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

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For 28 February, 2013

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

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(Address of principal executive offices)

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

Form 20-F X Form 40-F ___

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

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

Yes ___ No X

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

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

Risk and balance sheet management (continued)

Risk and balance sheet management (continued)

Credit risk

Introduction

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

· Concentration risk - the risk of an outsized loss due to the concentration of credit risk to a specific asset class or product, industry sector, customer or counterparty, or country.

· Settlement risk - the intra-day risk that arises when the Group releases funds prior to confirmed receipt of value from a third party.

· Issuer risk - the risk of loss on a tradable instrument (e.g. bond) due to default by the issuer.

· Wrong way risk - the risk of loss that arises when the risk factors driving the exposure to a counterparty are positively correlated with the probability of default for that counterparty.

· Credit mitigation risk - the risk that credit risk mitigation (for example, taking a legal charge over property to secure a customer loan) is not enforceable or that the value of such mitigation decreases, thus leading to unanticipated losses.

Top and emerging credit risks

The quantum and nature of credit risk assumed across the Group's different businesses vary considerably, while the overall credit risk outcome usually exhibits a high degree of correlation with the macroeconomic environment. The Group therefore remains sensitive to the economic conditions within the geographies in which it operates, in particular the UK, Ireland, the US and the eurozone.

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

Irish property market

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

Commercial real estate

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

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

Risk and balance sheet management (continued)

Credit risk: Top and emerging credit risks (continued)
Refinancing risk remains a focus of management attention and is assessed throughout the credit risk management life cycle. In particular, it is considered as part of the early problem recognition and impairment assessment processes.

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

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

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

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

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

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

Credit risk: Top and emerging credit risks (continued)

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

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

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

portfolio is generally well diversified by geography and by counterparty.

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

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

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

Further details on forbearance can be found on page 202.

Risk and balance sheet management (continued)

Credit risk (continued)

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

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

31 December 2011

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

Notes:

(1) Relates to offset arrangements that comply with IFRS criteria and to transactions cleared through and novated to central clearing houses, primarily London Clearing House and US Government Securities Clearing Corporation.

(2) This reflects the amounts by which the Group's credit risk is reduced through arrangements such as master netting agreements and cash management pooling. In addition, the Group holds collateral in respect of individual loans and advances. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant, inventories and trade debtors; and guarantees of lending from parties other than the borrower. The Group also obtains collateral in the form of securities relating to reverse repo and derivative transactions.

(3) Lending non-IFRS offset includes cash collateral posted against derivative liabilities of £24.6 billion, (31 December 2011 - £31.4 billion) and cash management pooling of £10.3 billion, (31 December 2011 - £9.8 billion).

(4) Derivative non-IFRS offset includes cash collateral received against derivative assets of £34 billion (31 December 2011 - £37.2 billion). Refer to page 200.

Risk and balance sheet management (continued)

Credit risk: Financial assets (continued)

Sector concentration

The table below analyses financial assets by sector.

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

	- unsecured											
Property		-	43,602	28,617	72,219	774	318	4,118	-	77,429	(1,333)	76,0
Construction		-	6,020	2,029	8,049	17	264	820	-	9,150	(1,687)	7,4
Manufacturing		326	22,234	1,553	23,787	836	1,639	1,759	144	28,491	(3,775)	24,7
Finance leases (5)		-	9,201	4,408	13,609	82	1	13	-	13,705	-	13,7
Retail, wholesale and repairs		-	20,842	1,094	21,936	461	1,807	914	41	25,159	(1,785)	23,3
Transport and storage		-	14,590	3,751	18,341	659	382	3,397	2	22,781	(3,240)	19,5
Health, education and leisure		-	15,770	935	16,705	314	554	904	59	18,536	(964)	17,5
Hotels and restaurants		-	6,891	986	7,877	144	51	493	11	8,576	(348)	8,2
Utilities		-	5,131	1,500	6,631	1,311	638	3,170	50	11,800	(2,766)	9,0
Other		24	26,315	3,742	30,057	1,886	5,380	4,201	172	41,720	(2,403)	39,3
Total gross of provisions		104,830	427,673	56,820	484,493	165,482	15,349	441,918	85,973	1,298,045	(462,144)	835,9
Provisions		-	(10,062)	(11,200)	(21,262)	(858)	(112)	-	-	(22,232)	n/a	(22,2
Total		104,830	417,611	45,620	463,231	164,624	15,237	441,918	85,973	1,275,813	(462,144)	813,6

For the notes to this table refer to page 186.

Risk and balance sheet management (continued)

Credit risk: Financial assets: Sector concentration (continued)

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

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