 52 of Appendix 3 for further details). International Banking also has lending and commitments, and Markets has derivatives and repo exposure to financial institutions and large international clients with funding subsidiaries based in Ireland.

- Total exposure remained broadly unchanged at £42.7 billion, with some increase in personal lending driven by currency movements offset by small decreases in repos, derivatives and debt securities. Risk elements in lending and provisions increased by £1.3 billion and £0.8 billion, respectively with most of it relating to corporate lending.

- Government and central bank

  Exposure to the central bank fluctuates and is driven by regulatory requirements and deposits of excess liquidity.

- Financial institutions

  Markets, International Banking and UBG together account for the large majority of the Group's exposure to financial institutions. The main categories are derivatives and repos, where exposure is significantly affected by market movements but much of it is collateralised.

  Repo exposure to banks declined by £0.4 billion as one large position matured.

- Corporate

  Lending increased slightly to £18.1 billion. Commercial real estate lending amounted to £10.7 billion at 30 June 2013 (nearly all in UBG; £7.9 billion of this was in Non-Core), up £0.2 billion due to exchange rate movements. Commercial real estate lending included REIL of £8.7 billion, 56% of which were covered by provisions.

- Personal

  Overall lending increased by £0.6 billion. Residential mortgage loans amounted to £17.5 billion at 30 June 2013, including REIL of £3.3 billion with loan provisions of £1.7 billion. The housing market continued to suffer from weak domestic demand, although house prices stabilised at approximately 50% below their 2007 peak.

- Non-Core (included above)

  Non-Core lending was £9.6 billion at 30 June 2013, slightly up due to foreign exchange movements and with adverse market conditions still hampering the sale of assets. The lending portfolio largely consisted of exposures to commercial real estate (83%), retail (4%) and leisure (4%).

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Explanation of Responses:

Appendix 5 Country risk (continued)

Eurozone periphery by country: Spain

	Lending	REIL	Provisions	AFS and LAR debt securities	AFS reserves	HFT debt securities Long	HFT debt securities Short	Total debt securities	Net Derivatives	Repos	Balance sheet	Off-balanc shee
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£r
Government	-	-	-	44	(5)	973	432	585	9	-	594	1
Other banks	15	-	-	3,532	(377)	42	94	3,480	1,026	-	4,521	4
Other FI	6	-	-	1,820	(376)	78	68	1,830	17	-	1,853	5
Corporate	3,918	652	353	-	-	47	-	47	374	-	4,339	1,62
Personal	341	62	29	-	-	-	-	-	-	-	341	5
	4,280	714	382	5,396	(758)	1,140	594	5,942	1,426	-	11,648	1,78
31 December 2012												
Government	-	-	-	37	(10)	786	403	420	18	-	438	1
Central bank	6	-	-	-	-	-	-	-	-	-	6	
Other banks	1	-	-	3,169	(634)	100	76	3,193	1,254	-	4,448	4
Other FI	59	-	-	1,661	(540)	96	18	1,739	26	-	1,824	13
Corporate	4,260	601	246	4	-	36	18	22	456	-	4,738	1,37
Personal	340	61	27	-	-	-	-	-	-	-	340	5
	4,666	662	273	4,871	(1,184)	1,018	515	5,374	1,754	-	11,794	1,62

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Appendix 5 Country risk (continued)

Eurozone periphery by country: Spain (continued)

	30 June 2013				31 December 2012			
	Notional		Fair value		Notional		Fair value	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
CDS by reference entity	£m	£m	£m	£m	£m	£m	£m	£m
Government	6,702	6,709	430	(450)	5,934	5,905	361	(359)
Other banks	291	249	5	(2)	1,583	1,609	34	(30)
Other FI	812	715	31	(14)	1,209	1,061	47	(28)
Corporate	680	426	12	(7)	2,263	2,011	7	(4)
	8,485	8,099	478	(473)	10,989	10,586	449	(421)

CDS bought protection: counterparty analysis by internal asset quality band

	AQ1		AQ2-AQ3		AQ4-AQ9		AQ10		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Banks	583	32	3,191	210	978	51	-	-	4,752	293
Other FI	1,165	55	2,266	125	210	5	92	-	3,733	185
	1,748	87	5,457	335	1,188	56	92	-	8,485	478
31 December 2012										
Banks	646	27	3,648	168	1,409	65	-	-	5,703	260
Other FI	2,335	72	2,539	109	324	8	88	-	5,286	189
	2,981	99	6,187	277	1,733	73	88	-	10,989	449

Appendix 5 Country risk (continued)

Eurozone periphery by country: Spain (continued)

Key points

- Exposure to Spain is driven by corporate lending in International Banking, derivative position with large banks in Markets and a sizeable AFS mortgage-backed (largely covered bond) portfolio held within the liquidity portfolio managed by Group Treasury.

- Group exposure was stable at £13.4 billion, with some reductions in corporate lending and in derivatives exposure to banks alongside an increase in AFS debt securities issued by banks.

- Government and central bank

  The Group has a trading portfolio of Spanish government debt and CDS exposures that can result in fluctuations between long and short positions for HFT debt securities.

- Financial institutions

  The Group's largest exposure was the AFS securities (mainly the covered bond portfolio) with a fair value of £5.4 billion at 30 June 2013 - an increase of £0.5 billion due to improving market sentiment for Spanish bonds and the resulting narrowing of spreads and higher prices. The Group monitors the situation closely with periodic stress analyses.

  Derivatives exposure, mostly to Spanish international banks and a few of the large regional banks, and mostly collateralised, decreased by £0.2 billion to £1.0 billion at 30 June 2013, in part as a result of the sale of European CDS positions. Gross repos with large Spanish banks increased by £3.0 billion while net repo exposure remained at nil.

  Lending to non-bank financial institutions decreased to de minimis levels, the result of active risk management.

- Corporate

  Lending decreased by £0.3 billion to £3.9 billion during H1 2013, due to reductions across a range of sectors. Commercial real estate lending increased slightly as a result of exchange rate movements, to £1.8 billion at 30 June 2013, practically all in Non-Core. The majority of REIL and loan provisions related to commercial real estate lending.

- Non-Core (included above)

  At 30 June 2013, Non-Core had lending to Spain of £2.7 billion, unchanged since 31 December 2012 due to the euro appreciation and with adverse market conditions preventing the sale of assets. Commercial real estate (65%), construction (14%) and electricity (9%) sectors accounted for the majority of the lending.

Appendix 5 Country risk (continued)

Eurozone periphery by country: Italy

	Lending	REIL	Provisions	AFS and LAR debt securities	AFS reserves	HFT debt securities Long	HFT debt securities Short	Total debt securities	Net Derivatives	Repos	Balance sheet	Off-balanc she
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£
Government	-	-	-	430	(66)	3,396	2,378	1,448	73	-	1,521	
Central bank	22	-	-	-	-	-	-	-	-	-	22	
Other banks	148	-	-	-	-	22	67	(45)	1,434	-	1,537	4
Other FI	256	-	-	163	-	37	71	129	113	-	498	49
Corporate	1,298	56	14	35	-	55	-	90	513	-	1,901	1,59
Personal	24	-	-	-	-	-	-	-	-	-	24	1
	1,748	56	14	628	(66)	3,510	2,516	1,622	2,133	-	5,503	2,14
31 December 2012												
Government	9	-	-	408	(81)	2,781	2,224	965	80	-	1,054	
Central bank	21	-	-	-	-	-	-	-	-	-	21	
Other banks	200	-	-	125	(8)	42	54	113	1,454	-	1,767	3
Other FI	218	-	-	357	(1)	23	1	379	99	-	696	67
Corporate	1,392	34	5	87	2	85	22	150	664	-	2,206	1,90
Personal	23	-	-	-	-	-	-	-	-	-	23	1
	1,863	34	5	977	(88)	2,931	2,301	1,607	2,297	-	5,767	2,61

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Eurozone periphery by country: Italy (continued)

	30 June 2013				31 December 2012			
	Notional		Fair value		Notional		Fair value	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
CDS by reference entity	£m	£m	£m	£m	£m	£m	£m	£m
Government	15,824	15,622	1,024	(1,199)	13,181	13,034	717	(754)
Other banks	1,299	1,280	84	(74)	3,537	3,488	163	(139)
Other FI	170	152	4	(3)	616	607	8	(5)
Corporate	848	520	11	(8)	2,580	2,295	28	(20)
	18,141	17,574	1,123	(1,284)	19,914	19,424	916	(918)

CDS bought protection: counterparty analysis by internal asset quality band

	AQ1		AQ2-AQ3		AQ4-AQ9		AQ10		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Banks	2,127	134	8,350	576	3,055	79	-	-	13,532	789
Other FI	1,049	78	3,381	253	62	3	117	-	4,609	334
	3,176	212	11,731	829	3,117	82	117	-	18,141	1,123
31 December 2012										
Banks	2,113	81	7,755	432	3,252	105	-	-	13,120	618
Other FI	2,120	96	4,344	194	218	8	112	-	6,794	298
	4,233	177	12,099	626	3,470	113	112	-	19,914	916

Appendix 5 Country risk (continued)

Eurozone periphery by country: Italy (continued)

Key points

- Exposure to Italy is driven by active trading and derivatives exposure in Markets and corporate lending in International Banking.

- The Group continued to reduce and mitigate its risk through strategic exits where appropriate and through increased collateral requirements. Exposure decreased by £0.7 billion, largely in off-balance sheet exposure to corporates and non-bank financial institutions

- Government and central bank

  The Group is a market-maker in Italian government bonds with large and fluctuating gross long and short positions in HFT debt securities and an active CDS portfolio. An increase in the net long HFT position in government bonds of £0.5 billion during H1 2013 reflecting yield related net acquisitions was partly matched by an increase in the net bought CDS protection of £0.2 billion.

- Financial institutions

  The majority of the Group's exposure is to the top five banks. The Group's product offering consists largely of collateralised trading products and, to a lesser extent, short-term uncommitted lending lines for liquidity purposes. Risk is mitigated by fully collateralised facilities.

  The AFS bond exposure to financial institutions was reduced by £0.3 billion due to sales during H1 2013.

- Corporate

  Lending exposure declined slightly by £0.1 billion during H1 2013, to £1.3 billion. Off-balance sheet exposure decreased £0.3 billion, primarily in the electricity sector.

- Non-Core (included above)

  Non-Core lending was £0.9 billion at 30 June 2013, slightly down from 31 December 2012. The remaining lending was mainly to the commercial real estate (30%), leisure (20%) and electricity (17%) sectors.

Appendix 5 Country risk (continued)

Eurozone periphery by country: Portugal

30 June 2013	Lending	REIL	Provisions	AFS and LAR debt securities	AFS reserves	HFT debt securities Long	HFT debt securities Short	Total debt securities	Net Derivatives	Repos	Balance sheet	Off-balanc[e] shee[t]
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£[m]
Government	-	-	-	77	(16)	24	17	84	18	-	102	
Other banks	-	-	-	70	(8)	19	2	87	308	-	395	
Other FI	-	-	-	1	-	20	15	6	44	-	50	
Corporate	261	212	149	43	-	15	-	58	67	-	386	21[illegible]
Personal	6	-	-	-	-	-	-	-	-	-	6	
	267	212	149	191	(24)	78	34	235	437	-	939	22[illegible]
31 December 2012												
Government	-	-	-	72	(18)	28	15	85	17	-	102	
Other banks	-	-	-	66	(12)	5	-	71	380	-	451	
Other FI	-	-	-	1	-	21	11	11	38	-	49	
Corporate	336	253	188	41	-	7	-	48	79	-	463	24[illegible]
Personal	7	-	-	-	-	-	-	-	-	-	7	
	343	253	188	180	(30)	61	26	215	514	-	1,072	25[illegible]

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Appendix 5 Country risk (continued)

Eurozone periphery by country: Portugal (continued)

	30 June 2013				31 December 2012			
	Notional		Fair value		Notional		Fair value	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
CDS by reference entity	£m	£m	£m	£m	£m	£m	£m	£m
Government	3,651	3,545	297	(331)	3,182	3,134	302	(275)
Other banks	254	229	8	(3)	856	863	31	(30)
Other FI	8	5	-	(1)	8	5	-	(1)
Corporate	447	381	7	(8)	426	353	3	(7)
	4,360	4,160	312	(343)	4,472	4,355	336	(313)

CDS bought protection: counterparty analysis by internal asset quality band

	AQ1		AQ2-AQ3		AQ4-AQ9		AQ10		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Banks	542	39	1,842	109	363	36	-	-	2,747	184
Other FI	527	37	1,040	92	12	(1)	34	-	1,613	128
	1,069	76	2,882	201	375	35	34	-	4,360	312
31 December 2012										
Banks	480	34	1,805	133	460	45	-	-	2,745	212
Other FI	534	38	1,126	88	35	(2)	32	-	1,727	124
	1,014	72	2,931	221	495	43	32	-	4,472	336

Appendix 5 Country risk (continued)

Eurozone periphery by country: Portugal (continued)

Key points

- The Portuguese portfolio, managed from Spain, mainly consists of corporate lending and derivatives trading with the largest local banks. In line with the Group's de-risking strategy, there is no medium-term activity, with the exception of collateralised business.

- Group exposure declined further during H1 2013 to £1.2 billion, a reduction of £0.2 billion mostly in lending, derivatives and off-balance sheet exposure. Net bought CDS protection increased to £0.2 billion as a result of ongoing management of positions arising from flow trading.

- Government and central bank

  The Group's exposure to the Portuguese government at 30 June 2013 was unchanged at £0.1 billion, comprising a small AFS debt securities position and very small derivatives and net long HFT positions.

- Financial institutions

  The remaining exposure was largely focused on the top four systemically important banks. Exposures generally consisted of collateralised trading products.

- Corporate

  Lending to the telecoms sector and off-balance sheet exposure to the oil and gas sector decreased to almost nil in H1 2013. The largest remaining exposure was to the land, transport & logistics and electricity sectors, focusing on a few large, highly creditworthy clients.

- Non-Core (included above)

  Non-Core lending to Portugal remained unchanged during H1 2013, at £0.3 billion. The remaining portfolio largely comprised lending to the land, transport & logistics (41%) and electricity (37%) sectors.

Appendix 5 Country risk (continued)

Eurozone periphery by country: Greece

	Lending	REIL	Provisions	AFS and LAR debt securities	AFS reserves	HFT debt securities Long	Short	Total debt securities	Net Derivatives	Repos	Balance sheet	Off-balanc sheet
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£n
Government	-	-	-	-	-	-	-	-	8	-	8	
Other banks	-	-	-	-	-	-	-	-	279	-	279	
Other FI	1	-	-	-	-	-	-	-	-	-	1	
Corporate	199	31	21	-	-	-	-	-	38	-	237	1
Personal	13	-	-	-	-	-	-	-	-	-	13	1
	213	31	21	-	-	-	-	-	325	-	538	2
31 December 2012												
Government	-	-	-	-	-	9	-	9	17	-	26	
Central bank	7	-	-	-	-	-	-	-	-	-	7	
Other banks	-	-	-	-	-	-	-	-	299	-	299	
Other FI	1	-	-	-	-	-	8	(8)	-	-	(7)	
Corporate	179	38	38	-	-	-	-	-	44	-	223	1
Personal	14	-	-	-	-	-	-	-	-	-	14	[illegible]
	201	38	38	-	-	9	8	1	360	-	562	2

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Appendix 5 Country risk (continued)

Eurozone periphery by country: Greece (continued)

	30 June 2013				31 December 2012			
	Notional		Fair value		Notional		Fair value	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
CDS by reference entity	£m	£m	£m	£m	£m	£m	£m	£m
Other banks	3	3	1	(1)	4	4	1	(1)
Corporate	257	260	16	(17)	319	317	31	(33)
	260	263	17	(18)	323	321	32	(34)

CDS bought protection: counterparty analysis by internal asset quality band

	AQ1		AQ2-AQ3		AQ4-AQ9		AQ10		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Banks	36	3	39	3	-	-	-	-	75	6
Other FI	117	10	33	1	-	-	35	-	185	11
	153	13	72	4	-	-	35	-	260	17
31 December 2012										
Banks	64	5	54	6	-	-	-	-	118	11
Other FI	130	18	42	3	-	-	33	-	205	21
	194	23	96	9	-	-	33	-	323	32

Appendix 5 Country risk (continued)

Eurozone periphery by country: Greece (continued)

Key points

- The Group’s exposure to Greece is managed in line with the Group’s de-risking strategy. The remaining Greek exposure at 30 June 2013 was £0.6 billion. The majority of this was derivative exposure to banks (itself in part collateralised). The rest was mostly corporate lending, including exposure to local subsidiaries of international companies.

- Government and central bank

  The small HFT position was reduced to nil. The only remaining exposure is a small legacy derivatives exposure to the government of Greece.

- Financial institutions

  Activity with Greek financial institutions was largely collateralised derivatives exposure, and remained under close scrutiny.

- Corporate

  Lending exposure was stable at £0.2 billion. The Group’s focus was on short-term trade facilities extended to the domestic subsidiaries of international clients, increasingly supported by parental guarantees.

- Non-Core (included above)

  Non-Core lending to Greece was stable at less than £0.1 billion. The remaining lending portfolio primarily consisted of the following sectors: commercial real estate (51%), construction (32%) and other services (12%).

Appendix 5 Country risk (continued)

Eurozone periphery by country: Cyprus

	Lending	REIL	Provisions	AFS and LAR debt securities	AFS reserves	HFT debt securities Long	HFT debt securities Short	Total debt securities	Net Derivatives	Repos	Balance sheet	Off-balanc shee
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£r
Government	-	-	-	-	-	1	-	1	-	-	1	
Other banks	-	-	-	-	-	-	-	-	10	-	10	
Other FI	-	-	-	-	-	-	-	-	-	-	-	
Corporate	270	158	56	-	-	3	3	-	20	-	290	4
Personal	13	-	-	-	-	-	-	-	-	-	13	1
	283	158	56	-	-	4	3	1	30	-	314	5
31 December 2012												
Government	-	-	-	-	-	3	-	3	-	-	3	
Other banks	-	-	-	-	-	-	-	-	11	-	11	
Other FI	2	-	-	-	-	1	-	1	-	-	3	
Corporate	274	162	54	-	-	-	-	-	24	-	298	3
Personal	15	-	-	-	-	-	-	-	-	-	15	1
	291	162	54	-	-	4	-	4	35	-	330	4

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Appendix 5 Country risk (continued)

Eurozone non-periphery

30 June 2013	Lending	REIL	Provisions	AFS and LAR debt securities	AFS reserves	HFT debt securities Long	HFT debt securities Short	Total debt securities	Net Derivatives	Repos	Balance sheet	Off-balan sh
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Government	619	-	-	9,180	139	14,490	6,441	17,229	1,508	-	19,356	
Central bank	13,148	-	-	-	-	-	-	-	23	-	13,171	
Other banks	4,679	-	-	637	224	773	525	885	17,701	1,228	24,493	4,3
Other FI	2,878	-	-	7,124	(490)	590	198	7,516	7,007	730	18,131	5,5
Corporate	12,975	1,769	573	46	-	251	74	223	1,464	23	14,685	23,1
Personal	216	22	19	-	-	-	-	-	-	-	216	1
	34,515	1,791	592	16,987	(127)	16,104	7,238	25,853	27,703	1,981	90,052	33,1
31 December 2012												
Government	627	-	-	10,843	399	13,744	5,771	18,816	1,663	-	21,106	7
Central bank	21,862	-	-	-	-	-	-	-	35	-	21,897	
Other banks	3,958	-	-	2,037	151	856	480	2,413	21,863	685	28,919	4,3
Other FI	3,425	-	-	7,302	(540)	795	102	7,995	6,849	624	18,893	4,1
Corporate	12,989	2,107	694	602	31	183	75	710	1,916	24	15,639	23,6
Personal	220	4	20	-	-	-	-	-	-	-	220	1
	43,081	2,111	714	20,784	41	15,578	6,428	29,934	32,326	1,333	106,674	32,9

Appendix 5 Country risk (continued)

Eurozone non-periphery (continued)

	30 June 2013				31 December 2012			
	Notional		Fair value		Notional		Fair value	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
CDS by reference entity	£m	£m	£m	£m	£m	£m	£m	£m
Government	17,132	15,738	107	(7)	15,369	13,980	(45)	54
Other banks	4,187	3,930	39	(24)	7,226	7,018	36	(15)
Other FI	4,338	3,523	109	(98)	8,423	7,354	28	(25)
Corporate	11,849	10,032	(258)	264	33,815	30,710	(507)	512
	37,506	33,223	(3)	135	64,833	59,062	(488)	526

CDS bought protection: counterparty analysis by internal asset quality band

	AQ1		AQ2-AQ3		AQ4-AQ9		AQ10		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Banks	3,323	37	14,557	(28)	1,333	55	-	-	19,213	64
Other FI	7,461	(22)	8,818	(23)	1,314	(24)	700	2	18,293	(67)
	10,784	15	23,375	(51)	2,647	31	700	2	37,506	(3)
31 December 2012										
Banks	5,311	(27)	20,137	(183)	2,903	(10)	-	-	28,351	(200)
Other FI	18,265	(152)	14,335	(82)	3,215	(39)	667	5	36,482	(268)
	23,576	(179)	34,472	(265)	6,118	(49)	667	5	64,833	(488)

Appendix 5 Country risk (continued)

Eurozone non-periphery (continued)

Key points

- The Group holds a major diversified portfolio in eurozone non-periphery countries with significant exposures to financial institutions and corporates, notably in Germany, the Netherlands and France, and as part of the Group's liquidity portfolio, significant exposure to the German central bank.

- Exposure decreased during H1 2013, particularly in liquidity held with the Bundesbank and in derivatives positions with banks in most countries. In line with exposure reductions, net bought CDS protection referencing entities in eurozone non-periphery countries declined by £1.6 billion.

- Government and central bank

  The Group held significant short-term surplus liquidity with central banks because of credit risk and capital considerations, and limited alternative investment opportunities. This exposure also fluctuates as part of the Group's asset and liability management.

  Germany: AFS government bond positions decreased by £1.3 billion largely in line with liquidity portfolio management strategies. The net long HFT position in German government bonds in Markets increased by £1.5 billion, driven by market opportunities.

  France: the net long HFT position in Markets declined in H1 2013 by £1.4 billion, as part of normal flow trading activity in the rates business.

- Financial institutions

  The sale of a significant part of the European CDS positions by Markets in Q2 resulted in major reductions in gross derivatives and some reductions in net derivatives to CDS counterparties - banks and other financial institutions - in Germany, France, the Netherlands and, to a lesser degree, Belgium and other eurozone countries.

  France: lending to banks increased by £0.5 billion in H1 2013, largely as a result of transaction with a large bank.

  Luxembourg: repo exposure, mostly to funds, increased by £0.4 billion and lending to financial services companies increased by £0.3 billion in the same period.

Eurozone non-periphery (continued)

Key points (continued)

- Corporate

  Germany: lending to corporate clients fell by £0.4 billion, as a result of reductions in the oil and gas and media sectors.

  Netherlands: lending to corporate clients increased by £0.5 billion, in the construction and electricity sectors. Off-balance sheet exposure decreased in telecommunications sector by £0.3 billion.

  Luxembourg: off-balance sheet exposure to corporate clients increased by £0.5 billion due to increase in the land, transport & logistics, automotive and food & consumer sectors.

- Non-Core lending (included above)

  Germany: exposure decreased slightly to £2.7 billion at 30 June 2013. Most of the lending was in the commercial real estate (65%) and leisure (15%) sectors.

  Netherlands: Non-Core lending decreased slightly to £1.9 billion. Most of the lending was in the commercial real estate (58%) and securitisations (19%) sectors.

  France: exposure was £1.4 billion at 30 June 2013, a decline of £0.2 billion and mainly comprised public sector (35%), commercial real estate (24%) and construction (16%) exposures.

Appendix 5 Country risk (continued)

Eurozone non-periphery: Germany

30 June 2013	Lending	REIL	Provisions	AFS and LAR debt securities	AFS reserves	HFT debt securities Long	HFT debt securities Short	Total debt securities	Net Derivatives	Repos	Balance sheet	Off-balanc shee
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£
Government	-	-	-	6,768	218	7,255	2,244	11,779	537	-	12,316	
Central bank	10,643	-	-	-	-	-	-	-	-	-	10,643	
Other banks	633	-	-	109	-	350	370	89	4,665	425	5,812	8
Other FI	167	-	-	379	(18)	77	45	411	3,041	230	3,849	1,93
Corporate	3,395	476	180	-	-	16	-	16	262	23	3,696	5,13
Personal	81	1	-	-	-	-	-	-	-	-	81	2
	14,919	477	180	7,256	200	7,698	2,659	12,295	8,505	678	36,397	7,17
31 December 2012												
Government	-	-	-	8,103	453	5,070	1,592	11,581	533	-	12,114	73
Central bank	20,018	-	-	-	-	-	-	-	-	-	20,018	
Other banks	660	-	-	668	10	280	332	616	5,558	183	7,017	13
Other FI	460	-	-	285	(23)	95	30	350	3,046	116	3,972	93
Corporate	3,756	460	152	207	14	11	2	216	339	24	4,335	5,46
Personal	83	1	-	-	-	-	-	-	-	-	83	2
	24,977	461	152	9,263	454	5,456	1,956	12,763	9,476	323	47,539	7,29

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Appendix 5 Country risk (continued)

Eurozone non-periphery: Germany (continued)

	30 June 2013				31 December 2012			
	Notional		Fair value		Notional		Fair value	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
CDS by reference entity	£m	£m	£m	£m	£m	£m	£m	£m
Government	4,808	4,658	5	9	4,288	4,191	4	-
Other banks	966	809	9	(9)	2,849	2,696	13	(11)
Other FI	851	640	(3)	3	2,385	2,172	(16)	18
Corporate	2,940	2,496	(120)	110	10,526	9,644	(257)	261
	9,565	8,603	(109)	113	20,048	18,703	(256)	268

CDS bought protection: counterparty analysis by internal asset quality band

	AQ1		AQ2-AQ3		AQ4-AQ9		AQ10		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Banks	1,032	(9)	3,759	(32)	340	(4)	-	-	5,131	(45)
Other FI	1,467	(29)	2,470	(25)	497	(10)	-	-	4,434	(64)
	2,499	(38)	6,229	(57)	837	(14)	-	-	9,565	(109)
31 December 2012										
Banks	1,968	(22)	6,263	(87)	940	(7)	-	-	9,171	(116)
Other FI	5,047	(70)	5,103	(55)	727	(15)	-	-	10,877	(140)
	7,015	(92)	11,366	(142)	1,667	(22)	-	-	20,048	(256)

Appendix 5 Country risk (continued)

Eurozone non-periphery: Netherlands

30 June 2013	Lending	REIL	Provisions	AFS and LAR debt securities	AFS reserves	HFT debt securities Long	HFT debt securities Short	Total debt securities	Net Derivatives	Repos	Balance sheet	Off-balanc she
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£
Government	18	-	-	986	31	1,469	923	1,532	32	-	1,582	2
Central bank	2,488	-	-	-	-	-	-	-	-	-	2,488	
Other banks	789	-	-	222	223	182	94	310	5,273	177	6,549	3,57
Other FI	1,360	-	-	5,921	(467)	191	54	6,058	1,813	3	9,234	1,32
Corporate	4,229	512	159	19	-	67	8	78	356	-	4,663	6,18
Personal	21	-	-	-	-	-	-	-	-	-	21	1
	8,905	512	159	7,148	(213)	1,909	1,079	7,978	7,474	180	24,537	11,13
31 December 2012												
Government	7	-	-	1,052	57	1,248	993	1,307	36	-	1,350	2
Central bank	1,822	-	-	-	-	-	-	-	2	-	1,824	
Other banks	496	-	-	575	136	252	86	741	6,667	309	8,213	3,47
Other FI	1,785	-	-	6,107	(508)	242	17	6,332	1,908	45	10,070	1,31
Corporate	3,720	508	156	66	2	29	28	67	476	-	4,263	6,65
Personal	26	-	-	-	-	-	-	-	-	-	26	1
	7,856	508	156	7,800	(313)	1,771	1,124	8,447	9,089	354	25,746	11,47

Appendix 5 Country risk (continued)

Eurozone non-periphery: Netherlands (continued)

	30 June 2013				31 December 2012			
	Notional		Fair value		Notional		Fair value	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
CDS by reference entity	£m	£m	£m	£m	£m	£m	£m	£m
Government	1,497	1,369	41	(20)	1,352	1,227	(12)	11
Other banks	259	244	2	(1)	659	695	(1)	2
Other FI	1,759	1,615	26	(24)	3,080	2,799	20	(23)
Corporate	3,024	2,263	(43)	47	7,943	6,852	(93)	87
	6,539	5,491	26	2	13,034	11,573	(86)	77

CDS bought protection: counterparty analysis by internal asset quality band

	AQ1		AQ2-AQ3		AQ4-AQ9		AQ10		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Banks	357	-	2,111	3	180	24	-	-	2,648	27
Other FI	1,991	(10)	957	12	243	(5)	700	2	3,891	(1)
	2,348	(10)	3,068	15	423	19	700	2	6,539	26
31 December 2012										
Banks	763	(17)	3,112	(32)	539	(3)	-	-	4,414	(52)
Other FI	4,990	(33)	2,046	7	917	(13)	667	5	8,620	(34)
	5,753	(50)	5,158	(25)	1,456	(16)	667	5	13,034	(86)

Appendix 5 Country risk (continued)

Eurozone non-periphery: France

	Lending	REIL	Provisions	AFS and LAR debt securities	AFS reserves	HFT debt securities Long	HFT debt securities Short	Total debt securities	Net Derivatives	Repos	Balance sheet	Off-balanc shee
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£
Government	496	-	-	647	(39)	4,037	2,279	2,405	320	-	3,221	
Other banks	3,037	-	-	257	1	121	49	329	4,396	342	8,104	49
Other FI	112	-	-	676	(1)	268	81	863	818	154	1,947	1,47
Corporate	2,260	347	141	-	-	136	57	79	598	-	2,937	7,57
Personal	75	-	-	-	-	-	-	-	-	-	75	7
	5,980	347	141	1,580	(39)	4,562	2,466	3,676	6,132	496	16,284	9,62
31 December 2012												
Government	494	-	-	537	(41)	5,186	2,064	3,659	257	-	4,410	
Central bank	9	-	-	-	-	-	-	-	-	-	9	
Other banks	2,498	-	-	730	5	184	27	887	5,608	58	9,051	59
Other FI	124	-	-	757	(4)	252	51	958	833	392	2,307	1,10
Corporate	2,426	116	71	218	16	116	15	319	724	-	3,469	7,68
Personal	71	-	-	-	-	-	-	-	-	-	71	7
	5,622	116	71	2,242	(24)	5,738	2,157	5,823	7,422	450	19,317	9,46

Appendix 5 Country risk (continued)

Eurozone non-periphery: France (continued)

	30 June 2013				31 December 2012			
	Notional		Fair value		Notional		Fair value	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
CDS by reference entity	£m	£m	£m	£m	£m	£m	£m	£m
Government	5,319	4,547	112	(77)	4,989	4,095	76	(66)
Other banks	2,849	2,757	27	(13)	3,443	3,337	23	(5)
Other FI	1,076	656	(7)	6	1,789	1,374	(8)	9
Corporate	3,898	3,482	(41)	51	11,435	10,618	(106)	112
	13,142	11,442	91	(33)	21,656	19,424	(15)	50

CDS bought protection: counterparty analysis by internal asset quality band

	AQ1		AQ2-AQ3		AQ4-AQ9		AQ10		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Banks	1,211	20	5,199	29	527	21	-	-	6,937	70
Other FI	2,781	17	3,030	4	394	-	-	-	6,205	21
	3,992	37	8,229	33	921	21	-	-	13,142	91
31 December 2012										
Banks	1,779	14	7,102	(15)	921	6	-	-	9,802	5
Other FI	5,995	(12)	4,798	(5)	1,061	(3)	-	-	11,854	(20)
	7,774	2	11,900	(20)	1,982	3	-	-	21,656	(15)

Appendix 5 Country risk (continued)

Eurozone non-periphery: Luxembourg

	Lending	REIL	Provisions	AFS and LAR debt securities	AFS reserves	HFT debt securities Long	HFT debt securities Short	Total debt securities	Net Derivatives	Repos	Balance sheet	Off-balanc shee
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£r
Central bank	17	-	-	-	-	-	-	-	-	-	17	
Other banks	95	-	-	-	-	29	(1)	30	374	213	712	
Other FI	973	-	-	40	-	39	15	64	1,035	329	2,401	72
Corporate	1,717	389	73	-	-	25	8	17	103	-	1,837	1,98
Personal	3	-	-	-	-	-	-	-	-	-	3	[illegible]
	2,805	389	73	40	-	93	22	111	1,512	542	4,970	2,71
31 December 2012												
Government	13	-	-	-	-	-	-	-	-	-	13	
Other banks	99	-	-	8	-	8	6	10	485	77	671	
Other FI	717	-	-	51	(1)	198	4	245	821	68	1,851	71
Corporate	1,817	940	287	-	-	19	23	(4)	156	-	1,969	1,46
Personal	4	-	-	-	-	-	-	-	-	-	4	[illegible]
	2,650	940	287	59	(1)	225	33	251	1,462	145	4,508	2,19

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Appendix 5 Country risk (continued)

Eurozone non-periphery: Luxembourg (continued)

	30 June 2013				31 December 2012			
	Notional		Fair value		Notional		Fair value	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
CDS by reference entity	£m	£m	£m	£m	£m	£m	£m	£m
Other FI	652	612	93	(83)	1,169	1,009	32	(29)
Corporate	764	670	(27)	26	1,388	1,238	(9)	10
	1,416	1,282	66	(57)	2,557	2,247	23	(19)

CDS bought protection: counterparty analysis by internal asset quality band

	AQ1		AQ2-AQ3		AQ4-AQ9		AQ10		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Banks	39	9	437	31	16	(1)	-	-	492	39
Other FI	656	9	156	24	112	(6)	-	-	924	27
	695	18	593	55	128	(7)	-	-	1,416	66
31 December 2012										
Banks	96	4	611	23	63	(1)	-	-	770	26
Other FI	1,111	(12)	361	12	315	(3)	-	-	1,787	(3)
	1,207	(8)	972	35	378	(4)	-	-	2,557	23

Appendix 5 Country risk (continued)

Eurozone non-periphery: Belgium

30 June 2013	Lending	REIL	Provisions	AFS and LAR debt securities	AFS reserves	HFT debt securities Long	HFT debt securities Short	Total debt securities	Net Derivatives	Repos	Balance sheet	Off-balanc shee
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£
Government	-	-	-	448	(48)	998	515	931	87	-	1,018	
Central bank	-	-	-	-	-	-	-	-	1	-	1	
Other banks	98	-	-	-	-	-	7	(7)	2,265	57	2,413	
Other FI	220	-	-	-	-	2	3	(1)	280	-	499	4
Corporate	635	9	8	-	-	5	-	5	124	-	764	1,26
Personal	19	21	19	-	-	-	-	-	-	-	19	
	972	30	27	448	(48)	1,005	525	928	2,757	57	4,714	1,31
31 December 2012												
Government	-	-	-	828	(44)	1,269	711	1,386	103	-	1,489	
Other banks	186	-	-	2	-	2	2	2	2,618	50	2,856	
Other FI	249	-	-	-	-	-	-	-	239	-	488	3
Corporate	414	50	15	14	-	6	-	20	180	-	614	1,26
Personal	22	3	20	-	-	-	-	-	-	-	22	
	871	53	35	844	(44)	1,277	713	1,408	3,140	50	5,469	1,30

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Appendix 5 Country risk (continued)

Eurozone non-periphery: Belgium (continued)

	30 June 2013				31 December 2012			
	Notional		Fair value		Notional		Fair value	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
CDS by reference entity	£m	£m	£m	£m	£m	£m	£m	£m
Government	2,106	1,883	(4)	11	1,890	1,674	(31)	29
Other banks	106	113	1	(1)	212	222	1	(1)
Corporate	100	81	-	-	301	276	(1)	1
	2,312	2,077	(3)	10	2,403	2,172	(31)	29

CDS bought protection: counterparty analysis by internal asset quality band

	AQ1		AQ2-AQ3		AQ4-AQ9		AQ10		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Banks	228	5	1,175	(14)	143	11	-	-	1,546	2
Other FI	93	-	666	(5)	7	-	-	-	766	(5)
	321	5	1,841	(19)	150	11	-	-	2,312	(3)
31 December 2012										
Banks	244	(2)	1,156	(17)	281	(3)	-	-	1,681	(22)
Other FI	178	-	505	(9)	39	-	-	-	722	(9)
	422	(2)	1,661	(26)	320	(3)	-	-	2,403	(31)

Appendix 5 Country risk (continued)

Eurozone non-periphery: Other(1)

30 June 2013	Lending	REIL	Provisions	AFS and LAR debt securities	AFS reserves	HFT debt securities Long	HFT debt securities Short	Total debt securities	Net Derivatives	Repos	Balance sheet	Off-balanc shee
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£r
Government	105	-	-	331	(23)	731	480	582	532	-	1,219	
Central bank	-	-	-	-	-	-	-	-	22	-	22	
Other banks	27	-	-	49	-	91	6	134	728	14	903	14
Other FI	46	-	-	108	(4)	13	-	121	20	14	201	2
Corporate	739	36	12	27	-	2	1	28	21	-	788	99
Personal	17	-	-	-	-	-	-	-	-	-	17	1
	934	36	12	515	(27)	837	487	865	1,323	28	3,150	1,17
31 December 2012												
Government	126	-	-	323	(26)	971	411	883	734	-	1,743	
Central bank	-	-	-	-	-	-	-	-	33	-	33	
Other banks	19	-	-	54	-	130	27	157	927	8	1,111	11
Other FI	90	-	-	102	(4)	8	-	110	2	3	205	2
Corporate	856	33	13	97	(1)	2	7	92	41	-	989	1,11
Personal	14	-	-	-	-	-	-	-	-	-	14	1
	1,105	33	13	576	(31)	1,111	445	1,242	1,737	11	4,095	1,26

For the note to this table refer to the following page.

Appendix 5 Country risk (continued)

Eurozone non-periphery: Other(1) (continued)

	30 June 2013				31 December 2012			
	Notional		Fair value		Notional		Fair value	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
CDS by reference entity	£m	£m	£m	£m	£m	£m	£m	£m
Government	3,402	3,281	(47)	70	2,850	2,793	(82)	80
Other banks	7	7	-	-	63	68	-	-
Corporate	1,123	1,040	(27)	30	2,222	2,082	(41)	41
	4,532	4,328	(74)	100	5,135	4,943	(123)	121

CDS bought protection: counterparty analysis by internal asset quality band

	AQ1		AQ2-AQ3		AQ4-AQ9		AQ10		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value
30 June 2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Banks	456	12	1,876	(45)	127	4	-	-	2,459	(29)
Other FI	473	(9)	1,539	(33)	61	(3)	-	-	2,073	(45)
	929	3	3,415	(78)	188	1	-	-	4,532	(74)
31 December 2012										
Banks	461	(4)	1,893	(55)	159	(2)	-	-	2,513	(61)
Other FI	944	(25)	1,522	(32)	156	(5)	-	-	2,622	(62)
	1,405	(29)	3,415	(87)	315	(7)	-	-	5,135	(123)

Note:
(1) Comprises Austria, Estonia, Finland, Malta, Slovakia and Slovenia.

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Appendix 6

Revisions

Appendix 6 - Revisions

Group reporting changes

Following share sales in October 2012 and March 2013, the Group now holds less than 50% of the issued ordinary share capital in Direct Line Group (DLG) and has ceded control. Consequently, in the Group results DLG is treated as a discontinued operation until 12 March 2013 and as an associated undertaking thereafter, with associate income reported in Group Centre from 13 March 2013. DLG is no longer a reportable operating segment of the Group.

This appendix updates the Group's prior period results on a statutory and managed basis for this change in treatment of DLG. While these restatements affect the reported results on a statutory and managed basis, they have no impact on the Group's profit or loss for the periods, balance sheet or other primary statements.

The restated financial information for prior periods also includes the impact of IAS 19 'Employee Benefits' (revised) and IFRS 10 'Consolidated Financial Statements', which were implemented by the Group on 1 January 2013 and reflected in the Group's Q1 2013 results announced on 3 May 2013.

IAS 19

IAS 19 requires: the immediate recognition of all actuarial gains and losses; interest cost to be calculated on the net pension liability or asset at the long-term bond rate, an expected rate of return will no longer be applied to assets; and all past service costs to be recognised immediately when a scheme is curtailed or amended. Implementation of IAS 19 resulted in an increase in the loss after tax of £84 million and £154 million for the years ended 31 December 2012 and 2011 respectively; £42 million for the half year ended 30 June 2012; and £21 million for the quarter ended 30 June 2012.

IFRS 10

Implementation of IFRS 10 resulted in a reduction in non-controlling interests of £0.5 billion with a corresponding increase in Owners' equity (Paid-in equity) as at 31 December 2012, 30 June 2012 and 31 December 2011. This led to an increase in the loss attributable to non-controlling interests of £13 million for the year ended 31 December 2012; £6 million for the half year ended 30 June 2012; and £6 million for the quarter ended 30 June 2012, with corresponding increases in the profit attributable to paid-in equity holders. There was no impact on the profit/(loss) attributable to ordinary and B shareholders. A capital reconciliation is shown on page 17.

The above restatements have no impact on the Group's regulatory capital.

1

Summary consolidated income statement

	Year ended 31 December 2012			Year ended 31 December 2011		
	Previously reported (1)	Adjustments	Restated	Previously reported (1)	Adjustments	Restated
	£m	£m	£m	£m	£m	£m
Interest receivable	18,530	-	18,530	21,036	-	21,036
Interest payable	(7,128)	-	(7,128)	(8,733)	-	(8,733)
Net interest income	11,402	-	11,402	12,303	-	12,303
Fees and commissions receivable	5,709	-	5,709	6,379	-	6,379
Fees and commissions payable	(834)	-	(834)	(962)	-	(962)
Income from trading activities	1,675	-	1,675	2,701	-	2,701
Gain on redemption of own debt	454	-	454	255	-	255
Other operating income	(465)	-	(465)	3,975	-	3,975
Non-interest income	6,539	-	6,539	12,348	-	12,348
Total income	17,941	-	17,941	24,651	-	24,651
Staff costs	(8,076)	(112)	(8,188)	(8,356)	(206)	(8,562)
Premises and equipment	(2,232)	-	(2,232)	(2,423)	-	(2,423)
Other administrative expenses	(5,593)	-	(5,593)	(4,436)	-	(4,436)
Depreciation and amortisation	(1,802)	-	(1,802)	(1,839)	-	(1,839)
Write-down of goodwill and other intangible assets	(124)	-	(124)	(80)	-	(80)
Operating expenses	(17,827)	(112)	(17,939)	(17,134)	(206)	(17,340)
Profit before impairment losses	114	(112)	2	7,517	(206)	7,311
Impairment losses	(5,279)	-	(5,279)	(8,707)	-	(8,707)
Operating loss before tax	(5,165)	(112)	(5,277)	(1,190)	(206)	(1,396)
Tax charge	(469)	28	(441)	(1,127)	52	(1,075)
Loss from continuing operations	(5,634)	(84)	(5,718)	(2,317)	(154)	(2,471)
(Loss)/profit from discontinued operations, net of tax						
- Direct Line Group	(184)	-	(184)	301	-	301
- Other	12	-	12	47	-	47
(Loss)/profit from discontinued operations, net of tax	(172)	-	(172)	348	-	348

Loss for the period	(5,806)	(84)	(5,890)	(1,969)	(154)	(2,123)
Non-controlling interests	123	13	136	(28)	-	(28)
Preference share and other dividends	(288)	(13)	(301)	-	-	-
Loss attributable to ordinary and B shareholders	(5,971)	(84)	(6,055)	(1,997)	(154)	(2,151)

Note:
(1) As reported in the audited financial statements for the year ended 31 December 2012 included on page 313 of the Form 20-F filed with the SEC on 27 March 2013.

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Summary consolidated income statement (continued)

	Half year ended 30 June 2012		
	Previously reported (1)	Adjustments	Restated
	£m	£m	£m
Interest receivable	9,791	(156)	9,635
Interest payable	(3,821)	6	(3,815)
Net interest income	5,970	(150)	5,820
Fees and commissions receivable	2,937	(2)	2,935
Fees and commissions payable	(604)	224	(380)
Income from trading activities	869	(2)	867
Gain on redemption of own debt	577	-	577
Other operating income (excluding insurance net premium income)	(353)	(87)	(440)
Insurance net premium income	1,867	(1,867)	-
Non-interest income	5,293	(1,734)	3,559
Total income	11,263	(1,884)	9,379
Staff costs	(4,713)	168	(4,545)
Premises and equipment	(1,107)	17	(1,090)
Other administrative expenses	(2,172)	278	(1,894)
Depreciation and amortisation	(902)	19	(883)
Operating expenses	(8,894)	482	(8,412)
Profit before insurance net claims and impairment losses	2,369	(1,402)	967
Insurance net claims	(1,225)	1,225	-
Impairment losses	(2,649)	-	(2,649)
Operating loss before tax	(1,505)	(177)	(1,682)
Tax charge	(429)	30	(399)
Loss from continuing operations	(1,934)	(147)	(2,081)
Profit from discontinued operations, net of tax	1	105	106
Loss for the period	(1,933)	(42)	(1,975)
Non-controlling interests	19	6	25
Preference share and other dividends	(76)	(6)	(82)
Loss attributable to ordinary and B shareholders	(1,990)	(42)	(2,032)

Note:

(1) As reported in the unaudited financial statements for the period ended 30 June 2012 included on page 69 of the Form 6-K filed with the SEC on 8 August 2012.

(2) Adjustments primarily relate to the transfer of DLG to discontinued operations, not previously reflected in published information for this period, together with the increase of £56 million in pension costs resulting from the implementation of IAS 19.

3

Summary consolidated income statement (continued)

	Quarter ended 31 March 2013			Quarter ended 30 June 2012		
	Previously reported (1)	Adjustments	Restated	Previously reported (2)	Adjustments	Restated
	£m	£m	£m	£m	£m	£m
Interest receivable	4,279	-	4,279	4,774	(73)	4,701
Interest payable	(1,609)	-	(1,609)	(1,803)	7	(1,796)
Net interest income	2,670	-	2,670	2,971	(66)	2,905
Fees and commissions receivable	1,316	-	1,316	1,450	-	1,450
Fees and commissions payable	(210)	-	(210)	(314)	113	(201)
Income from trading activities	1,115	-	1,115	657	(2)	655
Loss on redemption of own debt	(51)	-	(51)	-	-	-
Other operating income	612	-	612	394	(34)	360
Insurance net premium income	-	-	-	929	(929)	-
Non-interest income	2,782	-	2,782	3,116	(852)	2,264
Total income	5,452	-	5,452	6,087	(918)	5,169
Staff costs	(1,887)	-	(1,887)	(2,143)	106	(2,037)
Premises and equipment	(556)	-	(556)	(544)	16	(528)
Other administrative expenses	(763)	-	(763)	(1,156)	145	(1,011)
Depreciation and amortisation	(387)	-	(387)	(434)	8	(426)
Operating expenses	(3,593)	-	(3,593)	(4,277)	275	(4,002)
Profit before insurance net claims and impairment losses	1,859	-	1,859	1,810	(643)	1,167
Insurance net claims	-	-	-	(576)	576	-
Impairment losses	(1,033)	-	(1,033)	(1,335)	-	(1,335)
Operating profit/(loss) before tax	826	-	826	(101)	(67)	(168)
Tax charge	(350)	-	(350)	(290)	29	(261)
Profit/(loss) from continuing operations	476	-	476	(391)	(38)	(429)
Profit/(loss) from discontinued operations, net of tax						
- Direct Line Group	127	-	127	-	17	17
- Other	2	-	2	(4)	-	(4)
Profit/(loss) from discontinued operations, net of tax	129	-	129	(4)	17	13

Profit/(loss) for the period	605	-	605	(395)	(21)	(416)
Non-controlling interests	(131)	-	(131)	5	6	11
Preference share and other dividends	(81)	-	(81)	(76)	(6)	(82)
Profit/(loss) attributable to ordinary and B shareholders	393	-	393	(466)	(21)	(487)

Notes:

(1) As reported in the unaudited financial statements for the quarter ended 31 March 2013 included on page 64 of the Form 6-K filed with the SEC on 10 May 2013.

(2) As reported in the unaudited financial statements for the period ended 30 June 2012 included on page 69 of the Form 6-K filed with the SEC on 8 August 2012.

(3) Adjustments for the quarter ended 30 June 2012 primarily relate to the transfer of DLG to discontinued operations, not previously reflected in published information for this period, together with the increase of £28 million in pension costs resulting from the implementation of IAS 19.

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Analysis of results

The following tables reconcile the managed basis results (a non-GAAP financial measure) to the statutory basis results.

	Year ended 31 December 2012			Year ended 31 December 2011		
	Previously reported (1)	Adjustments	Restated	Previously reported (1)	Adjustments	Restated
Non-interest income	£m	£m	£m	£m	£m	£m
Fees and commissions receivable						
- managed basis	5,715	(6)	5,709	6,384	(5)	6,379
- Direct Line Group discontinued operations	(6)	6	-	(5)	5	-
Statutory basis	5,709	-	5,709	6,379	-	6,379
Fees and commissions payable						
- managed basis	(1,269)	436	(833)	(1,460)	498	(962)
- Direct Line Group discontinued operations	436	(436)	-	498	(498)	-
- RFS Holdings minority interest	(1)	-	(1)	-	-	-
Statutory basis	(834)	-	(834)	(962)	-	(962)
Net fees and commissions						
- managed basis	4,446	430	4,876	4,924	493	5,417
- Direct Line Group discontinued operations	430	(430)	-	493	(493)	-
- RFS Holdings minority interest	(1)	-	(1)	-	-	-
Statutory basis	4,875	-	4,875	5,417	-	5,417
Income from trading activities						
- managed basis	3,531	2	3,533	3,313	-	3,313
- Asset Protection Scheme	(44)	-	(44)	(906)	-	(906)
- own credit adjustments	(1,813)	-	(1,813)	293	-	293
- Direct Line Group discontinued operations	2	(2)	-	-	-	-
- RFS Holdings minority interest	(1)	-	(1)	1	-	1
Statutory basis	1,675	-	1,675	2,701	-	2,701
Gain on redemption of own debt	454	-	454	255	-	255
Other operating income						
- managed basis	2,397	(138)	2,259	2,527	(146)	2,381
- strategic disposals	113	-	113	(104)	-	(104)
- own credit adjustments	(2,836)	-	(2,836)	1,621	-	1,621
- integration and restructuring costs	-	-	-	78	(1)	77
- Direct Line Group discontinued operations	(138)	138	-	(147)	147	-
- RFS Holdings minority interest	(1)	-	(1)	-	-	-
Statutory basis	(465)	-	(465)	3,975	-	3,975

Insurance net premium income

- managed basis	3,718	(3,718)	-	4,256	(4,256)	-
- Direct Line Group discontinued operations	(3,718)	3,718	-	(4,256)	4,256	-
Statutory basis	-	-	-	-	-	-
Total non-interest income - managed basis	14,092	(3,424)	10,668	15,020	(3,909)	11,111
Total non-interest income - statutory basis	6,539	-	6,539	12,348	-	12,348

Note:
(1) As reported on page 19 of the Form 20-F filed with the SEC on 27 March 2013.

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Analysis of results (continued)

The following tables reconcile the managed basis results (a non-GAAP financial measure) to the statutory basis results.

	Year ended 31 December 2012			Year ended 31 December 2011		
	Previously reported (1)	Adjustments	Restated	Previously reported (1)	Adjustments	Restated
Operating expenses and insurance claims	£m	£m	£m	£m	£m	£m
Staff costs						
- managed basis	7,639	(262)	7,377	8,163	(91)	8,072
- Direct Line Group discontinued operations	(447)	447	-	(322)	322	-
- integration and restructuring costs	885	(74)	811	489	(25)	464
- bonus tax	-	-	-	27	-	27
- RFS Holdings minority interest	(1)	1	-	(1)	-	(1)
Statutory basis	8,076	112	8,188	8,356	206	8,562
Premises and equipment						
- managed basis	2,198	(102)	2,096	2,278	(32)	2,246
- Direct Line Group discontinued operations	(118)	118	-	(28)	28	-
- integration and restructuring costs	152	(16)	136	173	4	177
- RFS Holdings minority interest	-	-	-	-	-	-
Statutory basis	2,232	-	2,232	2,423	-	2,423
Other administrative expenses						
- managed basis	3,248	(349)	2,899	3,395	(473)	2,922
- Payment Protection Insurance costs	1,110	-	1,110	850	-	850
- Interest Rate Hedging Products redress and related costs	700	-	700	-	-	-
- regulatory fines	381	-	381	-	-	-
- bank levy	175	-	175	300	-	300
- Direct Line Group discontinued operations	(395)	395	-	(495)	495	-
- integration and restructuring costs	371	(45)	326	386	(22)	364
- RFS Holdings minority interest	3	(1)	2	-	-	-
Statutory basis	5,593	-	5,593	4,436	-	4,436
Depreciation and amortisation						
- managed basis	1,534	(52)	1,482	1,642	(36)	1,606
- Direct Line Group discontinued operations	(52)	52	-	(36)	36	-
- amortisation and goodwill of purchased intangible assets	178	-	178	222	-	222
- integration and restructuring costs	142	-	142	11	-	11
Statutory basis	1,802	-	1,802	1,839	-	1,839

Write-down of goodwill and other intangible assets - statutory	124	-	124	80	-	80
Operating expenses - managed	14,619	(765)	13,854	15,478	(632)	14,846
Operating expenses - statutory	17,827	112	17,939	17,134	206	17,340
Insurance net claims						
- managed basis	2,427	(2,427)	-	2,968	(2,968)	-
- Direct Line Group discontinued operations	(2,427)	2,427	-	(2,968)	2,698	-
Statutory basis	-	-	-	-	-	-

Note:
(1) As reported on page 21 of the Form 20-F filed with the SEC on 27 March 2013.

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Analysis of results (continued)

The following tables reconcile the managed basis results (a non-GAAP financial measure) to the statutory basis results.

	Half year ended 30 June 2012		
	Previously reported (1)	Adjustments	Restated
Non-interest income	£m	£m	£m
Fees and commissions receivable	2,937	(2)	2,935
Fees and commissions payable	(604)	224	(380)
Net fees and commissions - managed and statutory basis	2,333	222	2,555
Income from trading activities			
- managed basis	2,195	(2)	2,193
- Asset Protection Scheme	(45)	-	(45)
- own credit adjustments*	(1,280)	-	(1,280)
- RFS Holdings minority interest	(1)	-	(1)
Statutory basis	869	(2)	867
Gain on redemption of own debt	577	-	577
Other operating loss			
- managed basis	1,194	(87)	1,107
- strategic disposals**	152	-	152
- own credit adjustments*	(1,694)	-	(1,694)
- RFS Holdings minority interest	(5)	-	(5)
Statutory basis	(353)	(87)	(440)
Insurance net premium income - managed and statutory basis	1,867	(1,867)	-
Total non-interest income - managed basis	7,589	(1,734)	5,855
Total non-interest income - statutory basis	5,293	(1,734)	3,559
*Own credit adjustments impact			
Income from trading activities	(1,280)	-	(1,280)
Other operating income	(1,694)	-	(1,694)
Own credit adjustments	(2,974)	-	(2,974)
**Strategic disposals			
Gain/(loss) on sale and provision for loss on disposal of investments in:			
- RBS Aviation	197	-	197
- Other	(45)	-	(45)

152	-	152

Note:

(1) As reported on page 14 of the Form 6-K filed with the SEC on 8 August 2012.

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Analysis of results (continued)

The following tables reconcile the managed basis results (a non-GAAP financial measure) to the statutory basis results.

	Half year ended 30 June 2012		
	Previously reported (1)	Adjustments	Restated
Operating expenses and insurance claims	£m	£m	£m
Staff costs			
- managed basis	4,257	(141)	4,116
- Integration and restructuring costs	456	(27)	429
Statutory basis	4,713	(168)	4,545
Premises and equipment			
- managed basis	1,073	(11)	1,062
- Integration and restructuring costs	34	(6)	28
Statutory basis	1,107	(17)	1,090
Other administrative expenses			
- managed basis	1,755	(257)	1,498
- Payment Protection Insurance costs	260	-	260
- Integration and restructuring costs	156	(21)	135
- RFS Holdings minority interest	1	-	1
Statutory basis	2,172	(278)	1,894
Depreciation and amortisation			
- managed basis	776	(19)	757
- Amortisation of purchased intangible assets	99	-	99
- Integration and restructuring costs	27	-	27
Statutory basis	902	(19)	883
Operating expenses - managed	7,861	(428)	7,433
Operating expenses - statutory	8,894	(482)	8,412
Insurance net claims - managed and statutory basis	1,225	(1,225)	-

Note:

(1) As reported on page 16 of the Form 6-K filed with the SEC on 8 August 2012. Reconciliations from the managed basis results to the statutory basis results have been expanded to reflect the presentation in the Form 6-K filed with the SEC on 10 May 2013.

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Analysis of results (continued)

The following tables reconcile the managed basis results (a non-GAAP financial measure) to the statutory basis results.

	Quarter ended 31 March 2013			Quarter ended 30 June 2012		
	Previously reported (1)	Adjustments	Restated	Previously reported (2)	Adjustments	Restated
Non-interest income	£m	£m	£m	£m	£m	£m
Fees and commissions receivable						
- managed basis	1,317	(1)	1,316	1,450	-	1,450
- Direct Line Group discontinued operations	(1)	1	-	-	-	-
Statutory basis	1,316	-	1,316	1,450	-	1,450
Fees and commissions payable						
- managed basis	(284)	74	(210)	(314)	113	(201)
- Direct Line Group discontinued operations	74	(74)	-	-	-	-
Statutory basis	(210)	-	(210)	(314)	113	(201)
Net fees and commissions						
- managed basis	1,033	73	1,106	1,136	113	1,249
- Direct Line Group discontinued operations	73	(73)	-	-	-	-
Statutory basis	1,106	-	1,106	1,136	113	1,249
Income from trading activities						
- managed basis	1,015	1	1,016	931	(2)	929
- Asset Protection Scheme	-	-	-	(2)	-	(2)
- own credit adjustments*	99	-	99	(271)	-	(271)
- Direct Line Group discontinued operations	1	(1)	-	-	-	-
- RFS Holdings minority interest	-	-	-	(1)	-	(1)
Statutory basis	1,115	-	1,115	657	(2)	655
Loss on redemption of own debt - statutory basis	(51)	-	(51)	-	-	-
Other operating income						
- managed basis	381	(14)	367	469	(34)	435
- strategic disposals**	(6)	-	(6)	160	-	160
- own credit adjustments*	150	-	150	(247)	-	(247)
- Direct Line Group discontinued operations	(14)	14	-	-	-	-
- RFS Holdings minority interest	101	-	101	12	-	12
Statutory basis	612	-	612	394	(34)	360
Insurance net premium income (to 12 March 2013)						

- managed basis	699	(699)	-	929	-	929
- Direct Line Group discontinued operations	(699)	699	-	-	-	-
Statutory basis	-	-	-	929	-	929
Total non-interest income - managed basis	3,128	(639)	2,489	3,465	77	3,542
Total non-interest income - statutory basis	2,782	-	2,782	3,116	77	3,193
* Own credit adjustments impact:						
Income from trading activities	99	-	99	(271)	-	(271)
Other operating income	150	-	150	(247)	-	(247)
Own credit adjustments	249	-	249	(518)	-	(518)
**Strategic disposals						
(Loss)/gain on sale and provision for loss on disposal of investments in:						
- RBS Aviation Capital	-	-	-	197	-	197
- Other	(6)	-	(6)	(37)	-	(37)
	(6)	-	(6)	160	-	160

Notes:
(1) As reported on page 12 of the Form 6-K filed with the SEC on 10 May 2013
(2) As reported on page 14 of the Form 6-K filed with the SEC on 8 August 2012.

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Analysis of results (continued)

The following tables reconcile the managed basis results (a non-GAAP financial measure) to the statutory basis results.

	Quarter ended 31 March 2013			Quarter ended 30 June 2012		
	Previously Reported (1)	Adjustments	Restated	Previously Reported (2)	Adjustments	Restated
Operating expenses	£m	£m	£m	£m	£m	£m
Staff expenses						
- managed basis	1,893	(72)	1,821	2,036	(91)	1,945
- Direct Line Group discontinued operations	(73)	73	-	-	-	-
- Integration and restructuring costs	67	(1)	66	107	(15)	92
Statutory basis	1,887	-	1,887	2,143	(106)	2,037
Premises and equipment						
- managed basis	580	(27)	553	523	(12)	511
- Direct Line Group discontinued operations	(34)	34	-	-	-	-
- Integration and restructuring costs	10	(7)	3	21	(4)	17
Statutory basis	556	-	556	544	(16)	528
Other administrative expenses						
- managed basis	731	(53)	678	936	(132)	804
- Payment Protection Insurance costs	-	-	-	135	-	135
- Interest Rate Hedging Products redress and related costs	50	-	50	-	-	-
- Direct Line Group discontinued operations	(54)	54	-	-	-	-
- Integration and restructuring costs	37	(1)	36	85	(13)	72
- RFS Holdings minority interest	(1)	-	(1)	-	-	-
Statutory basis	763	-	763	1,156	(145)	1,011
Depreciation and amortisation						
- managed basis	339	(10)	329	382	(8)	374
- Direct Line Group discontinued operations	(10)	10	-	-	-	-
- Amortisation of purchased intangible assets	41	-	41	-	-	-
- Integration and restructuring costs	17	-	17	51	-	51
- RFS Holdings minority interest	-	-	-	1	-	1
Statutory basis	387	-	387	434	(8)	426
Operating expenses - managed basis	3,543	(162)	3,381	3,877	(243)	3,634
Operating expenses - statutory basis	3,593	-	3,593	4,277	(275)	4,002

Insurance net claims						
- managed basis	445	(445)	-	576	(576)	-
- Direct Line Group discontinued operations	(445)	445	-	-	-	-
Statutory basis	-	-	-	576	(576)	-

Notes:

(1) As reported on page 14 of the Form 6-K filed with the SEC on 10 May 2013.

(2) As reported on page 16 of the form 6-K filed with the SEC on 8 August 2013. Reconciliations from the managed basis results to the statutory basis results have been expanded to reflect the presentation in the Form 6-K filed with the SEC on 10 May 2013.

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Non-Core summary consolidated income statement

DLG activities in Non-Core were transferred to DLG operating segment with effect from 1 January 2012. Consequently, for Non-Core, the only period impacted by the change in treatment for DLG was the year ended 31 December 2011.

	Year ended 31 December 2011		
	Previously reported (1)	Adjustments	Revised
	£m	£m	£m
Income statement			
Net interest income	648	(35)	613
Non-interest income	540	(179)	361
Total income	1,188	(214)	974
Direct expenses			
- staff	(375)	(1)	(376)
- operating lease depreciation	(347)	-	(347)
- other	(256)	16	(240)
Indirect expenses	(317)	4	(313)
	(1,295)	19	(1,276)
Loss before insurance net claims and impairment losses	(107)	(195)	(302)
Insurance net claims	(195)	195	-
Impairment losses	(3,919)	2	(3,917)
Operating loss	(4,221)	2	(4,219)
Capital and balance sheet	£bn	£bn	£bn
Total third party assets (excluding derivatives)	93.7	(1.2)	92.5
Total third party assets (including derivatives)	104.7	(1.1)	103.6

Note:
(1) As reported on page 54 of the Form 20-F filed with the SEC on 27 March 2013.

Divisional Restatements

Total income

	Year ended 31 December 2012			Year ended 31 December 2011		
	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated
	£m	£m	£m	£m	£m	£m
UK Retail	4,969	-	4,969	5,508	-	5,508
UK Corporate	4,723	-	4,723	4,863	-	4,863
Wealth	1,170	-	1,170	1,104	-	1,104
International Banking	2,122	-	2,122	2,555	-	2,555
Ulster Bank	845	-	845	947	-	947
US Retail & Commercial	3,091	-	3,091	3,037	(6)	3,031
Retail & Commercial	16,920	-	16,920	18,014	(6)	18,008
Markets	4,483	-	4,483	4,415	-	4,415
Direct Line Group	3,717	(3,717)	-	4,072	(4,072)	-
Central Items	379	15	394	20	7	27
Core	25,499	(3,702)	21,797	26,521	(4,071)	22,450
Non-Core	288	-	288	1,188	(214)	974
Managed basis	25,787	(3,702)	22,085	27,709	(4,285)	23,424
Reconciling items						
Own credit adjustments	(4,649)	-	(4,649)	1,914	-	1,914
Asset Protection Scheme	(44)	-	(44)	(906)	-	(906)
Integration and restructuring costs	-	-	-	(5)	-	(5)
Gain on redemption of own debt	454	-	454	255	-	255
Strategic disposals	113	-	113	(24)	(1)	(25)
RFS Holdings minority interest	(18)	-	(18)	(6)	-	(6)
Statutory basis before the reclassification of the Direct Line Group results to discontinued operations	21,643	(3,702)	17,941	28,937	(4,286)	24,651
Direct Line Group reclassified to discontinued operations	(3,702)	3,702	-	(4,286)	4,286	-
Statutory basis	17,941	-	17,941	24,651	-	24,651

Total income (continued)

	Half year ended 30 June 2012		
	Previously Reported	Adjustments	Restated
	£m	£m	£m
UK Retail	2,497	-	2,497

UK Corporate	2,412	-	2,412
Wealth	593	-	593
International Banking	1,103	-	1,103
Ulster Bank	420	-	420
US Retail & Commercial	1,571	-	1,571
Retail & Commercial	8,596	-	8,596
Markets	2,800	-	2,800
Direct Line Group	1,900	(1,900)	-
Central Items	3	16	19
Core	13,299	(1,884)	11,415
Non-Core	270	-	270
Managed basis	13,569	(1,884)	11,685
Reconciling items			
Own credit adjustments	(2,974)	-	(2,974)
Gain on redemption of own debt	577	-	577
Asset Protection Scheme	(45)	-	(45)
Strategic disposals	152	-	152
RFS Holdings minority interest	(16)	-	(16)
Statutory basis	11,263	(1884)	9379

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Divisional Restatements (continued)

Total income (continued)

	Quarter ended 31 March 2013			Quarter ended 30 June 2012		
	Previously reported	Adjustments	Restated	Previously reported	Adjustments	Restated
	£m	£m	£m	£m	£m	£m
UK Retail	1,191	-	1,191	1,230	-	1,230
UK Corporate	1,084	-	1,084	1,211	-	1,211
Wealth	273	-	273	303	-	303
International Banking	482	-	482	561	-	561
Ulster Bank	208	-	208	206	-	206
US Retail & Commercial	763	-	763	815	-	815
Retail & Commercial	4,001	-	4,001	4,326	-	4,326
Markets	1,040	-	1,040	1,066	-	1,066
Direct Line Group	696	(696)	-	934	(934)	-
Central Items	20	7	27	111	16	127
Core	5,757	(689)	5,068	6,437	(918)	5,519
Non-Core	93	-	93	1	-	1
Managed basis	5,850	(689)	5,161	6,438	(918)	5,520
Reconciling items						
Own credit adjustments	249	-	249	(518)		(518)
Asset Protection Scheme	-	-	-	(2)	-	(2)
Loss on redemption of own debt	(51)	-	(51)	-	-	-
Strategic disposals	66	(72)	(6)	160	-	160
RFS Holdings minority interest	99	-	99	9	-	9
Statutory basis before the reclassification of the Direct Line Group results to discontinued operations	6,213	(761)	5,452	6,087	(918)	5,169
Direct Line Group reclassified to discontinued operations	(761)	761	-	-	-	-
Statutory basis	5,452	-	5,452	6,087	(918)	5,169

Divisional Restatements (continued)

Operating profit/(loss)

	Year ended 31 December 2012			Year ended 31 December 2011		
	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated
	£m	£m	£m	£m	£m	£m
UK Retail	1,891	-	1,891	2,021	-	2,021
UK Corporate	1,796	-	1,796	1,924	-	1,924
Wealth	253	(10)	243	248	(6)	242
International Banking	594	-	594	755	-	755
Ulster Bank	(1,040)	-	(1,040)	(984)	-	(984)
US Retail & Commercial	754	-	754	537	-	537
Retail & Commercial	4,248	(10)	4,238	4,501	(6)	4,495
Markets	1,509	-	1,509	899	-	899
Direct Line Group	441	(441)	-	454	(454)	-
Central Items	143	(59)	84	191	(225)	(34)
Core	6,341	(510)	5,831	6,045	(685)	5,360
Non-Core	(2,879)	-	(2,879)	(4,221)	2	(4,219)
Managed basis	3,462	(510)	2,952	1,824	(683)	1,141
Reconciling items						
Own credit adjustments	(4,649)	-	(4,649)	1,914	-	1,914
Asset Protection Scheme	(44)	-	(44)	(906)	-	(906)
Payment Protection Insurance costs	(1110)	-	(1110)	(850)	-	(850)
Sovereign debt impairment	-	-	-	(1,099)	-	(1,099)
Interest rate hedge adjustments on impaired available-for-sale sovereign debt	-	-	-	(169)	-	(169)
Bonus tax	-	-	-	(27)	-	(27)
Interest Rate Hedging Products redress and related costs	(700)	-	(700)	-	-	-
Regulatory fines	(381)	-	(381)	-	-	-
Amortisation of purchased intangible assets	(178)	-	(178)	(222)	-	(222)
Integration and restructuring costs	(1,550)	135	(1,415)	(1,064)	43	(1,021)
Gain on redemption of own debt	454	-	454	255	-	255
Strategic disposals	113	-	113	(104)	(1)	(105)
Bank levy	(175)	-	(175)	(300)	-	(300)
Write-down of goodwill and other intangible assets	(518)	394	(124)	(11)	11	-
RFS Holdings minority interest	(20)	-	(20)	(7)	-	(7)
Statutory basis before the reclassification of the Direct Line Group results to discontinued operations	(5,296)	19	(5,277)	(766)	(630)	(1,396)

Direct Line Group reclassified to discontinued operations	131	(131)	-	(424)	424	-
Statutory basis	(5,165)	(112)	(5,277)	(1,190)	(206)	(1,396)

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Divisional Restatements (continued)

Operating profit/(loss) (continued)

	Half year ended 30 June 2012		
	Previously Reported £m	Adjustments £m	Restated £m
UK Retail	914	-	914
UK Corporate	1,004	-	1,004
Wealth	109	(5)	104
International Banking	264	-	264
Ulster Bank	(555)	-	(555)
US Retail & Commercial	331	-	331
Retail & Commercial	2,067	(5)	2,062
Markets	1,075	-	1,075
Direct Line Group	219	(219)	-
Central Items	(176)	(7)	(183)
Core	3,185	(231)	2,954
Non-Core	(1,351)	-	(1,351)
Managed basis	1,834	(231)	1,603
Reconciling items			
Own credit adjustments	(2,974)	-	(2,974)
Asset Protection Scheme	(45)	-	(45)
Payment Protection Insurance costs	(260)	-	(260)
Amortisation of purchased intangible assets	(99)	-	(99)
Integration and restructuring costs	(673)	54	(619)
Gain on redemption of own debt	577	-	577
Strategic disposals	152	-	152
RFS Holdings minority interest	(17)	-	(17)
Statutory basis	(1,505)	(177)	(1,682)

Divisional Restatements (continued)

Operating profit/(loss) (continued)

	Quarter ended 31 March 2013			Quarter ended 30 June 2012		
	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated
	£m	£m	£m	£m	£m	£m
UK Retail	477	-	477	437	-	437
UK Corporate	358	-	358	512	-	512
Wealth	56	-	56	64	(3)	61
International Banking	94	-	94	167	-	167
Ulster Bank	(164)	-	(164)	(245)	-	(245)
US Retail & Commercial	189	-	189	229	-	229
Retail & Commercial	1,010	-	1,010	1,164	(3)	1,161
Markets	278	-	278	251	-	251
Direct Line Group	89	(89)	-	135	(135)	-
Central Items	(43)	7	(36)	(32)	39	7
Core	1,334	(82)	1,252	1,518	(99)	1,419
Non-Core	(505)	-	(505)	(868)	-	(868)
Managed basis	829	(82)	747	650	(99)	551
Reconciling items						
Own credit adjustments	249	-	249	(518)	-	(518)
Asset Protection Scheme	-	-	-	(2)	-	(2)
Payment Protection Insurance costs	-	-	-	(135)	-	(135)
Interest Rate Hedging Products redress and related costs	(50)	-	(50)	-	-	-
Integration and restructuring costs	(131)	9	(122)	-	-	-
Loss on redemption of own debt	(51)	-	(51)	-	-	-
Amortisation of purchased intangible assets	(41)	-	(41)	(51)	-	(51)
Integration and restructuring costs	-	-	-	(213)	32	(181)
Strategic disposals	66	(72)	(6)	160	-	160
RFS Holdings minority interest	100	-	100	8	-	8
Statutory basis before the reclassification of the Direct Line Group results to discontinued operations	971	(145)	826	(101)	(67)	(168)
Direct Line Group reclassified to discontinued operations	(145)	145	-	-	-	-
Statutory basis	826	-	826	(101)	(67)	(168)

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Capital resources

Implementation of IFRS 10 resulted in certain entities that have trust preferred securities in issue no longer being consolidated in the Group. As a result there was a reduction in non-controlling interests with a corresponding increase in shareholders' equity.

Components of capital (Basel 2.5)

	31 December 2012		
	Previously reported £m	Adjustments £m	Revised £m
Shareholders' equity (excluding non-controlling interests)			
Shareholders' equity per balance sheet	68,130	548	68,678
Preference shares - equity	(4,313)	-	(4,313)
Other equity instruments	(431)	(548)	(979)
	63,386	-	63,386
Non-controlling interests			
Non-controlling interests per balance sheet	2,318	(548)	1,770
Non-controlling preference shares	(548)	548	-
Other adjustments to non-controlling interests for regulatory purposes	(1,367)	-	(1,367)
	403	-	403
Regulatory adjustments and deductions			
Own credit	691	-	691
Defined pension benefit adjustment	913	-	913
Unrealised losses on available-for-sale (AFS) debt securities	410	-	410
Unrealised gains on AFS equity shares	(63)	-	(63)
Cash flow hedging reserve	(1,666)	-	(1,666)
Other adjustments for regulatory purposes	(198)	-	(198)
Goodwill and other intangible assets	(13,545)	-	(13,545)
50% excess of expected losses over impairment provisions (net of tax)	(1,904)	-	(1,904)
50% of securitisation positions	(1,107)	-	(1,107)
	(16,469)	-	(16,469)
Core Tier 1 capital	47,320	-	47,320
Other Tier 1 capital			
Preference shares - equity	4,313	-	4,313
Preference shares - debt	1,054	-	1,054
Innovative/hybrid Tier 1 securities	4,125	-	4,125
	9,492	-	9,492
Tier 1 deductions			
50% of material holdings	(295)	-	(295)
Tax on excess of expected losses over impairment provisions	618	-	618
	323	-	323

Total Tier 1 capital	57,135	-	57,135

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SIGNATURE

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 authorised.

The Royal Bank of Scotland Group plc
Registrant

/s/ Rajan Kapoor
Rajan Kapoor
Group Chief Accountant
30 August 2013