[redacted]

Non-Core and GRG Divisional Risk and Audit Committee - 24 October 2012

Deloitte 2012 management letter

Author:

Deloitte LLP

Purpose of paper:

To present Deloitte's 2012 management letter for the Non-Core division and GRG of The Royal Bank of Scotland Group plc ("RBSG" or "the Group").

Points for noting:

1. We continue to report detailed control observations that we identify from our audit work through the Group's SOX reporting process. This management letter provides our high level views and perspectives, together with certain recommendations, on areas of the Non-Core Division and GRG's operations where we are able to offer insight from our audit work.
2. We confirm that none of the matters revised in this management letter represent material weaknesses or significant deficiencies in internal control over financial reporting which would be reportable under [redacted]
3. Management's responses to our recommendations are provided under each point raised (page 2 to 5) and in Appendix 1 (page 7 to 13) we provide an update on the recommendations that we made last year.

Action requested:

The contents of this paper are for noting.

Governance roadmap:

- Non-Core Division and GRG Risk and Audit Committee members and attendees.

Information Classification:	Secret

Deloitte.

The Royal Bank of Scotland Group plc – Non-Core Division and GRG

2012 management letter

24 October 2012

Contents

1.	Introduction and business context	1
2.	Non-Core Division	2
3.	Global Restructuring Group	3
4.	Responsibility statement	6
Appendix 1 – Update on prior year recommendations		7

1. Introduction and business context

1.1 Introduction

As part of our audit we test certain internal controls over financial reporting, both for the purpose of our audit of the financial statements and to provide an opinion on the Group's internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act ("SOX").

As we have done in prior years, we will continue to report any detailed internal control weaknesses that we identify from our audit work through the Group's SOX reporting processes, with significant matters reported to and evaluated by the SOX Executive Steering Committee and escalated to the Group Audit Committee when required. This report sets out our high level observations on the Non-Core Division and GRG's operations, both in the areas of controls over financial reporting and other areas where we are able to offer insight. We focus on high level observations and key themes arising.

1.2 Business context

Non-Core Division

While the Non-Core Division has continued to make progress in reducing its balance sheet exposures, inevitably the pace of reduction will slow given market conditions, the external appetite for "riskier" assets and the fact that remaining assets include those which are more difficult to dispose of. Management will therefore have to continue to carefully balance requirements to meet disposal targets with the optimal method to realise value, which may be to hold them for a longer period.

It is imperative that in this business context that there continues to be appropriate focus on the risk management and control on remaining assets, in particular portfolios which may not be actively managed on a day to day basis. In respect of the financial books and records, the Non-Core division remains largely reliant on systems and processes in underlying donor divisions. These underlying processes have been commented on in the relevant separate management letters. We have commented in this document on the processes that occur under the direct control of Non-Core management and the overall control environment to collate information from donor divisions.

Global Restructuring Group

Loans managed by GRG are c.£37.5bn at the 31 September 2012 compared to c. £42.4bn as at the 2011 year end with the decrease of GRG exposures primarily due to run off of the Non-Core portfolio in line with the Group's objectives. Due to the uncertain economic conditions the decreasing trend in loans managed by GRG relating to a particular business sector is partially offset by adverse business conditions in other sectors such as secondary and tertiary property, shipping and care homes.

2. Non-Core Division

Non-Core Markets

The Non-Core Markets business of the Division has historically provided many significant judgements and challenges due to the illiquid and complex nature of the assets held. Over the past 18 months, management have completed a number of disposals and transactions which have significantly derisked the business including Project Woodford (the disposal of substantially all of the exotic credit business), commutations with monolines and Credit Derivative Product Companies, Project Purple (the restructuring of the White Knight transactions) and the disposal of a substantial proportion of the asset backed securities portfolio. While complexities remain, these transactions have helped to reduce the level of subjectivity within the Division.

In our prior year management letter we made two observations on the IPV sources of prices and the credit valuation adjustment approach to both monolines and CDPCs in the Non-Core Markets business. We are satisfied that both, the enhancements management has made to their processes and the reduction of risk in respect of these areas has addressed these observations and further details are provided in Appendix 1.

Divisional wind down

The non-core division is scheduled to finish at 31 December 2013 with the remaining assets transferred to other core divisions and the Group. Management is on schedule to meet the target of £40 billion of assets remaining at that point. The closure of the Division poses management with a challenge to ensure that an appropriate level of resource is retained to throughout the remaining life of the Division. There is a risk that key personnel will leave prior to completion, which may leave the Division without the necessary level of key staff to maintain a satisfactory control environment. This risk is further compounded by the restructuring and contraction of other core divisions, reducing the employment prospects remaining within the Group.

Deloitte observation 1

We **recommend** that management ensure that all ‘key’ staff are appropriately identified and action taken to retain these individuals. This action may include identifying future opportunities in core divisions to continue managing these assets from 1 January 2014 and using secondment arrangements in non-core and structuring compensation packages to incentivise remaining at the Division until completion.

Management Response:

We recognise the increased risk relating to the retention of key staff during the remaining life of Non-Core Division and a significant issue has been formally raised to manage and monitor mitigating actions.

Clear “rampdown” plans have been developed for the department and succession plans defined for all critical staff. A review of all contract staff has been undertaken and where appropriate, contractual end dates will be aligned with expected sign-posted exit dates.

Talent profiling is being actively managed and all staff assessed within the “Talent” and “Valued Contributor” populations have personal action plans and updated personal career profiles. The management team will continue the regular review of this information to identify stretch opportunities and enable transition planning back to Core roles.

3. Global Restructuring Group

Timing of recognition of specific provisions and IFRS 9 adoption

In our 2010 Management letter to this Committee, we recommended that management considers aligning the approach RBS takes to recognising specific impairments more closely to peer group practice, such that for those credits where an impairment event is seen, but where sufficient information to determine with confidence a highly accurate estimate of the incurred loss that has been suffered is not yet available, a "best estimate" of impairment is recorded earlier in the assessment process and subsequently adjusted where appropriate as more and better information is obtained.

We also acknowledged that the risk of financial statement misstatement has been mitigated by the appropriateness of the level of the specific provisions taken once established, combined with the level of provision made for latent and collective losses and a symmetrical approach to any release of provisions.

Throughout 2011 and 2012 we have reported to this Committee that the processes for GRG specific provisioning have been consistent. We have continued to note a small number of cases where RBS has not recorded a specific provision where an impairment event is seen but there is insufficient information to be able to establish a highly accurate estimate of the incurred loss. The quantum of the latent overlay has, in the round, enabled us to conclude that the total provisioning is sufficient.

Deloitte observation 2

The currently scheduled mandatory date of adoption of IFRS 9 is 1 January 2015. This will introduce an expected loan loss model in place of the current incurred loss model. The introduction of IFRS 9 will lead to an increase in provisioning levels for RBS and its peer group. We anticipate that IFRS 9 may have a larger impact on RBS in relation to specific provisions than its peer group who have recognised estimates of provisions earlier. The impact of IFRS 9 on the non-specific provisioning levels, and hence overall provisioning levels of RBS vis-a-vis its peers remains uncertain given the differing peer group methodologies in place for calculation of non-specific provisions.

Whilst the final version of IFRS 9 is yet to be published (now expected in early 2013), we **recommend** that Management consider the potential effect of IFRS 9 on overall provisioning in level in both the "good book" and GRG before its mandatory introduction.

In addition Management will need to ensure that there is an appropriate implementation plan which includes consideration as to how to source the data that will be required in order to adopt IFRS 9 such as the weighted average life of a portfolio, weighted average age of assets in a portfolio and expected loss data. The data quality of existing credit risk processes to meet the requirements of Sarbanes Oxley should also be considered. Other items to consider with regard to IFRS 9 implementation include parallel runs alongside the current provisioning methodology prior to the date of adoption and the division of responsibilities between group, divisional and GRG finance and credit teams.

We anticipate that the adoption of IFRS 9 may have a larger impact on RBS in relation to specific provisioning than its peer group who generally recognise specific provisions earlier. Whilst the final version of IFRS 9 is yet to be published (expected in early 2013), we **recommend** that Management consider the potential effect of IFRS 9 on overall provisioning in both the "good book" and GRG before its mandatory introduction. Management should also develop a detailed implementation plan.

Management response:

We are aware that the implementation of IFRS9 will have an impact on provisioning levels. However, the Group are not proposing to do any detailed work on this until it becomes clear what the final standard will be proposing. There is currently uncertainty as to exactly what the IASB will propose, especially in the light of the FASB going in a different direction, and it is therefore unclear whether there will be a converged standard and when this will be. As soon as the standard has been finalised, we will work with GCA to ensure there is an appropriate implementation plan as well as ascertain the impact of the adoption of this standard.

3. Global Restructuring Group (continued)

Governance and valuation of the property portfolio

RBS holds a significant property portfolio through its West Register property vehicles (fair value of £3.2 bn as at 30 June 2012). Property is purchased by West Register where taking ownership of the asset is expected to maximise recoveries (which occurs where the West Register bid exceeds those from third parties). The paper presented to the DRAC in July 2012 sets out the Governance process for GRG provisions and West Register Property Acquisition including the separation of governance between provisioning in GRG and property purchase by West Register.

We note that the fair values of the property portfolio are updated twice a year (at the half year and at each year end).

Deloitte Observation 3

We note that the current business model whereby RBS originates property loans and in certain instances purchases the underlying properties, gives rise to the potential reputational risk of a perceived conflict of interest.

In addition, during Q1 2012, we noted one instance where the level of provisioning for a particular loan was determined by the level of the internal bid from West Register rather than the highest external bid. If the external bid had been used to determine the provision this would have given rise to a larger provision being recognised. However subsequently in Q2, the bid from West Register was withdrawn with a consequent increase in provision being recognised.

Whilst we acknowledge that there are Chinese walls in place between West Register and the GRG relationship managers, the examples above highlight the importance of the Chinese walls being strictly enforced in order to manage reputational risk and avoid any suspicions that the level of West Register bid was being used to influence provisioning levels. Whilst in practice we do not believe that West Register bids are being used to influence provisioning levels based on our testing of the fair values of the properties that were acquired by West Register, we would **recommend** that Management are able clearly to outline the controls and oversight within West Register and GRG and, in particular, the barrier to prevent inappropriate transfer within GRG. In addition the position of the Global Head of GRG acting as both Chairman of the West Register Asset Purchase Committee and Chairman of the divisional provisioning committees could create the perception that the Chinese Walls are not fully robust and we **recommend** that this committee considers whether this arrangement continues to be appropriate or how the differing objectives of each committee could be segregated.

We believe that the updating of valuations each six months should be appropriate for the majority of property assets. However for sizeable property portfolios, and particularly those where circumstances change during the year, we would **recommend** that more frequent valuations or indexed revaluations are carried out which would ensure more accurate reporting at Q1 and Q3.

We note that the current business model whereby RBS originates property loans and in certain instances purchases the underlying properties, gives rise to the potential reputational risk of a perceived conflict of interest. We would recommend that Management are able clearly to outline the controls and oversight within West Register and GRG and, in particular, the barrier to prevent inappropriate transfer within GRG. We also would **recommend** that more frequent valuations or indexed revaluations are carried out which would ensure more accurate reporting at Q1 and Q3 rather than the current exercise of valuation being updated twice a year particularly where the asset is sizeable or where circumstances have changed during the reporting period.

3. Global Restructuring Group (continued)

Management response:

We covered the details of the controls in place between GRG relationship managers and West Register at the Q2 DRAC. The conclusion per the discussion at that time concluded that the controls and safeguards were operating effectively. There is however a continued reputational risk around perception of the process of provisioning and property acquisition both being overseen by the Head of GRG, who chairs both the Divisional Provision Committees and the APP (Asset Purchase Proposition) 'A' committee *.

We would welcome discussion at DRAC to ascertain if this is a risk they are willing to accept.

* The 'A' committee is for property acquisitions over £5m

4. Responsibility statement

The observations that we set out in this report are those that have arisen during the course of our audit work to date that we considered appropriate to bring to your attention. Our 2012 audit is ongoing. If further matters arise that we consider need to be brought to your attention we will do so. Our audit was not designed to identify all matters that may be relevant to the members of the Non-Core Division and GRG Risk and Audit Committee and this letter is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Non-Core Division and GRG Risk and Audit Committee, together with the directors and management of The Royal Bank of Scotland Group plc and its subsidiaries, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

Deloitte LLP
Chartered Accountants
London
24 October 2012

Appendix 1 – Update on prior year recommendations

We set out below an update on recommendations that we provided last year. Where still relevant or pertinent in the current year we have included in this year's management letter.

1. IPV Sources of Pricing

In our prior year management letter, we recommended that the Division looked to reduce its reliance on consensus pricing services and lead manager quotes by obtaining alternative pricing information such as recent traded prices.

The Division has engaged Blackrock to provide asset analysis on a quarterly basis. The Blackrock information provides an intrinsic analysis of the expected cash flows under optimistic, base and stress cases. This information is primarily used to inform asset disposal decisions, but also provides useful benchmarks to ensure that lead manager quotes are within a reasonable range.

Whilst we recognise that the Blackrock information is not necessarily indicative of the fair value of assets, we believe that it could be better integrated into the independent price verification process on a quarterly basis. We also continue to believe that there are further steps the Division could take to obtain alternative pricing sources, such as INTEX modelling as used widely by the mortgage business in the US or more systematically monitoring trading activity in the market, including indicative quotes received. Where this is not possible, comparisons between prices received from lead managers for similar types of assets would be beneficial.

Deloitte Observation

We recommend that for each specific asset management consider pricing evidence from more than one source to validate the primary pricing source being used.

2012 update: In advance of the 2011 year-end, Management sought to expand the range of pricing sources used for the pricing of asset backed securities, to include new pricing vendors and INTEX modelling. The use of these pricing sources has continued throughout 2012 and the increased disposal activity in the period has also provided increased pricing transparency and comfort on the level of marking of the portfolio.

Appendix 1 – Update on prior year recommendations (continued)

2. Monoline and CDPC CVAs

Whilst commutations have reduced exposures, the calculation of the CVA against monoline and CDPC counterparties still remain significant judgments which impact the Divisions results on a quarterly basis.

During the year, management have increased the use of internally generated information in the calculation of MBIA and no longer uses market implied probabilities of default. Whilst we understand management's rationale in this respect, there remains a need to document their continuing appropriateness in light of movements in market implied inputs which can be significant from period to period.

The CVA on WhiteKnight is calculated based off an economic hedge that was put in place a number of years ago and the CVA on other CDPCs continues to be calculated using a cap and ratchet mechanism. Whilst management continue to believe these methodologies are appropriate, there is no formal documentation of the continuing appropriateness of their rationale on a quarterly basis.

Deloitte Observation

We recommend that the rationale of the adjustments noted above are formally documented and updated at least on a quarterly basis:

- In respect of monoline exposures where internally generated information is used, we recommend that management embed the updating of the internal credit analysis into the quarterly reporting process, including considering movements in CDS implied probabilities of default.
- In respect of WhiteKnight, we recommend that management formally document why the level of the economic hedge remains appropriate given market movements.
- In respect of other CDPC, whilst external information is limited, we recommend that the cap and ratchet mechanism is re-justified as this has led to the outcome being increasingly prudent.

2012 update: Since the date of our last Management Letter there have been a number of significant commutations and restructures of both the exposures to Monolines and CDPCs which have both reduced the Group's exposures to these entities and provided additional information as to suitable reserve levels.

Following significant commutations, primarily with MBIA, monolines exposures that are reserved using internally generated information have significantly reduced.

In advance of the 2011 year-end, management performed necessary analysis to justify why the level of the economic hedge was appropriate at that point. During the year the exposure to WhiteKnight has been restructured and a new CVA methodology implemented which reflects the Division's new hedging strategy. In respect of CDPCs, management have recently performed additional fundamental 'break-up' analysis of the CDPC structures and recent commutations have also occurred which have provided additional pricing transparency.

Appendix 1 – Update on prior year recommendations (continued)

3. Financial Reporting Process

The Non-Core division is largely reliant on systems and processes within donor divisions. Non-Core management perform a centralised review of the output and we note that this oversight process has been enhanced during the current year with the implementation of additional more granular reviews on a monthly and quarterly basis. This includes review of flash data, journals, reconciliations and substantiation for the Non-Core group centre, review and challenge of financial data for each donating division and the review and challenge of the Group reporting IMS pack and certain relevant manual returns. This is in addition to the controls that existed at the 2010 year end which included the review and challenge the monthly results with the donor divisions and monitoring of REIL and NPL levels.

Aside from month end financial reporting, we also believe that management have the appropriate level of focus on specific transactions and disposals as the recent Project Woodford transaction illustrates.

Deloitte Observation

We support management's continued focus in this area to exert sufficient review and challenge over the donor divisions and help mitigate risks of inaccurate or incomplete financial reporting.

As the run-off of the Division's assets and businesses continues and final exit dates approach, the risk of key staff exiting the Group increases. We believe that management continue to be focused on this risk and associated retention requirements. If the pace of disposal does reduce, this may elongate the duration of the division and should this extend significantly, management may wish to consider the replacement of tactical solutions with longer term strategic systems.

2012 update: We continue to support management's focus in this area to exert sufficient review and challenge over the donor divisions and help mitigate risks of inaccurate or incomplete financial reporting.

Further, as the exit date for Non-Core is nearing, management should assess the risks associated to the exit and may wish to consider the impact on the business.

Appendix 1 – Update on prior year recommendations (continued)

4. Management overlay within the M&IB latent loss provision

A latent loss provision is recognised in order to capture incurred losses that have yet to be identified and reported at the balance sheet date. The GBM latent loss provision at the end of Q3 was £408m (of which £211m related to Non-core) and consisted of £243m which was calculated by a model and £165m representing a management overlay. We note that with the exception of Q2 2010 and Q3 2010, the management overlay has remained approximately constant over the last eighteen months.

Deloitte Observation

The component of the latent loss provision calculated by the model explicitly reflects the characteristics of the underlying portfolios in GBM such as the probabilities of default, losses given default and emergence periods. However the quantum of the management overlay cannot be explicitly related back to the portfolio characteristics noted above and therefore it is difficult to assess, in isolation, whether the amount of the overlay is appropriate.

Whilst we support the recognition of inherent uncertainty captured by the management overlay, we recommend that the uncertainty should be captured in the Group's models in order that it better reflects the characteristics of the underlying portfolio at each balance sheet date. Without adopting such an approach there is a risk that the level of the management overlay at any given balance sheet date is unsupportable either in isolation or in the context of the Group's total level of provisions.

The Financial Services Authority ("FSA") has published finalised guidance in October 2011 (concluding on their consultation guidance of May 2011) which considers management overlays and is in line with our recommendation in this area. Specifically the FSA note: "Therefore, while we recognise and support the recognition of uncertainty by firms in applying overlays on a temporary basis, we believe that an approach which segments aspects of portfolios ... is more transparent in assessing a firm's risk assessment."

2012 update: Whilst this point continues to be relevant for 2012, we note the inherent difficulties of capturing single name concentration risk in a model and therefore use of an overlay continues to be appropriate. Further improvement could be made to the articulation of the risks that the M&IB overlay is capturing.

Appendix 1 – Update on prior year recommendations (continued)

5. Internal controls over financial reporting identified within GRG under the Sarbanes-Oxley ("SOX") Act

The U.S. Sarbanes-Oxley Act of 2002 ("Section 404" or the "Act") requires certain U.S. Securities and Exchange Commission ("SEC") registrants to make an annual assessment of internal controls over financial reporting ("ICFR") and provide an annual assertion on the effectiveness of their ICFR. Section 404(b) of the Act requires that auditors of the financial statements of those companies also attest to and report on management's assessment of the effectiveness of internal control over financial reporting ("integrated audit"). As the Group auditors, we are required to perform an integrated audit for the year ending 31 December 2011 in accordance with PCAOB Auditing Standard No. 5 "An Audit of Internal Control over Financial Reporting (ICFR) that is integrated with an Audit of Financial Statements" ("PCAOB AS5"). As a result of the integrated audit, we will express two opinions: one on the effectiveness of ICFR, and a second on the financial statements. To support our opinions, we perform tests of the design and operating effectiveness of relevant controls which include controls within GRG (including the West Register Property Vehicles and the Structured Investment Group).

Deloitte Observation

We do not expect to highlight a material weakness or significant deficiency in relation to the controls over the West Register Property Vehicles (West Register) or the Strategic Investment Group (SIG) as based on our testing conducted to date during the 2011 audit, appropriate controls are in place in these areas.

We noted during the planning phase of our audit, however, that Management had not identified any relevant controls for SOX purposes over the West Register or SIG despite the magnitude of the property balances within West Register and the equity investments held within (c. £2.2bn and £616m respectively as at 31 December 2010). Following communication of the point to GRG Management and the Group SOX team, the GRG Business Risk and Controls Group have identified and documented controls over the West Register and SIG for SOX purposes which are under review by GRG Management before they are tested by the Assurance team. We support Management's response in the area and will test the documentation of the controls once finalised by GRG Management.

In addition we note that for the thirteen existing controls that Management had identified as being relevant for SOX purposes within GRG (which include controls over provisioning, credit stewardship and physical and logical security) the controls are documented as the relevant SOX controls in the form of test questions. We recommend that Management enhance the SOX framework by relating the control activity to a control objective which mitigates against a stated risk as has been put into place for the new controls identified above. The owner of each control should also be designated within the SOX template.

2012 update: Following communication of the point to GRG Management last year and the Group SOX team, the GRG Business Risk and Controls Group have identified and documented controls over the West Register and SIG for SOX purposes which were reviewed by GRG Management and were tested by the Assurance team. We support Management's response in this area and consider the point closed.

Appendix 1 – Update on prior year recommendations (continued)

6. Valuation of investments held by the Strategic Investment Group

The Strategic Investments Group ("SIG") is the unit of GRG with responsibility for managing the upside instruments that are negotiated by GRG as part of problem debt restructurings. SIG manages both listed and unlisted investments including warrants and options. Management have classified equity investments as either at fair value through profit and loss or available for sale, in accordance with IAS 39 and therefore are required to measure these instruments at fair value.

Deloitte Observation

We noted during our review for the period ending 30 June 2011 that in determining the fair value of a listed equity investment [redacted] management recorded a discount from the price quoted on the Hong Kong stock exchange to take into account both the substantial shareholding held by the Group and the restrictions that existed over the sale of the equity under the terms of the IPO in which the equities became listed. We reported to the Group Audit Committee that although not material at a Group level, the discount was not in compliance with the application of IAS 39.

Whilst we have not noted any other evidence of investments not being valued in accordance with IAS 39 we recommend that GRG Finance review the valuation of the investments held by SIG in order to ensure compliance.

2012 update: We note that [redacted] is now being valued at its quoted price and have not noted any evidence of other investments not being valued in accordance with IAS 39, we therefore consider the point resolved.

Appendix 1 – Update on prior year recommendations (continued)

7. **The impact of forbearance strategies on loan impairment provisions relating to corporate debt**

There continues to be significant regulatory focus on forbearance and loan impairment as exemplified by the finalised guidance on forbearance and impairment provisions published by the FSA in October 2011 and the Group's recently submitted information to the FSA regarding forbearance on UK commercial real estate loans. While this guidance specifically related to mortgages, in June 2011 the interim Financial Policy Committee advised the FSA to extend its review of forbearance and associated provisioning practices across corporate sector exposures. We therefore anticipate that the expectation of regulators will be that the sentiments expressed in the guidance relating to mortgages should also be applied to corporate debt.

Deloitte Observation

We acknowledge that there are a number of challenges facing the Group and its peers in relation to forbearance strategies on corporate debt. The definition of which loans are subject to forbearance strategies is less clear than on retail portfolios due to the more bespoke nature of the product. The identification of those loans subject to forbearance is non-trivial as these are currently not recorded on the loan systems and therefore identification would require significant manual intervention.

Currently the Group do not explicitly take into account the impact of loan forbearance in their individual loan assessments or calculation of latent provisions. We note that individual assessments implicitly take into account forbearance strategies through the impact on future cash flows. We believe that the Group is likely to face increasing regulatory challenge as to whether and how those loans subject to forbearance strategies affect impairment calculations.

Consideration should also be given to disclosures in the Group annual report relating to corporate debt concerning the description and types of forbearance, accounting policies relating to how loss events under IAS 39 are interpreted in the context of forbearance, how loans are disaggregated into pools reflecting the similar characteristics in the latent provisioning calculation, and how impairment models are calibrated to take forbearance activities into account.

2012 update: RBS management has taken steps to collate information as to the exposures where forbearance strategies were applied. Based on our substantive work at the 2011 year end, we do not believe that any revision to the latent models would materially impact the Group's results.

8. **Adoption of IFRS 9**

Point 7 raised above supersedes our prior year comments on this matter.