Royal Bank of Scotland

The Royal Bank of Scotland plc
Annual Report and Accounts 2020

Strategic report

Presentation of information
The Royal Bank of Scotland plc ('RBS plc') is a wholly-owned subsidiary of NatWest Holdings Limited ('NWH Ltd' or 'the intermediate holding company'). The term 'NWH Group' refers to NWH Ltd and its subsidiary and associated undertakings. NatWest Group plc (renamed from the Royal Bank of Scotland Group plc ('RBSG plc') on 22 July 2020) is 'the ultimate holding company'. The term 'NatWest Group' refers to NatWest Group plc and its subsidiary and associated undertakings.

RBS plc publishes its financial statements in pounds sterling ('£' or 'sterling'). The abbreviations '£m' and '£bn' represent millions and thousands of millions of pounds sterling, respectively, and references to 'pence' represent pence in the United Kingdom ('UK'). Reference to 'dollars' or '$' are to United States of America ('US') dollars. The abbreviations '$m' and '$bn' represent millions and thousands of millions of dollars, respectively, and references to 'cents' represent cents in the US. The abbreviation '€' represents the 'euro', and the abbreviations '€m' and '€bn' represent millions and thousands of millions of euros, respectively, and references to 'cents' represent cents in the European Union ('EU').

To aid readability, this document retains references to EU legislative and regulatory provisions in effect in the UK before 1 January 2021 that have now been implemented in UK domestic law. These references should be read and construed as including references to the applicable UK implementation measures with effect from 1 January 2021.

Description of business
The principal entities under NWH Ltd are National Westminster Bank Plc (which wholly owns Ulster Bank Limited), The Royal Bank of Scotland plc and Ulster Bank Ireland DAC.

Principal activities and operating segments
RBS plc serves customers across the UK with a range of retail and commercial banking products and services. A wide range of personal products are offered including current accounts, credit cards, personal loans, mortgages and wealth management services. The reportable operating segments are as follows:

Retail Banking serves individuals and mass affluent customers in the UK.

Commercial Banking serves start-up, SME, commercial and corporate customers in the UK.

Private Banking serves UK-connected high net worth individuals and their business interests.

Central items & other comprises treasury activity on behalf of RBS plc and also RBS plc's service and functions activities.

Performance overview

Profit for 2020 was £366 million, compared with £660 million in 2019, driven mainly by an increase in impairment losses due to the impact of the COVID-19 pandemic on the economic outlook.

Total income in 2020 was £1,932 million, compared with £2,379 million in 2019, impacted by contraction of the yield curve, as well as lower business activity and consumer spending resulting from government measures in response to COVID-19. The income trend in RBS plc remained downward in 2020 due to continued run-off of mortgage portfolios in Retail Banking, with intermediary new lending being originated through the NatWest Bank business.

The decrease in income was partially offset by a decrease in operating expenses which were £874 million, compared with £1,174 million in 2019, primarily due to a £334 million PPI conduct charge booked in 2019 of which £100 million was released in 2020.

The net impairment charge for 2020 was £690 million, compared with £207 million in 2019, predominantly reflecting charges in the first half of 2020 due to the uncertain economic outlook.

An operating profit before tax of £366 million is mainly driven by £373 million profit before tax in Retail Banking, and a £52 million loss before tax in Commercial Banking.

The CET1 capital ratio increased in 2020 to 17.6% from 13.2% reflecting the attributable profit and transitional arrangements on expected credit losses, which offset the impact of the increased impairment losses. Total RWAs decreased in 2020 by £3.8 billion to £25.1 billion, reflecting a £2.9 billion decrease in Credit Risk RWAs as well as a £0.9 billion decrease in Operational Risk RWAs following the annual recalculation. The decrease in Credit Risk RWAs was largely driven by RCF repayments in Commercial Banking as well as reduced balances and improved risk metrics for unsecured lending in Retail Banking.

Stakeholder engagement and s.172(1) statement

Stakeholder engagement and s.172(1) statement

In February 2020 the Board approved its annual objectives and confirmed the Board's key stakeholder groups, as set out in this statement.

During 2020 the Board undertook a variety of activities to engage with stakeholders and bring their voice into the boardroom. Details are set out below, together with additional information on related engagement activities undertaken within NatWest Group which impacted RBS plc.

This section of the Strategic Report describes how the directors have had regard to the matters set out in section 172(1) (a) to (f), and forms the directors' statement required under section 414CZA, of the Companies Act 2006.

NatWest Group's purpose is established by the NatWest Group plc Board, promoted across NatWest Group and cascaded to subsidiaries including RBS plc. In February 2020, and following an extensive period of stakeholder engagement, the NatWest Group plc Board approved a new purpose – "We champion potential, helping people, families and businesses to thrive."

Various steps were taken during the year to embed NatWest Group's purpose in Board discussions and decision-making, helping the Board to ensure different stakeholder needs were considered. The roles and responsibilities of the Board and its Committees were enhanced to ensure a strong focus on purpose was built into their respective Terms of Reference. Board and Board Committee papers now include a dedicated section which explains how the proposal or update aligns to NatWest Group's purpose, which is complemented by a section detailing stakeholder impacts. These features, embedded within the NatWest Group Board paper format, help to ensure that purpose and stakeholders remain firmly at the centre of Board discussions. During the 2020 Board evaluation, directors commented positively on how NatWest Group's purpose guided Board discussions and decision-making during the pandemic.

The majority of the Board's planned direct engagement activity with stakeholders was unfortunately cancelled in 2020, due to COVID-19 restrictions. Virtual alternatives were arranged where feasible, and directors were kept informed about stakeholder engagement activity which was taking place at an operational level via regular and focused management reporting. Details are set out below.

Customers

During the year, the Board received regular updates on customer issues through reports from the Chief Executive Officer (CEO) and business CEOs. Customer lifecycles were a key area of focus during Board and Executive Committee (ExCo) strategy discussions. Directors also received targeted management information on progress against customer service metrics including customer advocacy measures and complaints data. A dedicated Board session on customer experience helped to enhance directors' customer insights further. This session covered NatWest Group's Net Promoter and CMA (Competition and Markets Authority) scores and directors provided input and feedback on management's plans to enhance customer experience outcomes. The Board were also regularly updated on the nature and extent of COVID-19 support provided to customers.

The CEO and CFO met with customers throughout the year to enhance relationships and understand their views.

Colleagues

References to "colleagues" in this Report mean all members of the workforce (for example, contractors, agency workers).

Colleague voice

The Board promotes colleague voice in the boardroom through a variety of channels.

The Colleague Advisory Panel (CAP) provided an important two-way communication channel between the Board and colleagues during the pandemic.

The CAP was set up in 2018 to help promote colleague voices in the boardroom.

Its membership includes representatives from a range of NatWest Group's Employee Led Networks, unions, management teams and regional locations, as well as volunteer members unconnected with existing groups. It continues to provide a valuable mechanism for colleagues to gain a greater understanding of the Board's role and provide feedback to directors. Two-way communication is crucial for both colleagues and directors and embodies NatWest Group's open and inclusive culture.

The CAP met four times in 2020 and all meetings were virtual. In addition to two scheduled sessions, there were two ad hoc sessions which supported additional listening and discussion with directors in light of the challenges related to COVID-19.

Topics discussed in 2020 in addition to COVID-19 colleague and customer support included embedding purpose, diversity and inclusion, innovation, executive pay and sustainable banking.

At Board meetings the CAP Chair provided an update on issues discussed at the CAP, and raised specific questions for Board feedback. Afterwards, the CAP Chair shared the Board's views and feedback with CAP members. Further information on the CAP can be found in the NatWest Group plc 2020 Annual Report and Accounts.

Engaging colleagues

Every year colleagues are asked to share their thoughts on what it's like to work for NatWest Group via a colleague opinion survey. The results from the 2020 survey, which were considered by the Board in October 2020, showed a further improvement in colleague sentiment and NatWest Group is now on or above the global financial services and global high performing norms across all comparable survey categories.

NatWest Group has continued to listen to colleagues throughout recent times, running 'COVID-19' pulse surveys and increasing dialogue with colleagues on equality and inclusion through a 'Supporting Black, Asian and Minority Ethnic' colleague survey. NatWest Group has also continued to take part in the Banking Standards Board's (BSB) annual assessment of culture in UK banking. In the 2020 BSB survey NatWest Group results overall have improved slightly.

Employee consultation

Having ongoing discussion and engagement with a number of employee representatives such as trade unions and work councils is vital and NatWest Group regularly discusses developments and updates on the progress of strategic plans with these groups.

Speak Up

One of the ways colleagues can report concerns relating to wrong doing or misconduct is via Speak Up, NatWest Group's whistleblowing service. When colleagues were asked if they feel safe to speak up 88% responded favourably, reflecting continued improvement in results for this question. In 2020, 441 cases were raised compared to 458 in 2019.

Developing colleagues

Becoming a learning organisation is a strategic priority for NatWest Group, which is committed to preparing colleagues for the future by supporting them develop their knowledge, skills and behaviours in critical capability areas. In 2020 the NatWest Group Academy was launched, providing colleagues with access to a wide range of learning content to support them develop for their jobs today, and careers tomorrow. More information can be found in the NatWest Group plc 2020 Annual Report and Accounts and on natwestgroup.com

Investing in colleagues

At the start of 2020, NatWest Group launched its People Pledge – a set of commitments made in response to what colleagues said meant most to them; helping colleagues develop skills, supporting their wellbeing and creating an inclusive workplace, helping customers thrive, investing in teams and helping colleagues make a difference.

Wellbeing

As a strong component of making NatWest Group a purpose-led organisation, an established wellbeing strategy is key. NatWest Group's Wellbeing strategy is delivered against four pillars; Physical, Mental, Social and Financial. Further details can be found in the NatWest Group plc 2020 Annual Report and Accounts and on natwestgroup.com

Stakeholder engagement and s.172(1) statement

Inclusion

NatWest Group is proud to be building an inclusive bank which is a great place for all colleagues to work. NatWest Group's inclusion guidelines apply to all colleagues globally and focus on five key priorities – LGBT Innovative, Gender Balanced, Disability Smart, Ethnically Diverse, all leading to Inclusive Culture. Detailed information can be found in the NatWest Group plc 2020 Annual Report and Accounts and on natwestgroup.com.

NatWest Group has been recognised for work on Equality, Diversity and Inclusion in 2020 by retaining position in the Times Top 50 Employers for Women; being Exemplary Level in the Scottish Carer Positive Campaign; being a Top Global Stonewall employer; being a Top Ten Employer in the Investing in Ethnicity Maturity Matrix; and rated as Gold in the Business Disability Forum benchmark.

Employment of people with disabilities

NatWest Group policy is that people with disabilities are given full and fair consideration for employment and subsequent training, career development and promotion based on merit. If colleagues become disabled, it is the policy of NatWest Group, wherever possible, to retain them in their existing jobs or re-deploy them in suitable alternative duties.

Regulators

The Board recognises the importance of open and continuous dialogue with regulators. In 2020, the focus of regulatory engagement was inevitably on NatWest Group's COVID-19 response, and in particular the support being offered to customers, with other topics discussed by directors with regulators including strategy, operational resilience, board effectiveness and financial crime.

Representatives from the Prudential Regulation Authority (PRA) attended the July 2020 Board meeting to present and discuss the findings arising from its Periodic Summary Meeting for NatWest Group. In September 2020, representatives from the Financial Conduct Authority (FCA) joined the Board meeting to present and discuss its annual Firm Evaluation letter.

The Chairman and executive directors have regular meetings with the PRA and FCA. In addition, individual non-executive directors engage regularly with regulators through Continuous Assessment and Proactive Engagement meetings. The Board also receives regular reports on regulatory matters from the Chief Legal Officer and General Counsel.

Suppliers

The Board is mindful of the role suppliers play in ensuring a reliable service is delivered to customers, and of the importance of relationships with key suppliers, particularly in the current environment.

Although directors were unable to meet with supplier representatives in person, as they have done previously, they were kept informed on progress against relevant key performance indicators, including payment practices, through management reporting.

In particular, the Board noted the actions taken to support suppliers' cashflow during 2020 (which consisted of moving all UK and Republic of Ireland supplier payments to immediate release).

The Group Chief Administrative Officer provided regular updates to the Board, including on key external partnerships and supply chain resilience.

The Board noted NatWest Group's 2019 Modern Slavery Act Statement, which sets out the steps that NatWest Group is taking to tackle modern slavery and human trafficking within its business, supply chain and sphere of influence.

More information on NatWest Group's Modern Slavery Act Statement and Human Rights statement can be found in the NatWest Group plc 2020 Annual Report and Accounts.

Community and environment

Directors enhanced their knowledge and understanding of climate issues through a dedicated training session led by management which included a presentation by Lord Stern (NatWest Group's independent climate change adviser) on external developments as well as updates on climate change risks and opportunities. In addition, the Board received a foundational online learning module on the impact of climate change on financial services and directors have been offered further optional training from the Cambridge Institute for Sustainability Leadership. Management reporting on climate, strategy, ambition and risk management activities features on both Board and Board Committee agendas to support targeted monitoring and oversight. Further details on NatWest Group's response to climate change can be found within the NatWest Group plc 2020 Annual Report and Accounts.

The Board were regularly updated on NatWest Group's wider community engagement activities throughout the year, with particular emphasis on the COVID-19 support provided to local communities.

How stakeholder interests have influenced decision-making

RBS plc recognises the importance of engaging with stakeholders and understanding their views, to help inform its strategy and Board discussions and decision-making.

Relevant stakeholder interests, including those of colleagues, customers, suppliers and others are considered by the Board during its discussions and when it takes decisions. RBS plc defines principal decisions as those that are material, or of strategic importance to RBS plc, and also those that are significant to any of its key stakeholder groups.

In making its decisions, the Board considers the outcomes of relevant stakeholder engagement, as well as the need to maintain a reputation for high standards of business conduct, the need to act fairly between the members of the company and the long term consequences of its decisions.

The following case study provides an example of how stakeholder interests and the factors set out in section 172 of the Companies Act 2006 have been considered in Board discussions during 2020.

Case study – Supporting our Black, Asian and Minority Ethnic Commitments

In June 2020, in response to the Black Lives Matter movement, the CEO asked the global co-chairs of NatWest Group's Multicultural Network to set up a taskforce to listen, analyse and deliver a set of commitments to address the key barriers facing Black, Asian and Minority Ethnic colleagues, customers and communities (the 'Taskforce').

The launch of the Taskforce was reported to the Board, which was keen to be kept informed of the Taskforce's progress. The Board received regular updates from the CEO covering various aspects of the Taskforce's work including the all-colleague listening survey, colleague communications and executive management's engagement with the Taskforce as it worked to finalise its recommendations. The CEO also facilitated a discussion at the June 2020 meeting of the CAP on NatWest Group's response to Black Lives Matter and the work of the Taskforce, the outputs of which were reported back to the Board in July 2020.

The Taskforce co-leads were invited to attend a Board meeting in September 2020 to present directly to the Board on the work of the Taskforce. They explained to the Board how the 10 Commitments for engaging with Black, Asian and Minority Ethnic colleagues, customers and communities had been developed; how the outputs of the work would be communicated; and the learnings from the work and there was clear alignment between the work of the Taskforce and NatWest Group's purpose in terms of championing potential. Following engagement by the Taskforce with the CEO and Executive Committee, a new target of 3% of Black colleagues in senior UK roles by 2025 had been agreed in response to there being a higher under-representation of Black colleagues in senior UK roles. This new target would be in addition to our existing target to have at least 14% Black, Asian and Minority Ethnic leaders in senior UK roles by 2025. The Taskforce co-leads also responded to questions from the Board on topics such as colleague experiences and support from non- Black, Asian and Minority Ethnic colleagues.

The Board wholeheartedly endorsed the work of the Taskforce and confirmed its support for the 10 Commitments including the introduction of a new target to have 3% of Black colleagues in UK senior roles by 2025. A subsequent update to the Board was provided on the publication of the Taskforce's report “Banking on Racial Equality; A Roadmap for Positive Change” including the key insights from the report. Further details on how NatWest Group engages with its stakeholders can be found in the NatWest Group plc 2020 Annual Report and Accounts and on natwestgroup.com.

Board of directors and secretary

Approval of Strategic report
The Strategic report for the year ended 31 December 2020 set out on pages 2 to 64 was approved by the Board of directors on 18 February 2021.

By order of the Board
Jan Cargill
Company Secretary
18 February 2021

Chairman
Howard Davies

Executive directors
Alison Rose (CEO)
Katie Murray (CFO)

Non-executive directors

Francesca Barnes	Robert Gillespie
Graham Beale	Yasmin Jetha
Ian Cormack	Mike Rogers
Patrick Flynn	Mark Seligman
Morten Friis	Lena Wilson

Board and committees

Chairman
Howard Davies
Nominations (Chair)

Executive directors
Alison Rose
Katie Murray

Independent non-executive directors
Francesca Barnes

Graham Beale
Senior Independent Director
Audit, Nominations, Risk

Ian Cormack
Audit, Remuneration, Risk (Deputy Chair)

Patrick Flynn
Audit (Chair), Nominations, Risk

Morten Friis
Risk (Chair), Audit, Nominations

Robert Gillespie
Remuneration (Chair), Audit, Nominations, Risk

Yasmin Jetha

Mike Rogers
Remuneration

Mark Seligman
Audit, Nominations, Remuneration

Lena Wilson
Remuneration, Risk

Chief Governance Officer and Company Secretary
Jan Cargill

Other Board changes in 2020
Alison Davis (non-executive director) resigned on 31 March 2020
Baroness Noakes (non-executive director) resigned on 31 July 2020

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The Royal Bank of Scotland plc
Registered in Scotland No. SC083026

Key:

Audit	member of the Audit Committee
Nominations	member of the Nominations Committee
Remuneration	member of the Performance and Remuneration Committee
Risk	member of the Board Risk Committee

For additional detail on the activities of the Committees above, refer to the Report of the directors

Financial review

Financial summary

Summary income statement for the year ended 31 December 2020

	Retail Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	31 December 2020 £m	31 December 2019 £m	Variance £m	Variance %
Net interest income	**857**	**660**	**21**	**(9)**	**1,529**	1,838	*(309)*	*(17)*
Non-interest income	**79**	**223**	**20**	**81**	**403**	541	*(138)*	*(26)*
Total income	**936**	**883**	**41**	**72**	**1,932**	2,379	*(447)*	*(19)*
Operating expenses	**(437)**	**(386)**	**(51)**	**—**	**(874)**	(1,174)	*300*	*(26)*
Profit/(loss) before impairment losses	**499**	**497**	**(10)**	**72**	**1,058**	1,205	*(147)*	*(12)*
Impairment losses	**(126)**	**(549)**	**(2)**	**(13)**	**(690)**	(207)	*(483)*	*nm*
Operating profit/(loss)	**373**	**(52)**	**(12)**	**59**	**368**	998	*(630)*	*(63)*
Tax charge					**(2)**	(338)	*336*	*(99)*
Profit for the year					**366**	660	*(294)*	*(45)*

Key metrics and ratios			
Cost:income ratio (%)	**45.2**	49.3	(4.1)
Loan impairment expected credit loss rate (bps)	**134**	37	97
CET1 ratio (%)	**17.6**	13.2	4.4
Leverage ratio (%)	**6.3**	5.3	1.0
Risk weighted assets (£bn)	**25.1**	28.9	(3.8)
Loan:deposit ratio (%)	**58**	72	(14)

Profit for 2020 was £366 million, compared with £660 million in 2019, driven mainly by an increase in impairment losses due to the impact of the COVID-19 pandemic on the economic outlook.

The income trend in RBS plc remained downward in 2020 due to continued run-off of mortgage portfolios in Retail Banking, with intermediary new lending being originated through the NatWest Bank business.

This was partially offset by reduced operating expenses of £874 million, compared with £1,174 million in 2019, due to a £334 million PPI conduct charge booked in 2019 of which £100 million was released in 2020.

The operating profit before tax of £368 million includes £373 million relating to Retail Banking, including the £100 million partial release of the PPI provision in 2020. A £52 million loss before tax in Commercial Banking was driven by impairment losses of £549 million, primarily reflecting the deterioration of the economic outlook as a result of the COVID-19 driving significant Stage 2 charges.

Net interest income decreased by £309 million to £1,529 million compared with £1,838 million in 2019, due to continued reduction in income earning assets and yield curve.

Non-interest income decreased by £138 million to £403 million compared with £541 million in 2019, due to lower business activity and customer spending resulting from government measures in response to COVID-19.

Operating expenses decreased by £300 million to £874 million compared with £1,174 million in 2019, due to the impact of the PPI charge in 2019, of which £100 million was released in 2020.

Impairment losses increased by £483 million to £690 million compared with £207 million in 2019, predominantly reflecting Stage 2 charges in the first half of 2020 due to the uncertain economic outlook. The level of Stage 3 defaults remains low, reflecting the impact of government support.

Tax charge decreased by £336 million to £2 million compared to £338 million at 31 December 2019, reflecting the reduced profit for the period and an increase in recoverable deferred tax assets.

Financial review

Financial summary

Summary balance sheet as at 31 December 2020

	2020 £m	2019 £m	Variance £m
Assets			
Cash and balances at central banks	**26,927**	26,597	*330*
Derivatives	**745**	366	*379*
Loans to banks - amortised cost	**1,184**	1,561	*(377)*
Loans to customers - amortised cost	**48,781**	53,493	*(4,712)*
Amounts due from holding companies and fellow subsidiaries	**20,873**	7,713	*13,160*
Other assets	**732**	872	*(140)*
Total assets	**99,242**	90,602	*8,640*
Liabilities			
Bank deposits	**1,152**	1,206	*(54)*
Customer deposits	**84,628**	74,813	*9,815*
Amounts due to holding companies and fellow subsidiaries	**4,521**	5,143	*(622)*
Derivatives	**788**	763	*25*
Notes in circulation	**1,643**	1,267	*376*
Other liabilities	**840**	1,436	*(596)*
Total liabilities	**93,572**	84,628	*8,944*
Total equity	**5,670**	5,974	*(304)*
Total liabilities and equity	**99,242**	90,602	*8,640*

Total assets increased by £8.6 billion to £99.2 billion at 31 December 2020, compared with £90.6 billion at 31 December 2019, primarily due to an increase in liquidity assets placed with NatWest Bank of £13.1 billion. This was offset by contraction of the RBS plc lending book due to the continued run-off of mortgage portfolios and commercial customer transfers to NatWest Bank.

Cash and balances at central banks of £26.9 billion represent placement of surplus funds with the Bank of England of £24.4 billion, £2 billion of cash with the central bank backing the RBS bank note issuance and £0.5 billion of cash held at branches and cash machines.

Loans to customers – amortised cost decreased by £4.7 billion to £48.8 billion, compared with £53.5 billion at 31 December 2019. Retail Banking lending decreased by £2.6 billion due to the continued run-off of mortgage portfolios. Commercial banking lending decreased by £2.1 billion due to RCF repayments and continued customer-level transfers to NatWest Bank.

Amounts due from holding companies and fellow subsidiaries of £20.9 billion reflects surplus funds placed on a short-term basis with NatWest Bank and its subsidiaries. The increase of £13.2 billion from £7.7 billion in 2019 is driven by cash inflows from customer deposits growth and reduced lending.

Customer deposits increased by £9.8 billion to £84.6 billion, primarily due to increases in demand interest-bearing and non-interest bearing deposits, as customers sought to retain liquidity and reduced spending as a result of government measures in response to COVID-19.

Amounts due to holding companies and fellow subsidiaries of £4.5 billion includes short term deposits from other entities in the NatWest Group and the Tier 2 issuances to NWH Ltd of £1.4 billion.

Derivatives liabilities of £0.8 billion mainly consist of derivative instruments with fellow subsidiaries.

Notes in circulation of £1.6 billion represent the value of the Royal Bank of Scotland banknotes in issue.

Other liabilities decreased by £0.6 billion to £0.8 billion, compared with £1.4 billion at 31 December 2019, primarily due to a £0.3 billion PPI provision decrease, of which £0.2 billion was utilisation.

Total equity decreased by £0.3 billion to £5.7 billion, compared with £6.0 billion at 31 December 2019. The decrease reflects the attributable loss for the year of £0.4 billion, partially offset by an increase of cash flow hedging reserve of £0.2 billion.

Risk and capital management

Presentation of information
Where indicated by a bracket in the margins, certain information in the Risk and capital management section (pages 8 to 64) is within the scope of the Independent auditor's report. Risk and capital management is generally conducted on an overall basis within NatWest Group such that common policies, procedures, frameworks and models apply across NatWest Group. Therefore, for the most part, discussion on these qualitative aspects reflects those in NatWest Group as relevant for the businesses and operations in RBS plc.

Update on COVID-19
The unprecedented challenge posed by the global pandemic – for families, businesses and governments around the world – also led to a number of significant risk management challenges. RBS plc remained committed to supporting its customers while operating safely and soundly in line with its strategic objectives. Most notably, the credit risk profile was heightened due to deteriorating economic conditions. RBS plc provided a significant level of payment holidays during the crisis and facilitated a high volume of loans through the UK government CBILS, CLBILS and BBLS initiatives. This is detailed in the Credit risk section.

In addition, RBS plc's operational risk profile became heightened due to the need to adapt working methods and practices to large-scale working from home and the requirement to respond to the crisis – and provide customer support – at pace.

As a result of its strong balance sheet and prudent approach to risk management, RBS plc remains well placed to withstand the impacts of the pandemic as well as providing support to customers when they need it most.

Risk management framework
Introduction
RBS plc operates under NatWest Group's enterprise wide risk management framework, which is centred around the embedding of a strong risk culture. The framework ensures the governance, capabilities and methods are in place to facilitate risk management and decision-making across the organisation.

The framework ensures that RBS plc's principal risks – which are detailed in this section – are appropriately controlled and managed. In addition, there is a process to identify and manage top risks, which are those which could have a significant negative impact on the Bank's ability to meet its strategic objectives. A complementary process operates to identify emerging risks. Both top and emerging risks are reported to the Board on a regular basis alongside reporting on the principal risks.

Risk appetite, supported by a robust set of principles, policies and practices, defines the levels of tolerance for a variety of risks and provides a structured approach to risk-taking within agreed boundaries.

All RBS plc colleagues share ownership of the way risk is managed, working together to make sure business activities and policies are consistent with risk appetite.

The methodology for setting, governing and embedding risk appetite is being further enhanced with the aim of revising current risk appetite processes and increasing alignment with strategic planning and external threat assessments.

Culture
Culture is at the centre of both the risk management framework and risk management practice. The target culture across RBS plc is one in which risk is part of the way employees work and think. The target risk culture behaviours are aligned to RBS plc's core values. They are embedded in Our Standards and therefore form an effective basis for risk culture since these are used for performance management, recruitment and development.

Training
A wide range of learning, both technical and behavioural, is offered across the risk disciplines. This training can be mandatory, role-specific or for personal development and enables colleagues to develop the capabilities and confidence to manage risk effectively.

Our Code
NatWest Group's conduct guidance, Our Code, provides direction on expected behaviour and sets out the standards of conduct that support the values. The code explains the effect of decisions that are taken and describes the principles that must be followed.

These principles cover conduct-related issues as well as wider business activities. They focus on desired outcomes, with practical guidelines to align the values with commercial strategy and actions. The embedding of these principles facilitates sound decision-making and a clear focus on good customer outcomes.

If conduct falls short of NatWest Group's required standards, the accountability review process is used to assess how this should be reflected in pay outcomes for those individuals concerned. The NatWest Group-wide remuneration policy ensures that the remuneration arrangements for all employees reflect the principles and standards prescribed by the PRA rulebook and the FCA handbook. Any employee falling short of the expected standards would also be subject to internal disciplinary policies and procedures. If appropriate, the relevant authority would be notified.

Risk and capital management

Risk management framework continued

Governance

Committee structure

The diagram shows RBS plc's risk committee structure in 2020 and the main purposes of each committee.

RBS plc Board
Considers material risks and approves, as appropriate, actions recommended by the Board Risk Committee. Monitors performance against risk appetite. Reviews and approves risk appetite measures for capital adequacy, liquidity & funding, earnings volatility, cyber security and strategic and operational resilience.

Board Risk Committee
Provides oversight and advice to the Board on current and future risk exposures, future risk profile and risk appetite. Oversees the effectiveness of risk management framework within RBS plc and (with the Audit Committee) internal controls required to manage risk.

Audit Committee
Assists the Board in carrying out its accounting, internal control and financial reporting responsibilities. Reviews the effectiveness of internal controls systems relating to financial management and compliance with financial reporting, asset safeguarding and accounting laws.

Executive Risk Committee[4]
Supports the CEO in reviewing and challenging all material risk and control matters. Approves the risk management framework and oversees its implementation.

Executive Committee[5]
Supports the CEO in discharging her individual accountabilities, reflecting the authority delegated to her by the RBS plc Board. Reviews, challenges and debates all aspects of RBS plc, including strategic, financial, capital, risk and operational issues. Supports the CEO in forming recommendations to the Board and committees.

Asset & Liability Management Committee[6]
Supports the CFO in overseeing the effective management of RBS plc's current and future balance sheets, ensuring they operate within risk appetite, policies and chosen business strategy as well as comply with regulatory and legal requirements.

Business and function risk committees
Risk committees review and monitor all risks, providing guidance, recommendations and decisions on risks affecting the businesses and functions.

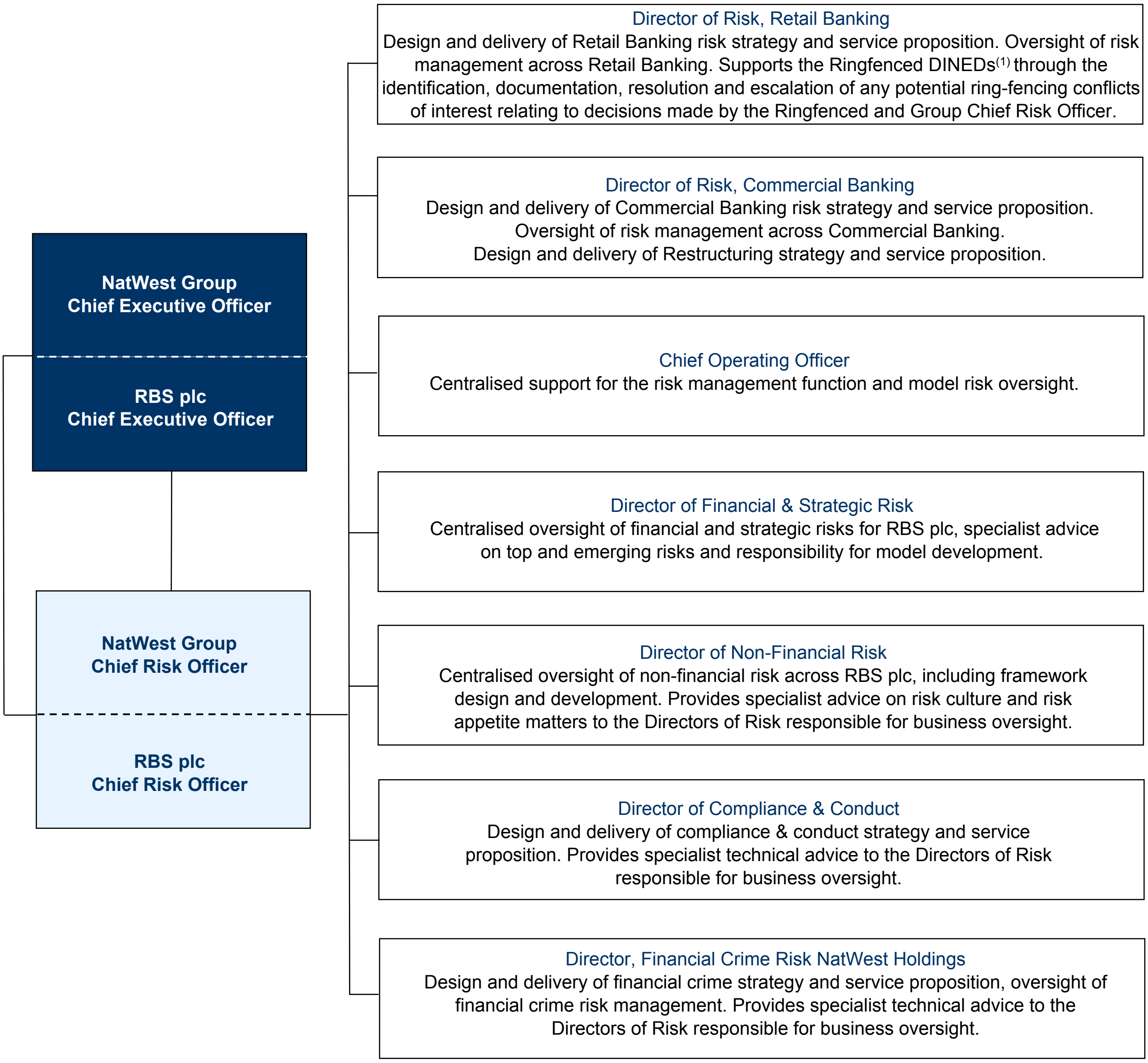
Notes:
(1) The NatWest Group Chief Executive Officer also performs the role of RBS plc Chief Executive Officer.
(2) The NatWest Group Chief Risk Officer also performs the role of RBS plc Chief Risk Officer.
(3) The NatWest Group Chief Financial Officer also performs the role of RBS plc Chief Financial Officer.
(4) The Executive Risk Committee is chaired by the RBS plc Chief Executive Officer and supports her in discharging risk management accountabilities.
(5) The Executive Committee is chaired by the RBS plc Chief Executive Officer and supports her in discharging her individual accountabilities in accordance with the authority delegated to her by the RBS plc Board.
(6) The Asset & Liability Management Committee is chaired by the RBS plc Chief Financial Officer and supports her in discharging her individual accountabilities relating to treasury and balance sheet management.

Risk and capital management

Risk management framework continued

Risk management structure

The diagram shows RBS plc's risk management structure in 2020 and key risk management responsibilities.



Notes:
(1) Double Independent Non-Executive Directors.
(2) The NatWest Group Chief Executive Officer also performs the role of RBS plc Chief Executive Officer.
(3) The NatWest Group Chief Risk Officer also performs the role of RBS plc Chief Risk Officer.
(4) The RBS plc Chief Risk Officer reports directly to the RBS plc Chief Executive Officer. There is a further secondary reporting line to the chair of the Board Risk Committee and a right of access to the Committee, including the deputy chair.
(5) The Risk function is independent of the customer-facing franchises and support functions. Its structure is divided into three parts (Directors of Risk, Specialist Risk Directors and Chief Operating Officer) to facilitate effective management of the risks facing RBS plc. Risk committees in the customer businesses and key functional risk committees oversee risk exposures arising from management and business activities and focus on ensuring that these are adequately monitored and controlled. The directors of Risk (Retail Banking; Commercial Banking; Financial & Strategic Risk; Non-Financial Risk and Compliance & Conduct) as well as the Director, Financial Crime Risk NatWest Holdings and the Chief Operating Officer report to the RBS plc Chief Risk Officer.

Risk and capital management

Risk management framework continued

Three lines of defence

NatWest Group uses the industry-standard three lines of defence model to articulate accountabilities and responsibilities for managing risk. It supports the embedding of effective risk management throughout the organisation. All roles below the CEO sit within one of these three lines. The CEO ensures the efficient use of resources and the effective management of risks as stipulated in the risk management framework and is therefore considered to be outside the three lines of defence principles.

First line of defence

The first line of defence incorporates most roles in NatWest Group, including those in the customer-facing franchises, Technology and Services as well as support functions such as Human Resources, Legal and Finance.

- The first line of defence is empowered to take risks within the constraints of the risk management framework and policies as well as the risk appetite statements and measures set by the Board.
- The first line of defence is responsible for managing its direct risks. With the support of specialist functions such as Legal, HR and Technology, it is also responsible for managing its consequential risks by identifying, assessing, mitigating, monitoring and reporting risks.

Second line of defence

The second line of defence comprises the Risk function and is independent of the first line.

- The second line of defence is empowered to design and maintain the risk management framework and its components. It undertakes proactive risk oversight and continuous monitoring activities to confirm that NatWest Group engages in permissible and sustainable risk-taking activities.
- The second line of defence advises on, monitors, challenges, approves, escalates and reports on the risk-taking activities of the first line, ensuring that these are within the constraints of the risk management framework and policies as well as the risk appetite statements and measures set by the Board.

Third line of defence

The third line of defence is the Internal Audit function and is independent of the first and second lines.

- The third line of defence is responsible for providing independent and objective assurance to the Board, its subsidiary legal entity boards and executive management on the adequacy and effectiveness of key internal controls, governance and the risk management in place to monitor, manage and mitigate the key risks to NatWest Group and its subsidiary companies achieving their objectives.
- The third line of defence executes its duties freely and objectively in accordance with the Institute of Internal Auditors' Code of Ethics & Standards.

Risk appetite

Risk appetite defines the level and types of risk that are acceptable, within risk capacity, in order to achieve strategic objectives and business plans. It links the goals and priorities to risk management in a way that guides and empowers staff to serve customers well and achieve financial targets.

The risk appetite framework, which is approved annually by the Board, bolsters effective risk management by promoting sound risk-taking through a structured approach, within agreed boundaries. It also ensures emerging risks and risk-taking activities that would be out of appetite are identified, assessed, escalated and addressed in a timely manner.

Risk appetite is maintained across RBS plc through risk appetite statements. These provide clarity on the scale and type of activities that can be undertaken in a manner that is easily conveyed to staff.

The annual process of establishing risk appetite statements is completed alongside the business and financial planning process. This ensures plans and risk appetite are appropriately aligned. The Board sets risk appetite for the most material risks to help ensure RBS plc is well placed to meet its priorities and long-term targets even in challenging economic environments. It is the basis on which RBS plc remains safe and sound while implementing its strategic business objectives.

RBS plc's risk profile is frequently reviewed and monitored and management focus is concentrated on all strategic risks, material risks and emerging risk issues. Risk profile relative to risk appetite is reported regularly to the Board and senior management.

Risk controls and their associated limits are an integral part of the risk appetite approach and a key part of embedding risk appetite in day-to-day risk management decisions. A clear tolerance for material risk types is set in alignment with business activities.

NatWest Group policies directly support the qualitative aspects of risk appetite. They ensure that appropriate controls are set and monitored.

Identification and measurement

Identification and measurement within the risk management process comprise:

- Regular assessment of the overall risk profile, incorporating market developments and trends, as well as external and internal factors.
- Monitoring of the risks associated with lending and credit exposures.
- Assessment of trading and non-trading portfolios.
- Review of potential risks in new business activities and processes.
- Analysis of potential risks in any complex and unusual business transactions.

The financial and non-financial risks that RBS plc faces are detailed in the Risk Directory. This provides a common risk language to ensure consistent terminology is used across RBS plc. The Risk Directory is subject to annual review. This ensures that it continues to provide a comprehensive and meaningful list of the inherent risks within RBS plc.

Mitigation

Mitigation is an important aspect of ensuring that risk profile remains within risk appetite. Risk mitigation strategies are discussed and agreed within RBS plc.

When evaluating possible strategies, costs and benefits, residual risks (risks that are retained) and secondary risks (those that are due to risk mitigation actions) are considered. Monitoring and review processes are in place to evaluate results. Early identification, and effective management, of changes in legislation and regulation are critical to the successful mitigation of compliance and conduct risk. The effects of all changes are managed to ensure the timely achievement of compliance. Those changes assessed as having a high or medium-high impact are managed more closely. Significant and emerging risks that could affect future results and performance are reviewed and monitored. Action is taken to mitigate potential risks as and when required. Further in-depth analysis, including the stress testing of exposures relative to the risk, is also carried out.

Testing and monitoring

Targeted credit risk, compliance & conduct risk and financial crime risk activities are subject to testing and monitoring to confirm to both internal and external stakeholders – including the Board, senior management, the customer-facing businesses, Internal Audit and RBS plc's regulators – that policies and procedures are being correctly implemented and operating adequately and effectively. Selected key controls are also reviewed. Thematic reviews and deep dives are also carried out where appropriate.

The adequacy and effectiveness of selected key controls owned and operated by the second line of defence are also tested (with a particular focus on credit risk controls). Selected controls within the scope of Section 404 of the US Sarbanes-Oxley Act 2002, as well as selected controls supporting risk data aggregation and reporting, are also reviewed.

Anti-money laundering, sanctions, anti-bribery and corruption and tax evasion processes and controls are also tested and monitored. This helps provide an independent understanding of the financial crime control environment, whether or not controls are adequate and effective and whether financial crime risk is appropriately identified, managed and mitigated.

The NatWest Group Risk Testing & Monitoring Forum and methodology ensures a consistent approach to all aspects of the second-line review activities. The forum also monitors and validates the annual plan and ongoing programme of reviews.

Risk and capital management

Risk management framework continued

Stress testing

Stress testing – capital management

Stress testing is a key risk management tool and a fundamental component of NatWest Group's approach to capital management. It is used to quantify and evaluate the potential impact of specified changes to risk factors on the financial strength of NatWest Group, including its capital position.

Stress testing includes:

- Scenario testing, which examines the impact of a hypothetical future state to define changes in risk factors.
- Sensitivity testing, which examines the impact of an incremental change to one or more risk factors.

The process for stress testing consists of four broad stages:

Define scenarios	• Identify NatWest Group-specific vulnerabilities and risks. • Define and calibrate scenarios to examine risks and vulnerabilities. • Formal governance process to agree scenarios.
Assess impact	• Translate scenarios into risk drivers. • Assess impact to current and projected P&L and balance sheet. • Impact assessment captures input across NatWest Group.
Calculate results and assess implications	• Aggregate impacts into overall results. • Results form part of the risk management process. • Scenario results are used to inform NatWest Group's business and capital plans.
Develop and agree management actions	• Scenario results are analysed by subject matter experts. Appropriate management actions are then developed. • Scenario results and management actions are reviewed and agreed by senior committees, including the Executive Risk Committee, the Board Risk Committee and the Board.

Stress testing is used widely across NatWest Group. The diagram below summarises key areas of focus.

Specific areas that involve capital management include:

- *Strategic financial and capital planning* – by assessing the impact of sensitivities and scenarios on the capital plan and capital ratios.
- *Risk appetite* – by gaining a better understanding of the drivers of, and the underlying risks associated with, risk appetite.
- *Risk monitoring* – by monitoring the risks and horizon scanning events that could potentially affect NatWest Group's financial strength and capital position.
- *Risk mitigation* – by identifying actions to mitigate risks, or those that could be taken, in the event of adverse changes to the business or economic environment. Key risk mitigating actions are documented in NatWest Group's recovery plan.

Capital sufficiency – going concern forward-looking view

Going concern capital requirements are examined on a forward-looking basis – including as part of the annual budgeting process – by assessing the resilience of capital adequacy and leverage ratios under hypothetical future states. These assessments include assumptions about regulatory and accounting factors (such as IFRS 9). They are linked to economic variables and impairments and seek to demonstrate that NatWest Group and its operating subsidiaries maintain sufficient capital. A range of future states are tested. In particular, capital requirements are assessed:

- Based on a forecast of future business performance, given expectations of economic and market conditions over the forecast period.
- Based on a forecast of future business performance under adverse economic and market conditions over the forecast period. Scenarios of different severity may be examined.

The examination of capital requirements under normal economic and adverse market conditions enables NatWest Group to determine whether its projected business performance meets internal and regulatory capital requirements.

The examination of capital requirements under adverse economic and market conditions is assessed through stress testing. The results of stress tests are not only used widely across NatWest Group but also by the regulators to set specific capital buffers. NatWest Group takes part in stress tests run by regulatory authorities to test industry-wide vulnerabilities under crystallising global and domestic systemic risks.

Stress and peak-to-trough movements are used to help assess the amount of capital NatWest Group needs to hold in stress conditions in accordance with the capital risk appetite framework.

Internal assessment of capital adequacy

An internal assessment of material risks is carried out annually to enable an evaluation of the amount, type and distribution of capital required to cover these risks. This is referred to as the Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP consists of a point-in-time assessment of exposures and risks at the end of the financial year together with a forward-looking stress capital assessment. The ICAAP is approved by the Board and submitted to the PRA.

The ICAAP is used to form a view of capital adequacy separately to the minimum regulatory requirements. The ICAAP is used by the PRA to assess NatWest Group's specific capital requirements through the Pillar 2 framework.

Risk and capital management

Risk management framework continued

Capital allocation

NatWest Group has mechanisms to allocate capital across its legal entities and businesses. These aim to optimise the use of capital resources taking into account applicable regulatory requirements, strategic and business objectives and risk appetite. The framework for allocating capital is approved by the Asset & Liability Management Committee.

Governance

Capital management is subject to substantial review and governance. The Board approves the capital plans, including those for key legal entities and businesses as well as the results of the stress tests relating to those capital plans.

Stress testing – liquidity

Liquidity risk monitoring and contingency planning

A suite of tools is used to monitor, limit and stress test the risks on the balance sheet. Limit frameworks are in place to control the level of liquidity risk, asset and liability mismatches and funding concentrations. Liquidity risks are reviewed at significant legal entity and business levels daily, with performance reported to the Asset & Liability Management Committee on a regular basis. Liquidity Condition Indicators are monitored daily. This ensures any build-up of stress is detected early and the response escalated appropriately through recovery planning.

Internal assessment of liquidity

Under the liquidity risk management framework, NatWest Group maintains the Individual Liquidity Adequacy Assessment Process. This includes assessment of net stressed liquidity outflows under a range of severe but plausible stress scenarios. Each scenario evaluates either an idiosyncratic, market-wide or combined stress event as described in the table below.

Type	Description
Idiosyncratic scenario	The market perceives NatWest Group to be suffering from a severe stress event, which results in an immediate assumption of increased credit risk or concerns over solvency.
Market-wide scenario	A market stress event affecting all participants in a market through contagion, potential counterparty failure and other market risks. NatWest Group is affected under this scenario but no more severely than any other participants with equivalent exposure.
Combined scenario	This scenario models the combined impact of an idiosyncratic and market stress occurring at once, severely affecting funding markets and the liquidity of some assets.

NatWest Group uses the most severe outcome of these to set the internal stress testing scenario which underpins its internal liquidity risk appetite. This complements the regulatory liquidity coverage ratio requirement.

Stress testing – recovery and resolution planning

The NatWest Group recovery plan explains how NatWest Group and its subsidiaries – as a consolidated group – would identify and respond to a financial stress event and restore its financial position so that it remains viable on an ongoing basis.

The recovery plan ensures risks that could delay the implementation of a recovery strategy are highlighted and preparations are made to minimise the impact of these risks. Preparations include:

- Developing a series of recovery indicators to provide early warning of potential stress events.
- Clarifying roles, responsibilities and escalation routes to minimise uncertainty or delay.
- Developing a recovery playbook to provide a concise description of the actions required during recovery.
- Detailing a range of options to address different stress conditions.
- Appointing dedicated option owners to reduce the risk of delay and capacity concerns.

The plan is intended to enable NatWest Group to maintain critical services and products it provides to its customers, maintain its core business lines and operate within risk appetite while restoring NatWest Group's financial condition. It is assessed for appropriateness on an ongoing basis and is updated annually. The plan is reviewed and approved by the Board prior to submission to the PRA each year. Individual recovery plans are also prepared for NatWest Holdings Limited, NatWest Markets Plc, RBS International (Holdings) Limited, Ulster Bank Ireland DAC and NatWest Markets N.V.. These plans detail the recovery options, recovery indicators and escalation routes for each entity.

Fire drill simulations of possible recovery events are used to test the effectiveness of NatWest Group and individual legal entity recovery plans. The fire drills are designed to replicate possible financial stress conditions and allow senior management to rehearse the responses and decisions that may be required in an actual stress. The results and lessons learnt from the fire drills are used to enhance NatWest Group's approach to recovery planning.

Under the resolution assessment part of the PRA rulebook, NatWest Group is required to carry out an assessment of its preparations for resolution, submit a report of the assessment to the PRA and publish a summary of this report.

Resolution would be implemented if NatWest Group was assessed by the UK authorities to have failed and the appropriate regulator put it into resolution. The process of resolution is owned and implemented by the Bank of England (as the UK resolution authority). A multi-year programme is in place to further develop resolution capability in line with regulatory requirements.

Stress testing – climate

NatWest Group will be carrying out climate scenario and stress-testing analysis as part of the Bank of England's 2021 biennial exploratory scenario. The exercise will explore three distinct climate scenarios over a 30 year horizon to test the financial system's resilience to climate-related risks.

NatWest Group is also participating in the United Nations Environment Programme Finance Initiative focusing on analysis of how physical and transition risks could affect the agriculture and real estate sectors.

Stress testing – market risk

Non-traded market risk

Non-traded exposures are reported to the PRA on a quarterly basis as part of the Stress Testing Data Framework. This provides the regulator with an overview of NatWest Group's banking book interest rate exposure. The report includes detailed product information analysed by interest rate driver and other characteristics, including accounting classification, currency and counterparty type.

Scenario analysis based on hypothetical adverse scenarios is performed on non-traded exposures as part of the Bank of England and European Banking Authority stress exercises. NatWest Group also produces an internal scenario analysis as part of its financial planning cycles.

Non-traded exposures are capitalised through the ICAAP. This covers gap risk, basis risk, credit spread risk, pipeline risk, structural foreign exchange risk, prepayment risk, equity risk and accounting volatility risk. The ICAAP is completed with a combination of value and earnings measures. The total non-traded market risk capital requirement is determined by adding the different charges for each sub risk type. The ICAAP methodology captures at least ten years of historical volatility, produced with a 99% confidence level. Methodologies are reviewed by NatWest Group Model Risk and the results are approved by the NatWest Group Technical Asset & Liability Management Committee.

Risk and capital management

Risk management framework continued

Non-traded market risk stress results are combined with those for other risks into the capital plan presented to the Board. The cross-risk capital planning process is conducted once a year, with a planning horizon of five years. The scenario narratives cover both regulatory scenarios and macroeconomic scenarios identified by NatWest Group.

Vulnerability-based stress testing begins with the analysis of a portfolio and expresses its key vulnerabilities in terms of plausible, vulnerability scenarios under which the portfolio would suffer material losses. These scenarios can be historical, macroeconomic or forward-looking/hypothetical. Vulnerability-based stress testing is used for internal management information and is not subject to limits. The results for relevant scenarios are reported to senior management.

Internal scenarios

During 2020, NatWest Group continuously refined and reviewed a series of internal scenarios – benchmarked against the Bank of England's illustrative scenario – as the impact of COVID-19 evolved, including actual and potential effects on economic fundamentals. These scenarios included:

- The impact of travel restrictions, social distancing policies, self-isolation and sickness on GDP, employment and consumer spending.
- The impacts on business investment in critical sectors.
- The effect on house prices, commercial real estate values and major project finance.
- The effect of government interventions such as the Job Retention Scheme and the Coronavirus Business Interruption Loan Scheme.

Applying the macro-scenarios to NatWest Group's earnings, capital, liquidity and funding positions did not result in a breach of any regulatory thresholds.

Regulatory stress testing

NatWest Group has participated in the regulatory stress tests conducted annually by the Bank of England and biennially by the European Banking Authority (EBA). The results of these regulatory stress tests are carefully assessed and form part of the wider risk management of NatWest Group. However, in 2020 due to the impacts of COVID-19, the Bank of England and the EBA suspended their stress tests. Following the UK's exit from the European Union on 31 December 2020, only relevant European subsidiaries of NatWest Group will take part in the EBA tests going forward. NatWest Group itself will not participate.

Risk and capital management

Credit risk

Definition
Credit risk is the risk that customers and counterparties fail to meet their contractual obligation to settle outstanding amounts.

Sources of risk
The principal sources of credit risk are lending and related financial guarantees and undrawn commitments. Through its payments activities RBS plc is also exposed to settlement risk.

Governance
The Credit Risk function provides oversight of frontline credit risk management activities.

Governance activities include:

- Defining credit risk appetite for the management of concentration risk and credit policy to establish the key causes of risk in the process of providing credit and the controls that must be in place to mitigate them.
- Approving and monitoring credit limits.
- Oversight of the first line of defence to ensure that credit risk remains within the appetite set by the Board and that controls are being operated adequately and effectively.
- Assessing the adequacy of expected credit loss (ECL) provisions including approving any necessary in-model and post model adjustments through the Provisions Committee.

Risk appetite
Credit risk appetite aligns to the strategic risk appetite set by the Board and is set and monitored through risk appetite frameworks tailored to the Group's Personal and Wholesale segments.

Personal
The Personal credit risk appetite framework sets limits that measure and control the quality and concentration of both existing and new business for each relevant business segment. The actual performance of each portfolio is tracked relative to these limits and management action is taken where necessary. The limits apply to a range of credit risk-related measures including expected loss at both portfolio and product level, projected credit default rates across products and the loan-to-value (LTV) ratio of the mortgage portfolios.

Wholesale
For Wholesale credit, the framework has been designed to reflect factors that influence the ability to operate within risk appetite. Tools such as stress testing and economic capital are used to measure credit risk volatility and develop links between the framework and risk appetite limits.

Four formal frameworks are used, classifying, measuring and monitoring credit risk exposure across single name, sector and country concentrations and product and asset classes with heightened risk characteristics.

The framework is supported by a suite of transactional acceptance standards that set out the risk parameters within which businesses should operate.

Credit policy standards are in place for both the Wholesale and Personal portfolios. They are expressed as a set of mandatory controls.

Identification and measurement
Credit stewardship

Risks are identified through relationship management and credit stewardship of customers and portfolios. Credit risk stewardship takes place throughout the customer relationship, beginning with the initial approval. It includes the application of credit assessment standards, credit risk mitigation and collateral, ensuring that credit documentation is complete and appropriate, carrying out regular portfolio or customer reviews and problem debt identification and management. Additional stewardship measures were put in place in response to COVID-19. Refer to the Impact of COVID-19 section for further details.

Asset quality
All credit grades map to an asset quality (AQ) scale, used for financial reporting. Performing loans are defined as AQ1-AQ9 (where the probability of default (PD) is less than 100%) and defaulted non-performing loans as AQ10 or Stage 3 under IFRS 9 (where the PD is 100%). Loans are defined as defaulted when the payment status becomes 90 days past due, or earlier if there is clear evidence that the borrower is unlikely to repay, for example bankruptcy or insolvency.

Counterparty credit risk
Counterparty credit risk arises from the obligations of customers under derivative and securities financing transactions.

NWB Group mitigates counterparty credit risk through collateralisation and netting agreements, which allow amounts owed by NWB Group to a counterparty to be netted against amounts the counterparty owes NWB Group.

Mitigation
Mitigation techniques, as set out in the appropriate credit policies and transactional acceptance standards, are used in the management of credit portfolios across RBS plc. These techniques mitigate credit concentrations in relation to an individual customer, a borrower group or a collection of related borrowers. Where possible, customer credit balances are netted against obligations. Mitigation tools can include structuring a security interest in a physical or financial asset and the use of guarantees and similar instruments (for example, credit insurance) from related and third parties. Property is used to mitigate credit risk across a number of portfolios, in particular residential mortgage lending and commercial real estate (CRE).

The valuation methodologies for collateral in the form of residential mortgage property and CRE are detailed below.

Residential mortgages – RBS plc takes collateral in the form of residential property to mitigate the credit risk arising from mortgages. RBS plc values residential property during the loan underwriting process by either appraising properties individually or valuing them collectively using statistically valid models. RBS plc updates residential property values quarterly using the Office for National Statistics House Price Index.

The current indexed value of the property is a component of the ECL provisioning calculation.

Commercial real estate valuations – RBS plc has a panel of chartered surveying firms that cover the spectrum of geography and property sectors in which RBS plc takes collateral. Suitable valuers for particular assets are contracted through a single service agreement to ensure consistency of quality and advice. Valuations are generally commissioned when an asset is taken as security; a material increase in a facility is requested; or a default event is anticipated or has occurred. In the UK, an independent third-party market indexation is applied to update external valuations once they are more than a year old and every three years a formal independent valuation is commissioned.

Assessment and monitoring
Practices for credit stewardship – including credit assessment, approval and monitoring as well as the identification and management of problem debts – differ between the Personal and Wholesale portfolios.

Personal
Personal customers are served through a lending approach that entails offering a large number of small-value loans. To ensure that these lending decisions are made consistently, RBS plc analyses internal credit information as well as external data supplied by credit reference agencies (including historical debt servicing behaviour of customers with respect to both RBS plc and other lenders). RBS plc then sets its lending rules accordingly, developing different rules for different products.

Credit risk continued

The process is then largely automated, with each customer receiving an individual credit score that reflects both internal and external behaviours and this score is compared with the lending rules set. For relatively high-value, complex personal loans, including some residential mortgage lending, specialist credit managers make the final lending decisions. These decisions are made within specified delegated authority limits that are issued dependent on the experience of the individual.

Underwriting standards and portfolio performance are monitored on an ongoing basis to ensure they remain adequate in the current market environment and are not weakened materially to sustain growth.

Wholesale

Wholesale customers – including corporates, banks and other financial institutions – are grouped by industry sectors and geography as well as by product/asset class and are managed on an individual basis. Customers are aggregated as a single risk when sufficiently interconnected.

A credit assessment is carried out before credit facilities are made available to customers. The assessment process is dependent on the complexity of the transaction. Credit approvals are subject to environmental, social and governance risk policies which restrict exposure to certain highly carbon intensive industries as well as those with potentially heightened reputational impacts.

For lower risk transactions below specific thresholds, credit decisions can be approved through self-sanctioning within the business. This process is facilitated through an auto-decision making system, which utilises scorecards, strategies and policy rules. Such credit decisions must be within the approval authority of the relevant business sanctioner.

For all other transactions credit is only granted to customers following joint approval by an approver from the business and the credit risk function or by two credit officers. The joint business and credit approvers act within a delegated approval authority under the Wholesale Credit Authorities Framework Policy. The level of delegated authority held by approvers is dependent on their experience and expertise with only a small number of senior executives holding the highest approval authority. Both business and credit approvers are accountable for the quality of each decision taken, although the credit risk approver holds ultimate sanctioning authority.

Transactional acceptance standards provide detailed transactional lending and risk acceptance metrics and structuring guidance. As such, these standards provide a mechanism to manage risk appetite at the customer/transaction level and are supplementary to the established credit risk appetite.

Credit grades (PD) and loss given default (LGD) are reviewed and if appropriate re-approved annually. The review process assesses borrower performance, including reconfirmation or adjustment of risk parameter estimates; the adequacy of security; compliance with terms and conditions; and refinancing risk.

Problem debt management

Personal

Early problem identification

Pre-emptive triggers are in place to help identify customers that may be at risk of being in financial difficulty. These triggers are both internal, using RBS plc's data, and external using information from credit reference agencies. Proactive contact is then made with the customer to establish if they require help with managing their finances. By adopting this approach, the aim is to prevent a customer's financial position deteriorating which may then require intervention from the Collections and Recoveries teams.

Personal customers experiencing financial difficulty are managed by the Collections team. If the Collections team is unable to provide appropriate support after discussing suitable options with the customer, management of that customer moves to the Recoveries team. If at any point in the collections and recoveries process, the customer is identified as being potentially vulnerable, the customer will be separated from the regular process and supported by a specialist team to ensure the customer receives appropriate support for their circumstances.

Collections

When a customer exceeds an agreed limit or misses a regular monthly payment the customer is contacted by RBS plc and requested to remedy the position. If the situation is not regularised then, where appropriate, the Collections team will become more fully involved and the customer will be supported by skilled debt management staff who endeavour to provide customers with bespoke solutions. Solutions include short-term account restructuring, refinance loans and forbearance which can include interest suspension and 'breathing space'. In the event that an affordable/sustainable agreement with a customer cannot be reached, the debt will transition to the Recoveries team. For provisioning purposes, under IFRS 9, exposure to customers managed by the Collections team is categorised as Stage 2 and subject to a lifetime loss assessment, unless it is 90 days past due or has an interest non-accrual status, in which case it is categorised as Stage 3.

Recoveries

The Recoveries team will issue a notice of intention to default to the customer and, if appropriate, a formal demand, while also registering the account with credit reference agencies where appropriate. Following this, the customer's debt may then be placed with a third-party debt collection agency, or alternatively a solicitor, in order to agree an affordable repayment plan with the customer. An option that may also be considered, is the sale of unsecured debt. Exposures subject to formal debt recovery are defaulted and categorised as Stage 3 impaired.

Wholesale

Early problem identification

Each segment and sector have defined early warning indicators to identify customers experiencing financial difficulty, and to increase monitoring if needed. Early warning indicators may be internal, such as a customer's bank account activity, or external, such as a publicly-listed customer's share price. If early warning indicators show a customer is experiencing potential or actual difficulty, or if relationship managers or credit officers identify other signs of financial difficulty, they may decide to classify the customer within the Risk of Credit Loss framework.

Risk of Credit Loss framework

The framework focuses on Wholesale customers whose credit profiles have deteriorated materially since origination. Expert judgement is applied by experienced credit risk officers to classify cases into categories that reflect progressively deteriorating credit risk to RBS plc. There are two classifications which apply to non-defaulted customers within the framework – Heightened Monitoring and Risk of Credit Loss. For the purposes of provisioning, all exposures subject to the framework are categorised as Stage 2 and subject to a lifetime loss assessment. The framework also applies to those customers that have met RBS plc's default criteria (AQ10 exposures). Defaulted exposures are categorised as Stage 3 impaired for provisioning purposes.

Heightened Monitoring customers are performing customers that have met certain characteristics, which have led to significant credit deterioration. Collectively, characteristics reflect circumstances that may affect the customer's ability to meet repayment obligations. Characteristics include trading issues, covenant breaches, material PD downgrades and past due facilities.

Heightened Monitoring customers require pre-emptive actions (outside the customer's normal trading patterns) to return or maintain their facilities within RBS plc's current risk appetite prior to maturity.

Risk of Credit Loss customers are performing customers that have met the criteria for Heightened Monitoring and also pose a risk of credit loss to RBS plc in the next 12 months should mitigating action not be taken or not be successful.

Risk and capital management

Credit risk continued

Once classified as either Heightened Monitoring or Risk of Credit Loss, a number of mandatory actions are taken in accordance with policies. Actions include a review of the customer's credit grade, facility and security documentation and the valuation of security. Depending on the severity of the financial difficulty and the size of the exposure, the customer relationship strategy is reassessed by credit officers, by specialist credit risk or relationship management units in the relevant business or by Restructuring. Agreed customer management strategies are regularly monitored by both the business and credit teams. The largest Risk of Credit Loss exposures are regularly reviewed by a Risk of Credit Loss Committee. The committee members are experienced credit, business and restructuring specialists. The purpose of the committee is to review and challenge the strategies undertaken for customers that pose the largest risk of credit loss to RBS plc.

Appropriate corrective action is taken when circumstances emerge that may affect the customer's ability to service its debt (refer to Heightened Monitoring characteristics). Corrective actions may include granting a customer various types of concessions. Any decision to approve a concession will be a function of specific appetite, the credit quality of the customer, the market environment and the loan structure and security. All customers granted forbearance are classified Heightened Monitoring as a minimum.

Other potential outcomes of the relationship review are to: remove the customer from the Risk of Credit Loss framework, offer additional lending and continue monitoring, transfer the relationship to Restructuring if appropriate, or exit the relationship.

The Risk of Credit Loss framework does not apply to problem debt management for business banking customers. These customers are, where necessary, managed by specialist problem debt management teams, depending on the size of exposure or by the business banking recoveries team where a loan has been impaired.

Restructuring

Where customers are categorised as Risk of Credit Loss, relationships are mainly managed by the Restructuring team. The purpose of Restructuring is to protect RBS plc's capital. Restructuring does this by working with corporate and commercial customers in financial difficulty on their restructuring and repayment strategies. Restructuring will always aim to recover capital fairly and efficiently.

Specialists in Restructuring work with customers experiencing financial difficulties and showing signs of financial stress. Throughout Restructuring's involvement, the mainstream relationship manager will remain an integral part of the customer relationship, unless a repayment strategy is deemed appropriate. The objective is to find a mutually acceptable solution, including restructuring of existing facilities, repayment or refinancing.

Where a solvent outcome is not possible, insolvency may be considered as a last resort. However, helping the customer return to financial health and restoring a normal banking relationship is always the preferred outcome.

Forbearance

Forbearance takes place when a concession is made on the contractual terms of a loan/debt in response to a customer's financial difficulties.

The aim of forbearance is to support and restore the customer to financial health while minimising risk. To ensure that forbearance is appropriate for the needs of the customer, minimum standards are applied when assessing, recording, monitoring and reporting forbearance.

A credit exposure may be forborne more than once, generally where a temporary concession has been granted and circumstances warrant another temporary or permanent revision of the loan's terms.

In the Personal portfolio, loans are reported as forborne until they meet the exit criteria set out by the European Banking Authority. These include being classified as performing for two years since the last forbearance event, making regular repayments and the loan/debt being less than 30 days past due. Exit criteria are not currently applied for Wholesale portfolios.

Types of forbearance

Personal

In the Personal portfolio, forbearance may involve payment concessions and loan rescheduling (including extensions in contractual maturity) and capitalisation of arrears. Forbearance support is provided for both mortgages and unsecured lending.

Wholesale

In the Wholesale portfolio, forbearance may involve covenant waivers, amendments to margins, payment concessions and loan rescheduling (including extensions in contractual maturity), capitalisation of arrears, and debt forgiveness or debt-for-equity swaps.

Monitoring of forbearance

Personal

For Personal portfolios, forborne loans are separated and regularly monitored and reported while the forbearance strategy is implemented, until they exit forbearance.

Wholesale

In the Wholesale portfolio, customer PDs and facility LGDs are reassessed prior to finalising any forbearance arrangement. The ultimate outcome of a forbearance strategy is highly dependent on the co-operation of the borrower and a viable business or repayment outcome. Where forbearance is no longer appropriate, RBS plc will consider other options such as the enforcement of security, insolvency proceedings or both, although these are options of last resort.

Provisioning requirements on forbearance are detailed in the Provisioning for forbearance section.

Impact of COVID-19

COVID-19 has necessitated various changes to the "business as usual" credit risk management approaches set out above. Specific adjustments made to credit risk management as a result of COVID-19 are set out below.

Risk appetite

Personal

The onset of COVID-19 resulted in a significant deterioration in the economic outlook and consequently the credit environment. In response, credit risk appetite was tightened including changes to credit score acceptance thresholds and certain credit policy criteria, for example, maximum loan-to-values on new mortgage business. The criteria were reviewed and adapted on an ongoing basis throughout the year.

Wholesale

At the outset of COVID-19, Wholesale Credit Risk undertook a vulnerability assessment of sectors and conducted more frequent monitoring of these portfolios, including sub-sector and single name analysis. Additional oversight forums for both new and existing customer requests linked to sector, customer viability and transaction value were also introduced. Monitoring of government support scheme lending, including tracking customer lending journeys to prioritise resources, ensured customers could be supported in a timely manner. Risk appetite limits were reduced to reflect current risks and remain under constant review.

Identification and measurement

Credit stewardship

Wholesale

RBS plc's credit stewardship included carrying out regular portfolio or customer reviews and problem debt identification and management.

In line with existing credit policy parameters, relationship managers were able to defer annual reviews for a maximum of three months. These deferrals were used during 2020 to provide capacity to focus on supporting government lending scheme requests. Customer review meetings took place virtually unless a specific customer request was made, prior approval obtained and a risk assessment carried out.

Credit risk continued

Mitigation

Personal

During the COVID-19 lockdown from April to June in the UK, valuers were prohibited from conducting physical property inspections. As a result, mortgage application processing was suspended where a physical valuation was required. Applications eligible for remote valuations (known as desktops) and automated valuations (AVM) were able to continue and RBS plc increased its valuation capacity to provide an additional quality assurance benchmark for ongoing assessment of desktop and AVM standards. Following the April to June lockdown, the application backlog was cleared once valuers were able to safely return to physical property inspections.

Commercial real estate valuations

Commercial property valuations were not conducted during the initial national lockdown due to travel restrictions, during which time physical valuations were postponed. Following this period, government guidance across the UK nations in respect of local and national lockdowns, confirmed that full internal property inspections could continue subject to adopting COVID-19 secure protocols. However, this required the full co-operation of occupiers and in addition, some commercial premises remained closed. Due to the limitations of some property valuations, The Royal Institute for Chartered Surveyors introduced a Material Valuation Uncertainty Clause (MVUC) for use at the time. There was a general lifting of the MVUC for all UK real estate valuations in September. However, where there is still considerable uncertainty for a location or particular sub-sector (for example, assets valued with reference to their trading potential such as hotels), the MVUC may still apply. This position has not changed with second wave local or subsequent national lockdowns.

Assessment and monitoring

Personal

Reflecting the deteriorated economic outlook, underwriting standards were tightened including additional information requirements from self-employed applicants.

Customers requesting a COVID-19 related payment holiday were not subject to a credit assessment for those requests.

Portfolio performance monitoring was expanded to include insight on customers accessing payment holiday support and their performance at the end of the payment holiday period.

Wholesale

RBS plc established guidance on credit grading in response to COVID-19 to ensure consistent and fair outcomes for customers, whilst appropriately reflecting the economic outlook.

- Within the Wholesale portfolio, customer credit grades were reassessed when a request for financing was made, a scheduled customer credit review undertaken or a material event specific to that customer occurred.
- A request for support using one of the government-backed COVID-19 support schemes was not, in itself, a reason for a customer's credit grade to be amended.
- Large or complex customers were graded using financial forecasts, incorporating both the effect of COVID-19 and the estimated length of time to return to within credit appetite metrics.
- All other customers who were not subject to any wider significant increase in credit risk (SICR) triggers and who were assessed as having the ability in the medium-term post-COVID-19 to be viable and meet credit appetite metrics were graded using audited accounts.
- RBS plc identified those customers for whom additional borrowing would require remedial action to return to within risk appetite over the medium term, and customers who were exhibiting signs of financial stress before COVID-19. These customers were graded with reference to the impact COVID-19 had on their business.
- Tailored guidance applies to financial institutions and, where appropriate, specialist credit grading models such as CRE.
- For certain types of COVID-19 related lending under government support schemes, notably BBLs, in line with the requirements of those schemes, a credit assessment was not undertaken.

Within the Wholesale portfolio, additional monitoring was implemented to identify and monitor specific sectors which had been particularly adversely affected by COVID-19 and the use of government support schemes.

Problem debt management

Personal

In accordance with regulatory guidance, Personal customers were able to obtain a payment holiday of up to three months, twice, if requested. Such payment holidays would not necessarily have been considered forbearance (refer to Forbearance below).

In addition, RBS plc suspended new formal repossession recovery action for Personal customers.

Wholesale

In response to COVID-19, a new framework was introduced to categorise clients in a consistent manner across the Wholesale portfolio, based on the impact of COVID-19 on their financial position and outlook in relation to the sector risk appetite. This framework was extended to all Wholesale customers and supplemented the Risk of Credit Loss framework in assessing whether customers exhibited a SICR, and if support was considered to be granting forbearance. Tailored approaches were also introduced for business banking, commercial real estate and financial institutions customers.

Forbearance

Personal

In the absence of any other forbearance or SICR triggers, customers granted COVID-19 related payment holidays were not considered forborne and were not subject to Collections team engagement. However, a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2. Any support provided beyond the completion of a second payment holiday is considered forbearance, provided the customer's circumstances met the definitions for forbearance as described above.

Wholesale

Customers seeking COVID-19 related support, including payment holidays, who were not subject to any wider SICR triggers and who were assessed as having the ability in the medium term post-COVID-19 to be viable and meet credit appetite metrics, were not considered to have been granted forbearance.

ECL modelling

The unprecedented nature of COVID-19 required various interventions in ECL modelling to ensure reasonable and supportable ECL estimates. These are detailed in the Model monitoring and enhancement section.

Credit grading models

Credit grading models is the collective term used to describe all models, frameworks and methodologies used to calculate PD, exposure at default (EAD), LGD, maturity and the production of credit grades.

Credit grading models are designed to provide:

- An assessment of customer and transaction characteristics.
- A meaningful differentiation of credit risk.
- Accurate internal default, loss and EAD estimates that are used in the capital calculation or wider risk management purposes.

Credit risk continued

Impairment, provisioning and write-offs

In the overall assessment of credit risk, impairment provisioning and write-offs are used as key indicators of credit quality.

RBS plc's IFRS 9 provisioning models, which used existing Basel models as a starting point, incorporate term structures and forward-looking information. Regulatory conservatism within the Basel models has been removed as appropriate to comply with the IFRS 9 requirement for unbiased ECL estimates.

Five key areas may materially influence the measurement of credit impairment under IFRS 9 – two of these relate to model build and three relate to model application:

- Model build:
  - The determination of economic indicators that have most influence on credit loss for each portfolio and the severity of impact (this leverages existing stress testing models which are reviewed annually).
  - The build of term structures to extend the determination of the risk of loss beyond 12 months that will influence the impact of lifetime loss for assets in Stage 2.
- Model application:
  - The assessment of the SICR and the formation of a framework capable of consistent application.
  - The determination of asset lifetimes that reflect behavioural characteristics while also representing management actions and processes (using historical data and experience).
  - The choice of forward-looking economic scenarios and their respective probability weights.

Refer to Accounting policy 7 for further details.

IFRS 9 ECL model design principles

Modelling of ECL for IFRS 9 follows the conventional approach to divide the problem of estimating credit losses for a given account into its component parts of PD, LGD and EAD.

To meet IFRS 9 requirements, the PD, LGD and EAD parameters differ from their Pillar 1 internal ratings based counterparts in the following aspects:

- Unbiased – material regulatory conservatism has been removed from IFRS 9 parameters to produce unbiased estimates.
- Point-in-time – IFRS 9 parameters reflect actual economic conditions at the reporting date instead of long-run average or downturn conditions.
- Forward-looking – IFRS 9 PD estimates and, where appropriate, EAD and LGD estimates reflect forward-looking economic conditions.
- Tenor – IFRS 9 PD, LGD and EAD are provided as multi-period term structures up to exposure lifetimes instead of a fixed one-year horizon.

IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current lifetime PD (i.e. the PD over the remaining lifetime at the reporting date) with the equivalent lifetime PD as determined at the date of initial recognition.

For assets originated before IFRS 9 was introduced, comparable lifetime origination PDs did not exist. These have been retrospectively created using the relevant model inputs applicable at initial recognition.

PD estimates

Personal models

Personal PD models use the Exogenous, Maturity and Vintage (EMV) approach to model default rates. The EMV approach separates portfolio default risk trends into three components: vintage effects (quality of new business over time), maturity effects (changes in risk relating to time on book) and exogenous effects (changes in risk relating to changes in macro-economic conditions). The EMV methodology has been widely adopted across the industry because it enables forward-looking economic information to be systematically incorporated into PD estimates. However, the unprecedented nature of COVID-19 required certain modelling interventions that are detailed in the UK economic uncertainty section.

Wholesale models

Wholesale PD models use a point-in-time/through-the-cycle framework to convert one-year regulatory PDs into point-in-time estimates that accurately reflect economic conditions observed at the reporting date. The framework utilises credit cycle indices (CCIs) across a comprehensive set of region/industry segments. Further detail on CCIs is provided in the Economic loss drivers section.

One year point-in-time PDs are subsequently extended to forward-looking lifetime PDs using a conditional transition matrix approach and a set of econometric models.

LGD estimates

The general approach for the IFRS 9 LGD models is to leverage corresponding Basel LGD models with bespoke adjustments to ensure estimates are unbiased and where relevant, forward-looking.

Personal

Forward-looking information has only been incorporated for the secured portfolios, where changes in property prices can be readily accommodated. Analysis has shown minimal impact of economic conditions on LGDs for the other Personal portfolios.

Wholesale

Forward-looking economic information is incorporated into LGD estimates using the existing CCI framework. For low default portfolios, including sovereigns and banks, loss data is too scarce to substantiate estimates that vary with economic conditions. Consequently, for these portfolios, LGD estimates are assumed to be constant throughout the projection horizon.

EAD estimates

Personal

The IFRS 9 Personal modelling approach for EAD is dependent on product type.

- Revolving products use the existing Basel models as a basis, with appropriate adjustments incorporating a term structure based on time to default.
- Amortising products use an amortising schedule, where a formula is used to calculate the expected balance based on remaining terms and interest rates.
- There is no EAD model for Personal loans. Instead, debt flow (i.e. combined PD x EAD) is modelled directly.

Analysis has indicated that there is minimal impact on EAD arising from changes in the economy for all Personal portfolios except mortgages. Therefore, forward-looking information is only incorporated in the mortgage EAD model (through forecast changes in interest rates).

Wholesale

For Wholesale, EAD values are projected using product specific credit conversion factors (CCFs), closely following the product segmentation and approach of the respective Basel model. However, the CCFs are estimated over multi-year time horizons to produce unbiased model estimates.

No explicit forward-looking information is incorporated, on the basis that analysis has shown that temporal variations in CCFs are mainly attributable to changes in exposure management practices rather than economic conditions.

Credit risk continued

Governance and post model adjustments

The IFRS 9 PD, EAD and LGD models are subject to RBS plc's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. Various post model adjustments (PMAs) were applied where management judged they were necessary to ensure an adequate level of overall ECL provision. All PMAs were subject to formal approval through provisioning governance, and were categorised as follows (business level commentary is provided below):

- Deferred model calibrations – ECL adjustments where PD model monitoring indicated that losses were being over predicted but where it was judged that an implied ECL release was not supportable. As a consequence, any potential ECL release was deferred and retained on the balance sheet.
- Economic uncertainty – ECL adjustments primarily arising from uncertainties associated with multiple economic scenarios (also for 2019) and credit outcomes as a result of the effect of COVID-19 and the consequences of government interventions. In both cases, management judged that additional ECL was required until further credit performance data became available on the behavioural and loss consequences of COVID-19.
- Other adjustments – ECL adjustments where it was judged that the modelled ECL required to be amended.

ECL post model adjustments

2020	Retail Banking £m	Commercial Banking £m	Total £m
Deferred model calibrations	**7**	**2**	**9**
Economic uncertainty	**32**	**138**	**170**
Other adjustments	**7**	**4**	**11**
Total	**46**	**144**	**190**
2019			
Deferred model calibrations	—	—	—
Economic uncertainty	20	28	48
Other adjustments	14	1	15
Total	34	29	63

Note:
(1) For 2019, the PMA for model calibrations was negligible and was reported on a different basis. At that time, the value was based on the required ECL uplift pending systematic updates to model parameters, although the adjustment value was included in the reported ECL. For 2020, the value of PD calibration releases that were deemed not supportable and retained on the balance sheet is disclosed. Therefore, to be consistent in approach, the PMA value for 2019 has been reported as nil. For LGD, where model monitoring outcomes were less clear, and emerged over an extended period, monitoring focused on assessing the adequacy of loss estimates, and was duly assured and governed at the year end.

Retail Banking – The PMA for deferred model calibrations of £7 million (of which £5 million was in mortgages) reflected management's judgement that the beneficial modelling impact, and implied ECL decrease, arising from underlying portfolio performance, that had been influenced by the various customer support mechanisms, was not supportable.

The PMA for economic uncertainty included an ECL uplift of £13 million (of which £8 million was in mortgages) on a subset of customers who had accessed payment holiday support where their risk profile was identified as relatively high risk. In addition, there was a holdback of a modelled ECL release of £13 million, again due to the delayed default emergence reflective of the various customer support mechanisms (£3 million related to mortgages and £10 million related to unsecured lending). The overlay as at 31 December 2019 was reflective of the uncertainty associated with Brexit, subsequently systematically incorporated within the multiple economic scenarios. The 2020 overlay also included an ECL uplift on buy-to-let mortgages of £3 million (2019 – £2 million) to mitigate the risk of a disproportionate credit deterioration in challenging economic circumstances.

Other judgmental overlays included £6 million (2019 – £8 million) in respect of the repayment risk not captured in the models, that a proportion of customers on interest-only mortgages would not be able to repay the capital element of their loan at the end of term.

Commercial Banking – The PMA for economic uncertainty included an overlay of £107 million based on a judgemental thesis, reflecting concern that the unprecedented nature of COVID-19 could result in longer debt recovery periods and lower values than history suggested, and also the risk of idiosyncratic credit outcomes. It also included an overlay of £19 million in respect of elevated concerns around borrowers' ability to refinance facilities at the end of the contractual term. Additionally, it included overlays to address the effects of customer support mechanisms.

There was also a PMA for deferred model calibrations on the business banking portfolio reflecting management's judgement that the beneficial modelling impact, and implied ECL decrease, was not supportable again whilst portfolio performance was being under-pinned by the various support mechanisms. Other adjustments included an overlay of £4 million to mitigate the effect of operational timing delays in the identification and flagging of a SICR.

Credit risk continued

Significant increase in credit risk (SICR)

Exposures that are considered significantly credit deteriorated since initial recognition are classified in Stage 2 and assessed for lifetime ECL measurement (exposures not considered deteriorated carry a 12 month ECL). RBS plc has adopted a framework to identify deterioration based primarily on relative movements in lifetime PD supported by additional qualitative backstops. The principles applied are consistent across RBS plc and align to credit risk management practices, where appropriate.

The framework comprises the following elements:

- IFRS 9 lifetime PD assessment (the primary driver) – on modelled portfolios the assessment is based on the relative deterioration in forward-looking lifetime PD and is assessed monthly. To assess whether credit deterioration has occurred, the residual lifetime PD at balance sheet date (which PD is established at date of initial recognition (DOIR)) is compared to the current PD. If the current lifetime PD exceeds the residual origination PD by more than a threshold amount deterioration is assumed to have occurred and the exposure transferred to Stage 2 for a lifetime loss assessment. For Wholesale, a doubling of PD would indicate a SICR subject to a minimum PD uplift of 0.1%. For Personal portfolios, the criteria vary by risk band, with lower risk exposures needing to deteriorate more than higher risk exposures, as outlined in the following table:
- Qualitative high-risk backstops – the PD assessment is complemented with the use of qualitative high-risk backstops to further inform whether significant deterioration in lifetime risk of default has occurred. The qualitative high-risk backstop assessment includes the use of the mandatory 30+ days past due backstop, as prescribed by IFRS 9 guidance, and other features such as forbearance support, Wholesale exposures managed within the Risk of Credit Loss framework, and adverse credit bureau results for Personal customers. Where a Personal customer was granted a payment holiday (also referred to as a payment deferral) in response to COVID-19, they were not automatically transferred into Stage 2. However, a subset of Personal customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2 (if not in Stage 2 already). Any support provided beyond completion of the second payment holiday was considered forbearance. Wholesale customers accessing the various COVID-19 support mechanisms were assessed as detailed in the Impact of COVID-19 section.

Personal risk bands	PD bandings (based on residual lifetime PD calculated at DOIR)	PD deterioration threshold criteria
Risk band A	<0.762%	PD@DOIR + 1%
Risk band B	<4.306%	PD@DOIR + 3%
Risk band C	>=4.306%	1.7 x PD@DOIR

- Persistence (Personal and business banking customers only) – the persistence rule ensures that accounts which have met the criteria for PD driven deterioration are still considered to be significantly deteriorated for three months thereafter. This additional rule enhances the timeliness of capture in Stage 2. The persistence rule is applied to PD driven deterioration only.

The criteria are based on a significant amount of empirical analysis and seek to meet three key objectives:

- Criteria effectiveness – the criteria should be effective in identifying significant credit deterioration and prospective default population.
- Stage 2 stability – the criteria should not introduce unnecessary volatility in the Stage 2 population.
- Portfolio analysis – the criteria should produce results which are intuitive when reported as part of the wider credit portfolio.

Provisioning for forbearance

Personal

The methodology used for provisioning in respect of Personal forborne loans will differ depending on whether the loans are performing or non-performing and which business is managing them due to local market conditions.

Granting forbearance will only change the arrears status of the loan in specific circumstances, which can include capitalisation of principal and interest in arrears, where the loan may be returned to the performing book if the customer has demonstrated an ability to meet regular payments and is likely to continue to do so.

The loan would continue to be reported as forborne until it meets the exit criteria set out by the European Banking Authority.

Additionally, for some forbearance types, a loan may be transferred to the performing book if a customer makes payments that reduce loan arrears below 90 days (Retail Banking collections function).

For ECL provisioning, all forborne but performing exposures are categorised as Stage 2 and are subject to a lifetime loss provisioning assessment.

For non-performing forborne loans, the Stage 3 loss assessment process is the same as for non-forborne loans.

In the absence of any other forbearance or SICR triggers, customers granted COVID-19 related payment holidays were not considered forborne. However, any support provided beyond completion of a second payment holiday is considered forbearance.

Wholesale

Provisions for forborne loans are assessed in accordance with normal provisioning policies. The customer's financial position and prospects – as well as the likely effect of the forbearance, including any concessions granted, and revised PD or LGD gradings – are considered in order to establish whether an impairment provision increase is required.

Wholesale loans granted forbearance are individually assessed in most cases. Performing loans subject to forbearance treatment are categorised as Stage 2 and subject to a lifetime loss assessment.

Forbearance may result in the value of the outstanding debt exceeding the present value of the estimated future cash flows. This difference will lead to a customer being classified as non-performing.

In the case of non-performing forborne loans, an individual loan impairment provision assessment generally takes place prior to forbearance being granted. The amount of the loan impairment provision may change once the terms of the forbearance are known, resulting in an additional provision charge or a release of the provision in the period the forbearance is granted.

The transfer of Wholesale loans from impaired to performing status follows assessment by relationship managers and credit. When no further losses are anticipated and the customer is expected to meet the loan's revised terms, any provision is written-off or released and the balance of the loan returned to performing status. This is not dependent on a specified time period and follows the credit risk manager's assessment.

Customers seeking COVID-19 related support, including payment holidays, who were not subject to any wider SICR triggers and who were assessed as having the ability in the medium term post-COVID-19 to be viable and meet credit appetite metrics, were not considered to have been granted forbearance. Refer to the Impact of COVID-19 section for further details.

Asset lifetimes

The choice of initial recognition and asset duration is another critical judgement in determining the quantum of lifetime losses that apply.

- The date of initial recognition reflects the date that a transaction (or account) was first recognised on the balance sheet; the PD recorded at that time provides the baseline used for subsequent determination of SICR as detailed above.
- For asset duration, the approach applied (in line with IFRS 9 requirements) is:
  - Term lending – the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected prepayment and amortisation).
  - Revolving facilities – for Personal portfolios (except credit cards), asset duration is based on behavioural life and this is normally greater than contractual life (which would typically be overnight). For Wholesale portfolios, asset duration is based on annual counterparty review schedules and will be set to the next review date.

Risk and capital management

Credit risk continued

In the case of credit cards, the most significant judgement is to reflect the operational practice of card reissuance and the associated credit assessment as enabling a formal re-origination trigger. As a consequence, a capped lifetime approach of up to 36 months is used on credit card balances. If the approach was uncapped the ECL impact is estimated at approximately £25 million (2019 – £25 million). However, credit card balances originated under the 0% balance transfer product, and representing approximately 9% of drawn cards balances, have their ECL calculated on a behavioural life-time approach as opposed to being capped at a maximum of three years.

The capped approach reflects RBS plc practice of a credit-based review of customers prior to credit card issuance and complies with IFRS 9. Benchmarking information indicates that peer UK banks use behavioural approaches in the main for credit card portfolios with average durations between three and ten years. Across Europe, durations are shorter and are, in some cases, as low as one year.

Economic loss drivers

Introduction

The portfolio segmentation and selection of economic loss drivers for IFRS 9 follow closely the approach used in stress testing. To enable robust modelling the forecasting models for each portfolio segment (defined by product or asset class and where relevant, industry sector and region) are based on a selected, small number of economic factors, (typically three to four) that best explain the temporal variations in portfolio loss rates. The process to select economic loss drivers involves empirical analysis and expert judgement.

The most material economic loss drivers for the Personal portfolio include the unemployment rate, the house price index, and the Bank of England base rate.

For the Wholesale portfolio, in addition to interest and unemployment rates, national GDP, stock price indices and world GDP are primary loss drivers.

Economic scenarios

As at 31 December 2020, the range of anticipated future economic conditions was defined by a set of four internally developed scenarios and their respective probabilities. They comprised upside, base case, downside and extreme downside scenarios. The scenarios primarily reflected a range of outcomes for the path of COVID-19 and associated effects on labour and asset markets. The scenarios were consistent with the UK-EU Trade and Cooperation Agreement and are summarised as follows:

Upside – This scenario assumes a very strong recovery through 2021, facilitated by a very rapid rollout of the vaccine. Economic output regains its pre-COVID-19 peak by the end of the year. The rebound in consumer spending from an easing in lockdown restrictions is rapid, enabling a more successful reabsorption of furloughed labour compared to the base case. That limits the rise in unemployment. Consequently, the effect on asset prices is more limited compared to the base case.

Base case – The current lockdown restrictions are gradually loosened enabling a recovery over the course of 2021. The rollout of the vaccines proceeds as planned. Consumer spending rebounds as accumulated household savings are spent, providing support to the recovery in consumer-facing service sectors. Unemployment rises through to the second half of 2021, peaking at 7%, before gradually retreating. Housing activity slows in the second half of 2021 with a very limited decline in prices.

Downside – This scenario assumes the rollout of the COVID-19 vaccine is slower compared to base case, leading to a more sluggish recovery. Business confidence is slower to return while households remain more cautious. This scenario assumes that the labour market and asset market damage is greater than in the base case. Unemployment peaks at 9.4%, surpassing the financial crisis peak and causing more scarring.

Extreme downside – This scenario assumes a new variant of COVID-19 necessitates a new vaccine, which substantially slows the speed of rollout, prolonging the recovery. There is a renewed sharp downturn in the economy in 2021. Firms react by shedding labour in significant numbers, leading to a very difficult recovery with the unemployment rate surpassing the levels seen in the 1980s. There are very sharp declines in asset prices. The recovery is tepid throughout the five-year period, meaning only a gradual decline in joblessness.

In contrast, as at 31 December 2019, RBS plc used five discrete scenarios to characterise the distribution of risks in the economic outlook. For 2020, the four scenarios were deemed appropriate in capturing the uncertainty in economic forecasts and the non-linearity in outcomes under different scenarios. These four scenarios were developed to provide sufficient coverage across potential rises in unemployment, asset price falls and the degree of permanent damage to the economy, around which there are pronounced levels of uncertainty at this stage.

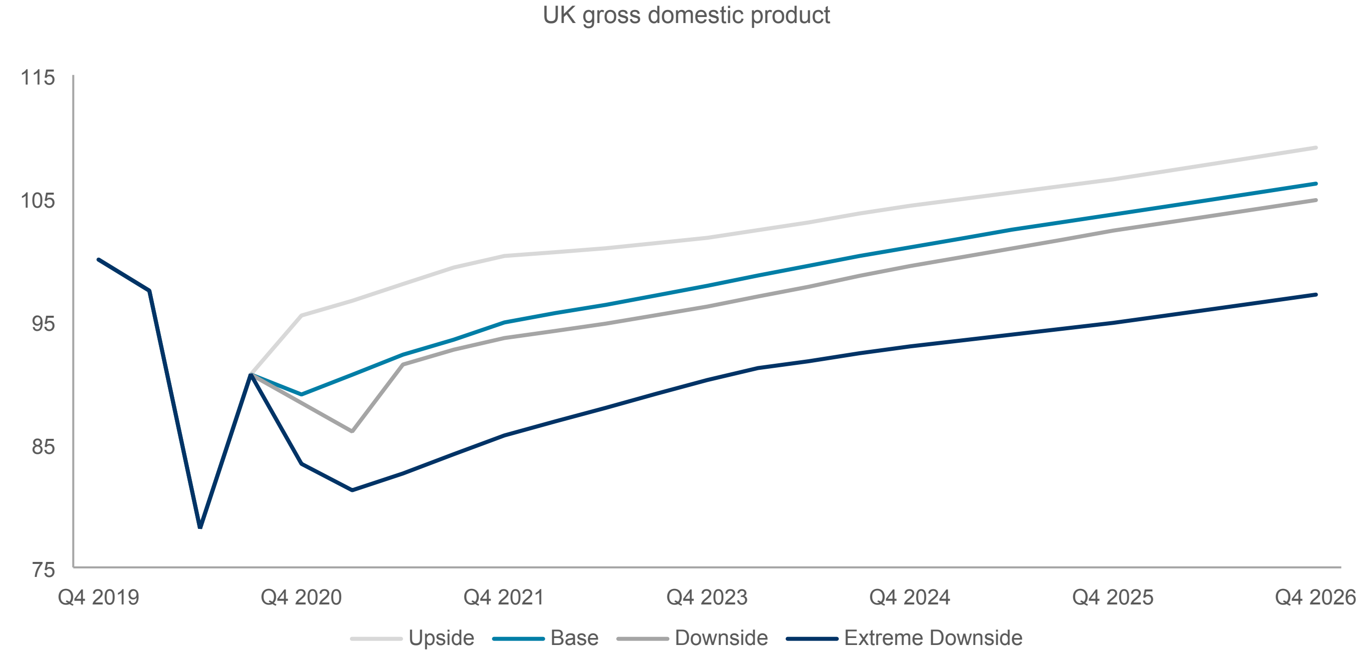
The tables and commentary below provide details of the key economic loss drivers under the four scenarios.

The main macroeconomic variables for each of the four scenarios used for ECL modelling are set out in the main macroeconomic variables table below. The compound annual growth rate (CAGR) for GDP is shown. It also shows the five-year average for unemployment and the Bank of England base rate. The House Price Inflation and commercial real estate figures show the total change in each asset over five years.

Credit risk continued
Economic loss drivers
Main macroeconomic variables

	2020				2019				
	Upside	**Base case**	**Downside**	**Extreme downside**	Upside 2	Upside 1	Base case	Downside 1	Downside 2
Five-year summary	**%**	**%**	**%**	**%**	%	%	%	%	%
UK									
GDP - CAGR	**3.6**	**3.1**	**2.8**	**1.3**	2.5	2.3	1.6	1.3	0.9
Unemployment - average	**4.4**	**5.7**	**7.1**	**9.7**	3.6	3.9	4.4	4.6	5.2
House Price Inflation - total change	**12.5**	**7.6**	**4.4**	**(19.0)**	22.4	17.6	8.3	4.0	(5.1)
Bank of England base rate - average	**0.2**	**—**	**(0.1)**	**(0.5)**	1.0	0.7	0.3	—	—
Commercial real estate price - total change	**4.3**	**0.7**	**(12.0)**	**(31.5)**	13.0	8.1	(1.3)	(5.8)	(15.1)
World GDP - CAGR	**3.5**	**3.4**	**2.9**	**2.8**	3.9	3.3	2.8	2.5	2.0
Probability weight	**20.0**	**40.0**	**30.0**	**10.0**	12.7	14.8	30.0	29.7	12.7

Note:
(1) The five year period starts at Q3 2020 for 2020 and Q3 2019 for 2019.



Credit risk continued

Annual figures

UK GDP - annual growth

	Upside %	Base case %	Downside %	Extreme downside %
2020	**(9.3)**	**(10.9)**	**(11.1)**	**(12.3)**
2021	**9.0**	**4.5**	**2.6**	**(4.6)**
2022	**2.6**	**4.2**	**4.6**	**6.1**
2023	**2.2**	**3.2**	**3.2**	**4.0**
2024	**2.3**	**2.8**	**3.1**	**2.3**
2025	**2.3**	**2.4**	**2.6**	**2.3**

UK unemployment rate - annual average

	Upside %	Base case %	Downside %	Extreme downside %
2020	**4.4**	**4.4**	**4.9**	**5.4**
2021	**5.6**	**6.3**	**8.5**	**12.3**
2022	**4.5**	**6.3**	**7.7**	**12.0**
2023	**3.8**	**5.5**	**6.7**	**9.0**
2024	**3.8**	**5.1**	**6.2**	**7.5**
2025	**3.9**	**5.1**	**6.2**	**7.3**

UK House Price Inflation - four quarter growth

	Upside %	Base case %	Downside %	Extreme downside %
2020	**2.7**	**1.5**	**(1.8)**	**(5.2)**
2021	**2.2**	**(3.0)**	**(7.4)**	**(26.9)**
2022	**1.7**	**3.6**	**6.5**	**5.1**
2023	**2.2**	**2.2**	**4.6**	**5.0**
2024	**2.8**	**2.8**	**2.8**	**5.6**
2025	**3.1**	**3.1**	**3.1**	**3.1**

UK commercial real estate price - four quarter growth

	Upside %	Base case %	Downside %	Extreme downside %
2020	**(7.7)**	**(9.5)**	**(16.6)**	**(21.4)**
2021	**2.6**	**(2.6)**	**(15.9)**	**(26.6)**
2022	**0.3**	**5.7**	**10.8**	**3.2**
2023	**0.4**	**(0.4)**	**3.2**	**3.2**
2024	**1.2**	**0.4**	**1.6**	**3.2**
2025	**1.2**	**1.2**	**1.2**	**1.2**

Worst points

The worst points refer to the worst four-quarter rate of change for GDP, House Price Inflation and commercial real estate price and the worst quarterly figures for unemployment between 2020 and 2025.

	31 December 2020				31 December 2019	
UK	Upside %	Base case %	Downside %	Extreme downside %	Downside 1 %	Downside 2 %
GDP (year-on-year)	**(21.5)**	**(21.5)**	**(21.5)**	**(21.5)**	(0.2)	(1.8)
Unemployment	**5.9**	**7.0**	**9.4**	**13.9**	4.9	5.5
House Price Inflation (year-on-year)	**1.4**	**(3.6)**	**(11.2)**	**(29.8)**	(3.5)	(8.4)
Commercial real estate price (year-on-year)	**(7.7)**	**(12.3)**	**(29.7)**	**(41.1)**	(8.2)	(12.6)

Peak (Q3 2020) to trough

	31 December 2020			
UK	Upside %	Base case %	Downside %	Extreme downside %
GDP	**—**	**(1.8)**	**(5.1)**	**(10.4)**
House Price Inflation	**—**	**(3.6)**	**(11.2)**	**(32.0)**
Commercial real estate price	**(3.4)**	**(10.1)**	**(28.9)**	**(40.4)**

Credit risk continued

Economic loss drivers

Probability weightings of scenarios

RBS plc's approach to IFRS 9 multiple economic scenarios (MES) involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights. The scale of the economic impact of COVID-19 and the range of recovery paths necessitates a change of approach to assigning probability weights from that used in recent updates. Previously GDP paths for RBS plc's scenarios were compared against a set of 1,000 model runs, following which a percentile in the distribution was established that most closely corresponded to the scenario. This approach does not produce meaningful outcomes in the current circumstances because GDP is highly volatile and highly uncertain.

Instead, RBS plc has subjectively applied probability weights, reflecting internal expert views. The probability weight assignment was judged to present good coverage to the central scenarios and the potential for a far more robust recovery on the upside and exceptionally challenging outcomes on the downside. A 20% weighting was applied to the upside scenario, a 40% weighting applied to the base case scenario, a 30% weighting applied to the downside scenario and a 10% weighting applied to the extreme downside scenario. RBS plc judged a downside-biased weighting as appropriate given the risk to the outlook posed by the numerous factors influencing the path of COVID-19, the rollout of the vaccine and the pace at which social distancing restrictions can be relaxed.

Use of the scenarios in Personal lending

Personal lending follows a discrete scenario approach which means that for each account, PD and LGD values are calculated as probability weighted averages across the individual, discrete economic scenarios. The PD values for each discrete scenario are in turn calculated using product specific econometric models that aggregate forecasts of the relevant economic loss drivers into forecasts of the exogenous component of the respective PD models (refer to IFRS 9 ECL model design principles).

Use of the scenarios in Wholesale lending

The Wholesale lending methodology is based on the concept of CCIs. The CCIs represent, similar to the exogenous component in Personal, all relevant economic loss drivers for a region/industry segment aggregated into a single index value that describes the loss rate conditions in the respective segment relative to its long-run average. A CCI value of zero corresponds to loss rates at long-run average levels, a positive CCI value corresponds to loss rates below long-run average levels and a negative CCI value corresponds to loss rates above long-run average levels.

The four economic scenarios are translated into forward-looking projections of CCIs using a set of econometric models. Subsequently the CCI projections for the individual scenarios are averaged into a single central CCI projection according to the given scenario probabilities. The central CCI projection is then overlaid with an additional mean reversion assumption, i.e. that after one to two years into the forecast horizon the CCI gradually revert to their long-run average of zero.

Finally, ECL is calculated using a Monte Carlo approach by averaging PD and LGD values arising from many CCI paths simulated around the central CCI projection.

The rationale for the Wholesale approach is the long-standing observation that loss rates in Wholesale portfolios tend to follow regular cycles. This allows RBS plc to enrich the range and depth of future economic conditions embedded in the final ECL beyond what would be obtained from using the discrete macro-economic scenarios alone.

Business banking, while part of the Wholesale segment, for reporting purposes, utilises the Personal lending rather than the Wholesale lending methodology.

UK economic uncertainty

Treatment of COVID-19 relief mechanisms

Use of COVID-19 relief mechanisms (for example, payment holidays, CBILS and BBLS) will not automatically merit identification of SICR and trigger a Stage 2 classification in isolation. However, a subset of Personal customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk were collectively migrated to Stage 2 (if not already captured by other SICR criteria).

For Wholesale customers, RBS plc continues to provide support, where appropriate, to existing customers. Those who are deemed either (a) to require a prolonged timescale to return within RBS plc's risk appetite, (b) not to have been viable pre-COVID-19, or (c) not to be able to sustain their debt once COVID-19 is over, will trigger a SICR and, if concessions are sought, be categorised as forborne, in line with regulatory guidance.

As some of the government support mechanisms conclude, RBS plc anticipates further credit deterioration in the portfolios. There are a number of key factors that could drive further downside to impairments, through deteriorating economic and credit metrics and increased stage migration as credit risk increases for more customers. A key factor would be a more adverse deterioration in GDP and unemployment in the economies in which RBS plc operates, but also, among others:

- The timing and nature of governmental exit plans from lockdown, notably in the UK and any future repeated lockdown requirements.
- The progress of COVID-19, with potential for changes in worker/consumer behaviour and sickness levels.
- The efficacy of the various government support initiatives in terms of their ability to defray customer defaults is yet to be proven, notably over an extended period.
- Any further damage to certain supply chains, most notably in the case of any re-tightening of lockdown rules but also delays caused by social distancing measures and possible export/import controls.
- The level of revenues lost by corporate clients and pace of recovery of those revenues may affect RBS plc's clients' ability to service their borrowing, especially in those sectors most exposed to the impacts of COVID-19.
- Higher unemployment if companies fail to restart jobs after periods of staff furlough.

This could potentially lead to further ECL increases. However, the income statement impact of this will be mitigated to some extent by the forward-looking provisions taken as at 31 December 2020.

Model monitoring and enhancement

The abrupt and prolonged interruption of a wide range of economic activities due to COVID-19 and the subsequent government interventions to support businesses and individuals, has resulted in patterns in the data of key economic loss drivers and loss outcomes, that are markedly different from those that RBS plc's models have been built on. To account for these structural changes, model adjustments have been applied and model changes have been implemented.

Government support

Most notably as a result of various government support measures, the increase in model-predicted defaults caused by the sharp contraction in GDP and consumer spending in Q2 2020 has to date, not materialised.

Accordingly, model-projected default rates in Wholesale and Personal have been adjusted by introducing lags of up to 12 months. These lags are based partly on objective empirical data (i.e. the absence of increases in realised default rates by the reporting date) and partly judgmental, based on the extension of government support measures into 2021 and their expected effectiveness.

Risk and capital management

Credit risk continued

In Wholesale lending, most importantly business and commercial banking, model-projected default rates have also been scaled down based on the expectation that credit extended under various government support loan schemes will allow many businesses, not only to delay, but to sustainably mitigate their default risk profile.

Extreme GDP movements – Wholesale only

Due to the specific nature of COVID-19, GDP year-on-year movements in both directions are extremely sharp, many multiples of their respective extremes observed previously.

This creates a risk of overstretched, invalid extrapolations in statistical models. Therefore, all Wholesale econometric models were updated to make them robust against extreme GDP movements by capping projected CCI values at levels corresponding to three times the default rates observed at the peak of the global financial crisis and using quarterly averages rather than spot values for CCI projections.

Industry sector detail – Wholesale only

The economic impact of COVID-19 is highly differentiated by industry sector, with hospitality and other contact-based leisure, service, travel and passenger transport activities significantly more affected than the overall economy. On the other hand, the corporate and commercial econometric forecasting models used in Wholesale are sector agnostic. Sector performance was therefore monitored throughout the year and additional adjustments were applied when PDs were deemed inconsistent with expected loss outcomes at sector level. No such interventions were necessary at the year end.

Scenario sensitivity – Personal only

For the Personal lending portfolio, the forward-looking components of the IFRS 9 PD models were modified, leveraging existing econometric models used in stress testing to ensure that PDs appropriately reflect the forecasts for unemployment and house prices in particular.

All in-model adjustments described have been applied by correcting the PD and LGD estimates within the core ECL calculation process and therefore consistently and systematically inform SICR identification and ECL measurement.

Additionally, post model ECL adjustments were made in Personal to ensure that the ECL was adjusted for known model over and under-predictions pre-existing COVID-19, pending the systematic re-calibration of the underlying models.

Government guarantees

During 2020, the UK government launched a series of temporary schemes designed to support businesses deal with the impact of COVID-19. The BBLS, CBILS and CLBILS lending products are originated by NatWest Group but are covered by government guarantees. These are to be set against the outstanding balance of a defaulted facility after the proceeds of the business assets have been applied. The government guarantee is 80% for CBILS and CLBILS and 100% for BBLS. NatWest Group recognises lower LGDs for these lending products as a result, with 0% applied to the government guaranteed part of the exposure.

Notwithstanding the government guarantees, NatWest Group's measurements of PD are unaffected and NatWest Group continues to move exposures to Stage 2 and Stage 3 where a significant deterioration in credit risk or a default is identified.

Measurement uncertainty and ECL sensitivity analysis

The recognition and measurement of ECL is complex and involves the use of significant judgement and estimation, particularly in times of economic volatility and uncertainty. This includes the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9. The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate.

The focus of the simulations is on ECL provisioning requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other; the potential ECL impacts reflect the simulated impact as at 31 December 2020. Scenario impacts on SICR should be considered when evaluating the ECL movements of Stage 1 and Stage 2. In all scenarios the total exposure was the same but exposure by stage varied in each scenario.

Stage 3 provisions are not subject to the same level of measurement uncertainty – default is an observed event as at the balance sheet date. Stage 3 provisions therefore have not been considered in this analysis.

The impact arising from the upside, downside and extreme downside scenarios has been simulated. These scenarios are three of the four discrete scenarios used in the methodology for Personal multiple economic scenarios as described in the Economic loss drivers section. In the simulations, RBS plc has assumed that the economic macro variables associated with these scenarios replace the existing base case economic assumptions, giving them a 100% probability weighting and thus serving as a single economic scenario.

These scenarios have been applied to all modelled portfolios in the analysis below, with the simulation impacting both PDs and LGDs. Modelled overlays present in the underlying ECL estimates are also sensitised in line with the modelled ECL movements, but those that were judgmental in nature, primarily those for economic uncertainty, were not (refer to the Governance and post model adjustments section). As expected, the scenarios create differing impacts on ECL by portfolio and the impacts are deemed reasonable. In this simulation, it is assumed that existing modelled relationships between key economic variables and loss drivers hold, but in practice other factors would also have an impact, for example, potential customer behaviour changes and policy changes by lenders that might impact on the wider availability of credit.

RBS plc's core criterion to identify a SICR is founded on PD deterioration, as discussed above. Under the simulations, PDs change and result in exposures moving between Stage 1 and Stage 2 contributing to the ECL impact.

The simulated ECL impacts in the December 2020 sensitivity analysis were significantly higher than in the sensitivity analysis carried out at December 2019 (refer to the 2019 Annual Report and Accounts for further details). The relative ECL movements across the scenarios were reflective of a higher actual reported ECL, including certain treatments to capture the idiosyncratic risk of COVID-19, with the economics in the extreme downside scenario significantly more adverse than in the 2019 downside 2 scenario.

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis

2020	Actual	Upside	Downside	Extreme downside
Stage 1 modelled exposure (£m)				
Retail Banking	15,164	15,363	15,023	12,317
Wholesale	18,670	20,824	18,318	14,854
Stage 1 modelled ECL (£m)				
Retail Banking	23	17	23	24
Wholesale	56	60	57	50
Stage 1 coverage (%)				
Retail Banking	0.15%	0.11%	0.15%	0.19%
Wholesale	0.30%	0.29%	0.31%	0.34%
Stage 2 modelled exposure (£m)				
Retail Banking	4,659	4,460	4,801	7,507
Wholesale	9,530	7,376	9,881	13,345
Stage 2 modelled ECL (£m)				
Retail Banking	166	126	178	276
Wholesale	466	331	501	762
Stage 2 coverage (%)				
Retail Banking	3.56%	2.83%	3.71%	3.68%
Wholesale	4.89%	4.49%	5.07%	5.71%
Stage 1 and Stage 2 modelled exposure (£m)				
Retail Banking	19,823	19,823	19,823	19,823
Wholesale	28,200	28,200	28,200	28,200
Stage 1 and Stage 2 modelled ECL (£m)				
Retail Banking	189	143	201	300
Wholesale	522	391	558	812
Stage 1 and Stage 2 coverage (%)				
Retail Banking	0.95%	0.72%	1.01%	1.51%
Wholesale	1.85%	1.39%	1.98%	2.88%
Reconciliation to Stage 1 and Stage 2 ECL (£m)				
ECL on modelled exposures	711	534	759	1,112
ECL on non-modelled exposures	6	6	6	6
Total Stage 1 and Stage 2 ECL	717	540	765	1,118
Variance – (lower)/higher to actual total Stage 1 and Stage 2 ECL		(177)	48	401

Notes:
(1) Variations in future undrawn exposure values across the scenarios are modelled, however the exposure position reported is that used to calculate modelled ECL as at 31 December 2020 and therefore does not include variation in future undrawn exposure values.
(2) Reflects ECL for all modelled exposure in scope for IFRS 9; in addition to loans this includes bonds and cash. The analysis excludes non-modelled portfolios.
(3) All simulations are run on a stand-alone basis and are independent of each other, with the potential ECL impact reflecting the simulated impact as at 31 December 2020. The simulations change the composition of Stage 1 and Stage 2 exposure but total exposure is unchanged under each scenario as the loan population is static.
(4) Refer to the Economic loss drivers section for details of economic scenarios.
(5) 2019 comparatives are not included as the sensitivity scenario analysis relates to the 31 December 2020 balance sheet position.

Key points

- During 2020, ECL increased materially as a result of COVID-19 disruption and a negative economic outlook. Downside risk persisted and was reflected in the scenario weightings with heavier weighting to the downside than to the upside. Judgemental ECL post model adjustments reflected heightened uncertainty and expectation of increased defaults in 2021 and beyond. To a certain extent, these adjustments dampen the ECL uplift in the downside scenario, particularly in Wholesale which had already observed a larger proportionate increase in actual reported ECL and coverage.
- If the economics were as negative as observed in the extreme downside, overall Stage 1 and Stage 2 ECL was simulated to increase by approximately 56%.
- The relatively small ECL uplift in the downside scenario (£48 million, 7% of actual) reflected the weighting within the multiple economic scenarios used in the actual reported ECL to the downside.
- In the upside scenario, the simulated ECL reduction (£177 million, 25% of actual) was lower than the uplift observed in the extreme downside (£401 million), again reflecting the expectation that the non-linearity of losses was skewed to the downside.
- The simulated value of exposures in Stage 2 increased significantly in the extreme downside and was the key driver of the simulated ECL increase. The movement in Stage 2 balances in the other simulations was less marked, with the exception of Wholesale, where a significant reduction was observed in the upside scenario reflecting the sensitivity of SICR criteria to relatively small movements in PD.

Risk and capital management

Credit risk – Banking activities

Introduction

This section details the credit risk profile of RBS plc's banking activities.

Refer to Accounting policy 7 and Note 11 to the financial statements for policies and critical judgements relating to impairment loss determination.

Financial instruments within the scope of the IFRS 9 ECL framework

Refer to Note 8 to the financial statements for balance sheet analysis of financial assets that are classified as amortised cost or fair value through other comprehensive income (FVOCI), the starting point for IFRS 9 ECL framework assessment.

Financial assets

	2020 £bn	2019 £bn
Balance sheet total gross amortised cost and FVOCI	**78.2**	82.5
In scope of IFRS 9 ECL framework	**77.1**	81.4
% in scope	**99%**	99%
Loans - in scope	**50.6**	55.3
Stage 1	**35.2**	47.8
Stage 2	**13.9**	6.1
Stage 3	**1.5**	1.4
Other financial assets - in scope	**26.5**	26.1
Stage 1	**26.5**	26.1
Out of scope of IFRS 9 ECL framework	**1.1**	1.1

The assets outside the IFRS 9 ECL framework were as follows:

- Settlement balances, items in the course of collection, cash balances and other non-credit risk assets of £0.7 billion (2019 – £0.6 billion). These were assessed as having no ECL unless there was evidence that they were credit impaired.
- Fair value adjustments on loans hedged by interest rate swaps, where the underlying loan was within the IFRS 9 ECL scope of £0.4 billion (2019 – £0.4 billion).

In scope assets also include an additional £20.9 billion (2019 – £7.7 billion) of inter-Group assets not shown in table above.

Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 20 to the financial statements – reputationally-committed limits are also included in the scope of the IFRS 9 ECL framework. These are offset by £0.1 billion (2019 – £0.9 billion) out of scope balances primarily related to facilities that, if drawn, would not be classified as amortised cost or FVOCI, or undrawn limits relating to financial assets exclusions. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope of £25.4 billion (2019 – £27.1 billion) comprised Stage 1; £19.9 billion (2019 – £25.8 billion); Stage 2 £5.3 billion (2019 – £1.2 billion) and Stage 3 £0.2 billion (2019 – £0.1 billion).

Portfolio summary – segment analysis

The table below shows gross loans and ECL, by segment and stage, within the scope of the IFRS 9 ECL framework.

2020	Retail Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Loans - amortised cost and FVOCI					
Stage 1	15,062	18,365	639	1,132	35,198
Stage 2	4,554	9,329	59	—	13,942
Stage 3	555	918	13	—	1,486
Inter-Group				20,894	20,894
	20,171	28,612	711	22,026	71,520
ECL provisions					
Stage 1	23	57	1	3	84
Stage 2	166	465	2	—	633
Stage 3	210	417	1	—	628
Inter-Group				14	14
	399	939	4	17	1,359
ECL provisions coverage (1,2)					
Stage 1 (%)	0.15	0.31	0.16	0.27	0.24
Stage 2 (%)	3.65	4.98	3.39	—	4.54
Stage 3 (%)	37.84	45.42	7.69	—	42.26
Inter-Group (%)				0.07	0.07
	1.98	3.28	0.56	0.27	2.66
Impairment losses					
ECL charge					
Stage 1	(9)	17	1	—	9
Stage 2	94	426	1	—	521
Stage 3	41	106	—	—	147
Inter-Group				13	13
	126	549	2	13	690
ECL loss rate - annualised (basis points) (2)	62	192	28	—	134
Amounts written-off	91	90	1	—	182

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

Credit risk – Banking activities continued

Portfolio summary – segment analysis

2019	Retail Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Loans - amortised cost and FVOCI					
Stage 1	18,921	26,707	664	1,473	47,765
Stage 2	3,323	2,751	36	—	6,110
Stage 3	607	801	27	—	1,435
Inter-Group				7,694	7,694
	22,851	30,259	727	9,167	63,004
ECL provisions					
Stage 1	20	37	—	1	58
Stage 2	104	67	—	—	171
Stage 3	225	367	2	—	594
	349	471	2	1	823
ECL provisions coverage (1,2)					
Stage 1 (%)	0.11	0.14	—	0.07	0.12
Stage 2 (%)	3.13	2.44	—	—	2.80
Stage 3 (%)	37.07	45.82	7.41	—	41.39
	1.53	1.56	0.28	0.07	1.49
Impairment losses					
ECL charge					
Stage 1	(24)	(24)	—	1	(47)
Stage 2	45	9	(3)	—	51
Stage 3	42	158	3	—	203
	63	143	—	1	207
ECL loss rate - annualised (basis points) (2)	28	47	—	7	37
Amounts written-off	62	219	—	—	281

Notes:
(1) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost and FVOCI.
(2) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively. ECL loss rate is calculated as annualised third party ECL charge divided by loans - amortised cost and FVOCI.
(3) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to the Financial instruments within the scope of the IFRS 9 ECL framework section for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £26.5 billion (2019 – £26.1 billion).

Key points

- The ECL requirement increased significantly year-on-year, primarily in Stage 1 and Stage 2, in expectation of credit deterioration reflecting the severity of the economic impact arising from COVID-19. The deteriorated economic outlook also resulted in a significant migration of exposures from Stage 1 to Stage 2, consequently moving from a 12 month to a life-time ECL requirement.
- The various customer support mechanisms continued to mitigate against flows to default during the year, hence there was a more limited impact on Stage 3 ECL requirements.
- Reflecting the continued high level of uncertainty arising from COVID-19, management judged that certain ECL post model adjustments were necessary. Refer to the Governance and post model adjustments section for further detail.
- Reflective of the economic environment, the annualised loss rate was elevated and significantly higher than the prior year.
- Business level commentary is provided in the Segmental loans and impairment metrics section.

Risk and capital management

Credit risk – Banking activities continued

Segmental loans and impairment metrics

The table below shows gross loans and ECL provisions, by days past due, by segment and stage, within the scope of the ECL framework.

	Gross loans							ECL provisions (2)						
		Stage 2 (1)							Stage 2 (1)					
	Stage 1	Not past due	1-30 DPD	>30 DPD	Total	Stage 3	Total	Stage 1	Not past due	1-30 DPD	>30 DPD	Total	Stage 3	Total
2020	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Retail Banking	**15,062**	**4,178**	**236**	**140**	**4,554**	**555**	**20,171**	**23**	**138**	**15**	**13**	**166**	**210**	**399**
Commercial Banking	**18,365**	**9,176**	**95**	**58**	**9,329**	**918**	**28,612**	**57**	**451**	**9**	**5**	**465**	**417**	**939**
Private Banking	**639**	**57**	**—**	**2**	**59**	**13**	**711**	**1**	**2**	**—**	**—**	**2**	**1**	**4**
Personal	***623***	***3***	**—**	**—**	***3***	***13***	***639***	***1***	***1***	**—**	**—**	***1***	***1***	***3***
Wholesale	***16***	***54***	**—**	***2***	***56***	**—**	***72***	**—**	***1***	**—**	**—**	***1***	**—**	***1***
Central items & other	**1,132**	**—**	**—**	**—**	**—**	**—**	**1,132**	**3**	**—**	**—**	**—**	**—**	**—**	**3**
Total loans	**35,198**	**13,411**	**331**	**200**	**13,942**	**1,486**	**50,626**	**84**	**591**	**24**	**18**	**633**	**628**	**1,345**
Of which:														
Personal	***15,685***	***4,181***	***236***	***140***	***4,557***	***568***	***20,810***	***24***	***139***	***15***	***13***	***167***	***211***	***402***
Wholesale	***19,513***	***9,230***	***95***	***60***	***9,385***	***918***	***29,816***	***60***	***452***	***9***	***5***	***466***	***417***	***943***
2019														
Retail Banking	18,921	2,884	275	164	3,323	607	22,851	20	82	11	11	104	225	349
Commercial Banking	26,707	2,672	52	27	2,751	801	30,259	37	64	2	1	67	367	471
Private Banking	664	26	9	1	36	27	727	—	—	—	—	—	2	2
Personal	*622*	*5*	*9*	*1*	*15*	*27*	*664*	—	—	—	—	—	*2*	*2*
Wholesale	*42*	*21*	—	—	*21*	—	*63*	—	—	—	—	—	—	—
Central items & other	1,473	—	—	—	—	—	1,473	1	—	—	—	—	—	1
Total loans	47,765	5,582	336	192	6,110	1,435	55,310	58	146	13	12	171	594	823
Of which:														
Personal	*19,543*	*2,889*	*284*	*165*	*3,338*	*634*	*23,515*	*20*	*82*	*11*	*11*	*104*	*227*	*351*
Wholesale	*28,222*	*2,693*	*52*	*27*	*2,772*	*801*	*31,795*	*38*	*64*	*2*	*1*	*67*	*367*	*472*

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

Credit risk – Banking activities continued

Segmental loans and impairment metrics

The table below shows ECL and ECL provisions coverage, by days past due, by segment and stage, within the scope of the ECL framework.

	ECL provisions coverage							ECL		
		Stage 2 (1)								
	Stage 1	Not past due	1-30 DPD	>30 DPD	Total	Stage 3	Total	Total charge	Loss rate	Amounts written-off
2020	%	%	%	%	%	%	%	£m	basis points	£m
Retail Banking	**0.15**	**3.30**	**6.36**	**9.29**	**3.65**	**37.84**	**1.98**	**126**	**62**	**91**
Commercial Banking	**0.31**	**4.91**	**9.47**	**8.62**	**4.98**	**45.42**	**3.28**	**549**	**192**	**90**
Private Banking	**0.16**	**3.51**	**—**	**—**	**3.39**	**7.69**	**0.56**	**2**	**28**	**1**
Personal	***0.16***	***33.33***	**—**	**—**	***33.33***	***7.69***	***0.47***	**—**	**—**	***1***
Wholesale	**—**	***1.85***	**—**	**—**	***1.79***	**—**	***1.39***	***2***	***278***	**—**
Central items & other	**0.27**	**—**	**—**	**—**	**—**	**—**	**0.27**	**—**	**—**	**—**
Total loans	**0.24**	**4.41**	**7.25**	**9.00**	**4.54**	**42.26**	**2.66**	**677**	**134**	**182**
Of which:										
Personal	***0.15***	***3.32***	***6.36***	***9.29***	***3.66***	***37.15***	***1.93***	***126***	***61***	***92***
Wholesale	***0.31***	***4.90***	***9.47***	***8.33***	***4.97***	***45.42***	***3.16***	***551***	***185***	***90***
2019										
Retail Banking	0.11	2.84	4.00	6.71	3.13	37.07	1.53	63	28	62
Commercial Banking	0.14	2.40	3.85	3.70	2.44	45.82	1.56	143	47	219
Private Banking	—	—	—	—	—	7.41	0.28	—	—	—
Personal	—	—	—	—	—	*7.41*	*0.30*	*8*	*nm*	*1*
Wholesale	—	—	—	—	—	—	—	*(8)*	*nm*	*(1)*
Central items & other	0.07	—	—	—	—	—	0.07	1	7	—
Total loans	0.12	2.62	3.87	6.25	2.80	41.39	1.49	207	37	281
Of which:										
Personal	*0.10*	*2.84*	*3.87*	*6.67*	*3.12*	*35.80*	*1.49*	*71*	*30*	*63*
Wholesale	*0.13*	*2.38*	*3.85*	*3.70*	*2.42*	*45.82*	*1.48*	*136*	*43*	*218*

Notes:
(1) 30 DPD – 30 days past due, the mandatory 30 days past due backstop as prescribed by the IFRS 9 guidance for a SICR.
(2) ECL provisions on contingent liabilities and commitments are included within the Financial assets section so as not to distort ECL coverage ratios.

Key points

- Retail Banking – Drawn balances decreased during the year reflecting reduced customer demand and the pay down of existing borrowing as well as a more restrictive risk appetite reflective of the uncertain external environment. The deteriorated economic outlook, including forecast increases in unemployment, resulted in increased account level IFRS 9 PDs. Consequently, compared to 2019, a larger proportion of customer accounts exhibited a significant increase in credit risk (SICR) which caused a migration of assets from Stage 1 to Stage 2. As a result, the ECL requirement increased.
- While the granting of a COVID-19 related payment holiday did not automatically trigger a migration to Stage 2, a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2 and their ECL uplifted (refer to the Governance and post model adjustments section for further details). The various COVID-19 related customer support mechanisms (loan repayment holidays, government job retention scheme) continued to mask actual portfolio deterioration in the short-term, with the days past due, and flows to Stage 3 metrics, yet to be impacted. Provisions coverage increased across all stages. The loss rate was significantly higher than in the prior year.
- Commercial Banking – Balances reduced year-on-year across all sectors. The deteriorated economic outlook, including significant reductions in GDP and commercial real estate valuations, resulted in increased IFRS 9 PDs. Consequently, compared to 2019, a larger proportion of the exposures exhibited a SICR which caused a migration of assets from Stage 1 to Stage 2. As a result, the ECL requirement increased. Reflecting the continued high level of uncertainty arising from COVID-19, management judged that certain ECL post model adjustments were necessary, refer to the Governance and post model adjustments section for further details. The increase in Stage 2 assets due to PD deterioration was also the primary driver of the increase in the Stage 2 exposures less than 30 days past due. The various COVID-19 related customer support mechanisms mitigated against significant flows into default in the short-term. Increased coverage in Stage 1 and Stage 2 was mainly due to the increased ECL, primarily as a result of the deteriorated economic outlook, with Stage 3 coverage stable. The loss rate was significantly higher than in the prior year.
- Other businesses – The drivers of the increased ECL requirement were similar to those described above.

Credit risk – Banking activities continued
Portfolio summary – sector analysis
The table below shows financial assets and off-balance sheet exposures gross of ECL and related ECL provisions, impairment and past due by sector, asset quality and geographical region.

	Personal				Wholesale					Total
2020	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	£m
Loans by geography	18,389	908	1,513	20,810	11,318	16,068	1,671	759	29,816	50,626
- UK	18,389	908	1,513	20,810	11,039	14,277	744	549	26,609	47,419
- RoI	—	—	—	—	—	25	—	—	25	25
- Other Europe	—	—	—	—	255	602	5	116	978	978
- RoW	—	—	—	—	24	1,164	922	94	2,204	2,204
Loans by stage and asset quality (2)	18,389	908	1,513	20,810	11,318	16,068	1,671	759	29,816	50,626
Stage 1	14,358	576	751	15,685	7,051	10,308	1,487	667	19,513	35,198
- AQ1	101	—	10	111	572	128	366	235	1,301	1,412
- AQ2	388	—	—	388	1,437	153	—	19	1,609	1,997
- AQ3	—	—	—	—	1,541	2,249	26	334	4,150	4,150
- AQ4	10,808	6	37	10,851	1,328	3,033	945	76	5,382	16,233
- AQ5	2,699	197	291	3,187	1,406	2,323	57	1	3,787	6,974
- AQ6	138	182	268	588	401	789	17	—	1,207	1,795
- AQ7	196	179	116	491	98	806	68	—	972	1,463
- AQ8	17	11	26	54	263	811	8	2	1,084	1,138
- AQ9	11	1	3	15	5	16	—	—	21	36
Stage 2	3,614	303	640	4,557	3,697	5,420	178	90	9,385	13,942
- AQ1	—	—	—	—	—	—	—	—	—	—
- AQ2	14	—	—	14	—	—	—	—	—	14
- AQ3	—	—	—	—	1	61	—	—	62	62
- AQ4	1,332	1	9	1,342	516	452	55	—	1,023	2,365
- AQ5	1,243	23	147	1,413	1,356	1,716	63	—	3,135	4,548
- AQ6	258	58	232	548	964	1,327	48	90	2,429	2,977
- AQ7	180	155	101	436	737	1,381	7	—	2,125	2,561
- AQ8	368	56	107	531	88	416	5	—	509	1,040
- AQ9	219	10	44	273	35	67	—	—	102	375
Stage 3	417	29	122	568	570	340	6	2	918	1,486
- AQ10	417	29	122	568	570	340	6	2	918	1,486
Loans - past due analysis (3,4)	18,389	908	1,513	20,810	11,318	16,068	1,671	759	29,816	50,626
- Not past due	17,705	877	1,345	19,927	10,960	15,681	1,652	526	28,819	48,746
- Past due 1-30 days	267	7	31	305	38	198	16	233	485	790
- Past due 31-89 days	161	7	21	189	127	49	—	—	176	365
- Past due 90-180 days	68	5	12	85	8	27	—	—	35	120
- Past due >180 days	188	12	104	304	185	113	3	—	301	605
Loans - Stage 2	3,614	303	640	4,557	3,697	5,420	178	90	9,385	13,942
- Not past due	3,293	294	594	4,181	3,647	5,315	178	90	9,230	13,411
- Past due 1-30 days	203	5	28	236	27	68	—	—	95	331
- Past due 31-89 days	118	4	18	140	23	37	—	—	60	200

For the notes to this table refer to page 35.

Credit risk – Banking activities continued
Portfolio summary – sector analysis

	Personal				Wholesale					Total
	Mortgages (1)	Credit cards	Other personal	Total	Property	Corporate	FI	Sovereign	Total	
2020	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Weighted average life*										
- ECL measurement (years)	8	2	5	5	4	6	5	1	6	5
Weighted average 12 months PDs*										
- IFRS 9 (%)	1.09	5.16	5.18	1.54	3.68	3.17	1.06	0.28	3.16	2.49
- Basel (%)	1.11	3.58	3.99	1.41	1.12	1.77	0.41	0.31	1.41	1.41
ECL provisions by geography	141	74	187	402	385	546	9	3	943	1,345
- UK	*141*	*74*	*187*	*402*	*370*	*507*	*9*	*3*	*889*	*1,291*
- RoI	—	—	—	—	—	*1*	—	—	*1*	*1*
- Other Europe	—	—	—	—	*11*	*2*	—	—	*13*	*13*
- RoW	—	—	—	—	*4*	*36*	—	—	*40*	*40*
ECL provisions by stage	141	74	187	402	385	546	9	3	943	1,345
- Stage 1	*2*	*11*	*11*	*24*	*25*	*31*	*1*	*3*	*60*	*84*
- Stage 2	*46*	*43*	*78*	*167*	*128*	*333*	*5*	—	*466*	*633*
- Stage 3	*93*	*20*	*98*	*211*	*232*	*182*	*3*	—	*417*	*628*
ECL provisions coverage (%)	0.77	8.15	12.36	1.93	3.40	3.40	0.54	0.40	3.16	2.66
- Stage 1 (%)	*0.01*	*1.91*	*1.46*	*0.15*	*0.35*	*0.30*	*0.07*	*0.45*	*0.31*	*0.24*
- Stage 2 (%)	*1.27*	*14.19*	*12.19*	*3.66*	*3.46*	*6.14*	*2.81*	—	*4.97*	*4.54*
- Stage 3 (%)	*22.30*	*68.97*	*80.33*	*37.15*	*40.70*	*53.53*	*50.00*	—	*45.42*	*42.26*
ECL charge - Third party	31	35	60	126	238	306	6	1	551	677
ECL loss rate (%)	0.17	3.85	3.97	0.61	2.10	1.90	0.36	0.13	1.85	1.34
Amounts written-off	2	25	65	92	29	61	—	—	90	182
Other financial assets by asset quality (2)	—	—	—	—	—	—	—	26,456	26,456	26,456
- AQ1-AQ4	—	—	—	—	—	—	—	*26,456*	*26,456*	*26,456*
Off-balance sheet	3,401	3,337	1,259	7,997	5,639	10,933	624	220	17,416	25,413
- Loan commitments	*3,401*	*3,337*	*1,255*	*7,993*	*5,431*	*10,057*	*568*	*220*	*16,276*	*24,269*
- Financial guarantees	—	—	*4*	*4*	*208*	*876*	*56*	—	*1,140*	*1,144*
Off-balance sheet by asset quality (2)	3,401	3,337	1,259	7,997	5,639	10,933	624	220	17,416	25,413
- AQ1-AQ4	*2,828*	*31*	*1,048*	*3,907*	*4,460*	*6,298*	*500*	*214*	*11,472*	*15,379*
- AQ5-AQ8	*569*	*3,233*	*207*	*4,009*	*1,135*	*4,523*	*124*	*6*	*5,788*	*9,797*
- AQ9	—	*2*	*1*	*3*	*4*	*2*	—	—	*6*	*9*
- AQ10	*4*	*71*	*3*	*78*	*40*	*110*	—	—	*150*	*228*

*Not within audit scope.

For the notes to this table refer to page 35.

Credit risk – Banking activities continued

Portfolio summary – sector analysis

	Personal				Wholesale					Total
2019	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	£m
Loans by geography	20,653	1,089	1,773	23,515	12,063	16,536	2,350	846	31,795	55,310
- UK	*20,653*	*1,089*	*1,773*	*23,515*	*11,786*	*14,236*	*845*	*593*	*27,460*	*50,975*
- RoI	—	—	—	—	—	*117*	—	—	*117*	*117*
- Other Europe	—	—	—	—	*209*	*859*	*18*	*147*	*1,233*	*1,233*
- RoW	—	—	—	—	*68*	*1,324*	*1,487*	*106*	*2,985*	*2,985*
Loans by stage and asset quality (2)	20,653	1,089	1,773	23,515	12,063	16,536	2,350	846	31,795	55,310
Stage 1	17,637	725	1,181	19,543	10,911	14,184	2,287	840	28,222	47,765
- AQ1	*182*	—	*17*	*199*	*1,978*	*299*	*551*	*222*	*3,050*	*3,249*
- AQ2	*450*	—	—	*450*	*970*	*264*	—	*291*	*1,525*	*1,975*
- AQ3	—	—	—	—	*1,123*	*2,404*	*58*	*220*	*3,805*	*3,805*
- AQ4	*10,466*	*74*	*71*	*10,611*	*2,291*	*4,188*	*1,419*	—	*7,898*	*18,509*
- AQ5	*5,775*	*173*	*381*	*6,329*	*2,674*	*4,398*	*108*	*100*	*7,280*	*13,609*
- AQ6	*538*	*215*	*430*	*1,183*	*1,327*	*1,661*	*127*	*1*	*3,116*	*4,299*
- AQ7	*182*	*238*	*225*	*645*	*525*	*918*	*23*	*6*	*1,472*	*2,117*
- AQ8	*37*	*24*	*48*	*109*	*22*	*49*	*1*	—	*72*	*181*
- AQ9	*7*	*1*	*9*	*17*	*1*	*3*	—	—	*4*	*21*
Stage 2	2,559	331	448	3,338	766	1,945	58	3	2,772	6,110
- AQ1	*2*	—	—	*2*	—	—	—	—	—	*2*
- AQ2	*10*	—	—	*10*	—	—	—	—	—	*10*
- AQ3	—	—	—	—	*30*	—	—	—	*30*	*30*
- AQ4	*624*	*2*	*8*	*634*	*254*	*53*	—	*3*	*310*	*944*
- AQ5	*921*	*13*	*67*	*1,001*	*146*	*190*	*44*	—	*380*	*1,381*
- AQ6	*214*	*65*	*152*	*431*	*72*	*328*	*9*	—	*409*	*840*
- AQ7	*241*	*168*	*107*	*516*	*201*	*1,081*	*3*	—	*1,285*	*1,801*
- AQ8	*320*	*67*	*81*	*468*	*49*	*236*	*1*	—	*286*	*754*
- AQ9	*227*	*16*	*33*	*276*	*14*	*57*	*1*	—	*72*	*348*
Stage 3	457	33	144	634	386	407	5	3	801	1,435
- AQ10	*457*	*33*	*144*	*634*	*386*	*407*	*5*	*3*	*801*	*1,435*
Loans - past due analysis (3,4)	20,653	1,089	1,773	23,515	12,063	16,536	2,350	846	31,795	55,310
- Not past due	*19,840*	*1,044*	*1,583*	*22,467*	*11,712*	*16,010*	*2,346*	*846*	*30,914*	*53,381*
- Past due 1-30 days	*348*	*12*	*29*	*389*	*157*	*323*	*1*	—	*481*	*870*
- Past due 31-89 days	*204*	*10*	*20*	*234*	*28*	*29*	—	—	*57*	*291*
- Past due 90-180 days	*95*	*8*	*23*	*126*	*9*	*39*	—	—	*48*	*174*
- Past due >180 days	*166*	*15*	*118*	*299*	*157*	*135*	*3*	—	*295*	*594*
Loans - Stage 2	2,559	331	448	3,338	766	1,945	58	3	2,772	6,110
- Not past due	*2,165*	*317*	*407*	*2,889*	*729*	*1,903*	*58*	*3*	*2,693*	*5,582*
- Past due 1-30 days	*254*	*7*	*23*	*284*	*21*	*31*	—	—	*52*	*336*
- Past due 31-89 days	*140*	*7*	*18*	*165*	*16*	*11*	—	—	*27*	*192*

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

Credit risk – Banking activities continued
Portfolio summary – sector analysis

	Personal				Wholesale					Total
2019	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	£m
Weighted average life*										
- ECL measurement (years)	8	2	5	5	8	6	5	1	6	5
Weighted average 12 months PDs*										
- IFRS 9 (%)	0.49	3.67	2.95	0.81	0.49	0.78	0.13	0.12	0.59	0.71
- Basel (%)	1.07	3.73	3.65	1.37	0.71	1.13	0.26	0.13	0.88	1.09
ECL provisions by geography	117	63	171	351	189	278	3	2	472	823
- UK	*117*	*63*	*171*	*351*	*186*	*243*	*3*	*2*	*434*	*785*
- Other Europe	—	—	—	—	*2*	*1*	—	—	*3*	*3*
- RoW	—	—	—	—	*1*	*34*	—	—	*35*	*35*
ECL provisions by stage	117	63	171	351	189	278	3	2	472	823
- Stage 1	*2*	*7*	*11*	*20*	*13*	*22*	*1*	*2*	*38*	*58*
- Stage 2	*27*	*32*	*45*	*104*	*12*	*55*	—	—	*67*	*171*
- Stage 3	*88*	*24*	*115*	*227*	*164*	*201*	*2*	—	*367*	*594*
ECL provisions coverage (%)	0.57	5.79	9.64	1.49	1.57	1.68	0.13	0.24	1.48	1.49
- Stage 1 (%)	*0.01*	*0.97*	*0.93*	*0.10*	*0.12*	*0.16*	*0.04*	*0.24*	*0.13*	*0.12*
- Stage 2 (%)	*1.06*	*9.67*	*10.04*	*3.12*	*1.57*	*2.83*	—	—	*2.42*	*2.80*
- Stage 3 (%)	*19.26*	*72.73*	*79.86*	*35.80*	*42.49*	*49.39*	*40.00*	—	*45.82*	*41.39*
ECL charge - Third party	2	17	52	71	66	69	—	1	136	207
ECL loss rate (%)	0.01	1.56	2.93	0.30	0.55	0.42	—	0.12	0.43	0.37
Amounts written-off	7	23	33	63	184	34	—	—	218	281
Other financial assets by asset quality (2)	—	—	—	—	—	—	—	26,075	26,075	26,075
- AQ1-AQ4	—	—	—	—	—	—	—	*26,075*	*26,075*	*26,075*
Off-balance sheet	3,521	4,051	1,490	9,062	5,278	11,837	673	232	18,020	27,082
- Loan commitments	*3,521*	*4,051*	*1,483*	*9,055*	*5,016*	*10,880*	*607*	*232*	*16,735*	*25,790*
- Financial guarantees	—	—	*7*	*7*	*262*	*957*	*66*	—	*1,285*	*1,292*
Off-balance sheet by asset quality (2)	3,521	4,051	1,490	9,062	5,278	11,837	673	232	18,020	27,082
- AQ1-AQ4	*2,994*	*873*	*1,235*	*5,102*	*4,323*	*8,872*	*551*	*219*	*13,965*	*19,067*
- AQ5-AQ8	*522*	*3,112*	*254*	*3,888*	*944*	*2,905*	*122*	*13*	*3,984*	*7,872*
- AQ9	—	*1*	*1*	*2*	*1*	*18*	—	—	*19*	*21*
- AQ10	*5*	*65*	—	*70*	*10*	*42*	—	—	*52*	*122*

*Not within audit scope.

Notes:
(1) Includes a portion of secured lending in Private Banking, in line with ECL calculation methodology. Private Banking mortgages are reported in UK, reflecting the country of lending origination.
(2) AQ bandings are based on Basel PDs and mapping is as follows:

Internal asset quality band	Probability of default range	Indicative S&P rating
AQ1	0% - 0.034%	AAA to AA
AQ2	0.034% - 0.048%	AA to AA-
AQ3	0.048% - 0.095%	A+ to A
AQ4	0.095% - 0.381%	BBB+ to BBB-
AQ5	0.381% - 1.076%	BB+ to BB
AQ6	1.076% - 2.153%	BB- to B+
AQ7	2.153% - 6.089%	B+ to B
AQ8	6.089% - 17.222%	B- to CCC+
AQ9	17.222% - 100%	CCC to C
AQ10	100%	D

£0.1 billion (2019 – £0.1 billion) AQ10 Personal balances primarily relate to loan commitments, the drawdown of which is effectively prohibited.
(3) 30 DPD – 30 days past due, the mandatory 30 days past due backstop as prescribed by the IFRS 9 guidance for a SICR.
(4) Days past due – Personal products: at a high level, for amortising products, the number of days past due is derived from the arrears amount outstanding and the monthly repayment instalment. For credit cards, it is based on payments missed, and for current accounts the number of continual days in excess of borrowing limit. Wholesale products: the number of days past due for all products is the number of continual days in excess of borrowing limit.

Credit risk – Banking activities continued

Sector analysis

The table below shows ECL by stage, for the Personal portfolios and key sectors of the Wholesale portfolios that continue to be affected by COVID-19.

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments (1)	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
2020	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal	15,685	4,557	568	20,810	7,993	4	24	167	211	402
Mortgages	14,358	3,614	417	18,389	3,401	—	2	46	93	141
Credit cards	576	303	29	908	3,337	—	11	43	20	74
Other personal	751	640	122	1,513	1,255	4	11	78	98	187
Wholesale	19,513	9,385	918	29,816	16,276	1,140	60	466	417	943
Property	7,051	3,697	570	11,318	5,431	208	25	128	232	385
Financial institutions	1,487	178	6	1,671	568	56	1	5	3	9
Sovereign	667	90	2	759	220	—	3	—	—	3
Corporate	10,308	5,420	340	16,068	10,057	876	31	333	182	546
Of which:										
Airlines and aerospace	*234*	*270*	*—*	*504*	*336*	*115*	*—*	*17*	*—*	*17*
Automotive	*521*	*67*	*5*	*593*	*277*	*38*	*1*	*7*	*2*	*10*
Education	*165*	*124*	*—*	*289*	*52*	*1*	*—*	*4*	*—*	*4*
Health	*886*	*963*	*46*	*1,895*	*179*	*2*	*3*	*54*	*15*	*72*
Land transport and logistics	*498*	*292*	*4*	*794*	*828*	*102*	*2*	*13*	*2*	*17*
Leisure	*787*	*1,273*	*154*	*2,214*	*561*	*67*	*5*	*93*	*97*	*195*
Oil and gas	*242*	*212*	*1*	*455*	*756*	*86*	*2*	*14*	*1*	*17*
Retail	*1,833*	*302*	*22*	*2,157*	*1,133*	*69*	*3*	*16*	*8*	*27*
Total	35,198	13,942	1,486	50,626	24,269	1,144	84	633	628	1,345
2019										
Personal	19,543	3,338	634	23,515	9,055	7	20	104	227	351
Mortgages	17,637	2,559	457	20,653	3,521	—	2	27	88	117
Credit cards	725	331	33	1,089	4,051	—	7	32	24	63
Other personal	1,181	448	144	1,773	1,483	7	11	45	115	171
Wholesale	28,222	2,772	801	31,795	16,735	1,285	38	67	367	472
Property	10,911	766	386	12,063	5,016	262	13	12	164	189
Financial institutions	2,287	58	5	2,350	607	66	1	—	2	3
Sovereign	840	3	3	846	232	—	2	—	—	2
Corporate	14,184	1,945	407	16,536	10,880	957	22	55	201	278
Of which:										
Airlines and aerospace	*379*	*8*	*—*	*387*	*580*	*148*	*1*	*—*	*—*	*1*
Automotive	*509*	*27*	*5*	*541*	*341*	*29*	*1*	*1*	*3*	*5*
Education	*280*	*3*	*—*	*283*	*32*	*—*	*—*	*—*	*—*	*—*
Health	*1,687*	*292*	*72*	*2,051*	*134*	*2*	*3*	*5*	*25*	*33*
Land transport and logistics	*654*	*87*	*3*	*744*	*488*	*155*	*1*	*2*	*2*	*5*
Leisure	*1,661*	*282*	*129*	*2,072*	*785*	*73*	*6*	*7*	*91*	*104*
Oil and gas	*611*	*53*	*1*	*665*	*1,137*	*77*	*2*	*2*	*1*	*5*
Retail	*1,497*	*210*	*19*	*1,726*	*1,356*	*76*	*2*	*3*	*14*	*19*
Total	47,765	6,110	1,435	55,310	25,790	1,292	58	171	594	823

Note:
(1) Includes £1.1 billion of commercial cards related balances which were brought into the scope of ECL calculations during 2020.

Credit risk – Banking activities continued

Portfolio summary – sector analysis

Wholesale forbearance

The table below shows Wholesale forbearance, Heightened Monitoring and Risk of Credit Loss by sector. Personal forbearance is disclosed in the Personal portfolio section.

2020	Property £m	FI £m	Other corporate £m	Total £m
Forbearance (flow)	698	21	743	1,462
Forbearance (stock)	731	21	1,223	1,975
Heightened Monitoring and Risk of Credit Loss	546	24	1,161	1,731
2019				
Forbearance (flow)	263	1	546	810
Forbearance (stock)	308	1	1,069	1,378
Heightened Monitoring and Risk of Credit Loss	405	47	962	1,414

Key points

- Loans by geography – In the Personal portfolio, exposures continued to be within the UK and heavily weighted to mortgages. Drawn balances declined during the year reflecting reduced customer demand and the pay down of existing borrowing as well as a more restrictive risk appetite reflective of the uncertain external environment. In the Wholesale portfolio, exposures remained heavily weighted to the UK. Balances reduced year-on-year across all sectors.
- Loans by asset quality (based on Basel II PD) – In the Personal portfolio, the asset quality distribution deteriorated slightly in credit cards with reduced balances to customers in the higher asset quality bands. In the Wholesale portfolio, Basel II PDs were based on a through-the-cycle approach. Consistent with the effects of COVID-19, there was modest deterioration in asset quality distribution across the property and corporate portfolios.
- Loans by stage – In both the Personal and Wholesale portfolios, the deteriorated economic outlook resulted in increased account level IFRS 9 PDs. Consequently, compared to 2019, a larger proportion of accounts exhibited a SICR with an associated migration of exposures from Stage 1 to Stage 2, the vast majority of which were up-to-date with payments. In the absence of any other forbearance or SICR triggers, customers granted COVID-19 related payment holidays were not considered forborne and did not result in an automatic trigger to Stage 2. However, a subset of personal customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2.
- Loans – Past due analysis and Stage 2 – The various COVID-19 related customer support mechanisms (capital repayment holidays, government job retention scheme, government supported lending schemes) are mitigating actual portfolio deterioration in the short term, although there have been some increases in past due exposures in the Wholesale portfolio.
- Weighted average 12 months PDs – In Personal, the Basel II point-in-time PDs have yet to be materially affected by COVID-19. The forward-looking IFRS 9 PDs increased reflecting the deteriorated economics. The IFRS 9 PDs for both unsecured loans (reported within other personal) and mortgages were under-predicting and the ECL was adjusted upwards pending the model parameters being systematically updated. In the Wholesale portfolio, the Basel II PDs were based on a through-the-cycle approach and increased less than the forward looking IFRS 9 PDs which increased, reflecting the deteriorated economic outlook.
- ECL provision by geography – In line with loans by geography, the vast majority of ECL related to exposures in the UK.
- ECL provisions by stage – Stage 1 and Stage 2 provisions increased reflecting the deteriorated economic outlook. As outlined above, Stage 3 provisions have yet to be materially impacted by COVID-19, being mitigated by the various customer support mechanisms detailed earlier.
- ECL provisions coverage – In the Personal portfolio, provisions coverage increased overall driven by increases in Stage 1 and Stage 2 reflecting the deteriorated economic conditions. Similarly, in Wholesale, Stage 1 and Stage 2 coverage increased, particularly in those sectors suffering the most disruption as a result of COVID-19.
- The ECL charge and loss rate – Reflecting the deteriorated economic outlook, the impairment charge was elevated, with the loss rate significantly higher than the prior year.
- Other financial assets by asset quality – Consisting almost entirely of cash and balances at central banks, held in the course of treasury related management activities, these assets were mainly within the AQ1-AQ4 category.
- Off-balance sheet exposures by asset quality – In Personal, undrawn exposures were reflective of available credit lines in credit cards and current accounts and reduced reflecting an initiative to right-size customer unutilised borrowing limits. Additionally, the mortgage portfolio had undrawn exposure, where a formal offer had been made to a customer but had not yet been drawn down. There was also a legacy portfolio of flexible mortgages where a customer had the right and ability to draw down further funds. The asset quality distribution in mortgages remained heavily weighted to the highest quality bands AQ1-AQ4, with credit card concentrated in the risk bands AQ5-AQ8. In Wholesale, undrawn exposures reduced overall but with a slight increase in the property sector. The majority of undrawn exposures were within the AQ1-AQ4 asset quality bands.
- Wholesale forbearance – The value of Wholesale forbearance increased significantly during the year. Customers seeking COVID-19 related support, including payment holidays, who were not subject to any wider SICR triggers and who were assessed as having the ability in the medium term post-COVID-19 to be viable and meet credit appetite metrics, were not considered to have been granted forbearance. The leisure, CRE and automotive sectors represented the largest share of forbearance flow in the Wholesale portfolio by value, with the rise in automotive resulting from forbearance completed on individually significant exposures. In addition, within the retail sector, there was a high volume of lower value forbearance. Payment holidays and covenant waivers were the most common forms of forbearance granted.
- Heightened Monitoring and Risk of Credit Loss – Consistent with the effects of COVID-19, increased flows into Heightened Monitoring and Risk of Credit Loss were noted across a number of sectors. The most material increases in both volumes and value were seen within other corporate and particularly in leisure, land transport & logistics and automotive sectors. In the CRE sector, inflows by value increased, but by volume remained largely stable.

Risk and capital management

Credit risk – Banking activities continued

Credit risk enhancement and mitigation

The table below shows exposures of modelled portfolios within the scope of the ECL framework and related credit risk enhancement and mitigation (CREM).

	Gross		Maximum credit risk		CREM by type			CREM coverage		Exposure post CREM	
	exposure	ECL	Total	Stage 3	Financial (1)	Property	Other (2)	Total	Stage 3	Total	Stage 3
2020	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Financial assets											
Cash and balances at central banks	**26.5**	**—**	**26.5**	**—**	**—**	**—**	**—**	**—**	**—**	**26.5**	**—**
Loans - amortised cost (3)	**50.6**	**1.3**	**49.3**	**0.9**	**2.3**	**31.0**	**4.8**	**38.1**	**0.7**	**11.2**	**0.2**
Personal (4)	***20.8***	***0.4***	***20.4***	***0.4***	**—**	***18.2***	**—**	***18.2***	***0.3***	***2.2***	***0.1***
Wholesale (5)	***29.8***	***0.9***	***28.9***	***0.5***	***2.3***	***12.8***	***4.8***	***19.9***	***0.4***	***9.0***	***0.1***
Total financial assets	**77.1**	**1.3**	**75.8**	**0.9**	**2.3**	**31.0**	**4.8**	**38.1**	**0.7**	**37.7**	**0.2**
Contingent liabilities and commitments											
Personal (6,7)	**8.0**	**—**	**8.0**	**0.1**	**—**	**3.1**	**—**	**3.1**	**—**	**4.9**	**0.1**
Wholesale	**17.4**	**—**	**17.4**	**0.1**	**0.2**	**3.1**	**0.7**	**4.0**	**—**	**13.4**	**0.1**
Total off-balance sheet	**25.4**	**—**	**25.4**	**0.2**	**0.2**	**6.2**	**0.7**	**7.1**	**—**	**18.3**	**0.2**
Total exposure	**102.5**	**1.3**	**101.2**	**1.1**	**2.5**	**37.2**	**5.5**	**45.2**	**0.7**	**56.0**	**0.4**
2019											
Financial assets											
Cash and balances at central banks	26.1	—	26.1	—	—	—	—	—	—	26.1	—
Loans - amortised cost (3)	55.3	0.8	54.5	0.9	—	33.3	6.3	39.6	0.8	14.9	0.1
Personal (4)	*23.5*	*0.3*	*23.2*	*0.4*	—	*20.5*	—	*20.5*	*0.4*	*2.7*	—
Wholesale (5)	*31.8*	*0.5*	*31.3*	*0.5*	—	*12.8*	*6.3*	*19.1*	*0.4*	*12.2*	*0.1*
Total financial assets	81.4	0.8	80.6	0.9	—	33.3	6.3	39.6	0.8	41.0	0.1
Contingent liabilities and commitments											
Personal (6,7)	9.1	—	9.1	0.1	—	3.3	—	3.3	—	5.8	0.1
Wholesale	18.0	—	18.0	—	0.1	2.4	1.0	3.5	—	14.5	—
Total off-balance sheet	27.1	—	27.1	0.1	0.1	5.7	1.0	6.8	—	20.3	0.1
Total exposure	108.5	0.8	107.7	1.0	0.1	39.0	7.3	46.4	0.8	61.3	0.2

Notes:

(1) Includes cash and securities collateral.

(2) Includes guarantees, charges over trade debtors, other asset finance related physical collateral as well as the amount by which credit risk exposure is reduced through netting arrangements, mainly cash management pooling, which give RBS plc a legal right to set off the financial asset against a financial liability due to the same counterparty.

(3) RBS plc holds collateral in respect of individual loans – amortised cost to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant and equipment, inventories and trade debtors; and guarantees of lending from parties other than the borrower. Collateral values are capped at the value of the loan.

(4) Stage 3 mortgage exposures have relatively limited uncovered exposure reflecting the security held. On unsecured credit cards and other personal borrowing, the residual uncovered amount reflects historical experience of continued cash recovery post default through ongoing engagement with customers.

(5) Stage 3 exposures post credit risk enhancement and mitigation in Wholesale mainly represent enterprise value and the impact of written down collateral values; an individual assessment to determine ECL will consider multiple scenarios and in some instances allocate a probability weighting to a collateral value in excess of the written down value.

(6) £0.1 billion (2019 – £0.1 billion) Personal Stage 3 balances primarily relate to loan commitments, the draw down of which is effectively prohibited.

(7) The Personal gross exposure value includes £0.3 billion (2019 – £0.2 billion) in respect of pipeline mortgages where a committed offer has been made to a customer but where the funds have not yet been drawn down. When drawn down, the exposure would be covered by a security over the borrower's property.

Credit risk – Banking activities continued

Personal portfolio

Disclosures in the Personal portfolio section include drawn exposure (gross of provisions).

	2020			2019		
Personal lending	Retail Banking £m	Private Banking £m	Total £m	Retail Banking £m	Private Banking £m	Total £m
Mortgages	**17,832**	**565**	**18,397**	20,090	578	20,668
Of which:						
Owner occupied	**16,050**	**509**	**16,559**	18,091	518	18,609
Buy-to-let	**1,782**	**56**	**1,838**	1,999	60	2,059
Interest only - variable	**2,320**	**172**	**2,492**	2,767	182	2,949
Interest only - fixed	**1,896**	**250**	**2,146**	1,932	248	2,180
Mixed (1)	**1,342**	**1**	**1,343**	1,530	1	1,531
Impairment provisions (2)	**140**	**1**	**141**	116	—	116
Other personal lending (3)	**2,505**	**68**	**2,573**	2,810	99	2,909
Impairment provisions (2)	**257**	**2**	**259**	232	2	234
Total personal lending	**20,337**	**633**	**20,970**	22,900	677	23,577
Mortgage LTV ratios						
- Total portfolio	**48%**	**57%**	**48%**	50%	57%	50%
- Stage 1	***46%***	***57%***	***46%***	*49%*	*57%*	*49%*
- Stage 2	***55%***	***38%***	***55%***	*54%*	*55%*	*54%*
- Stage 3	***51%***	***67%***	***51%***	*53%*	*66%*	*53%*
- Buy-to-let	**50%**	**55%**	**50%**	51%	52%	51%
- Stage 1	***48%***	***54%***	***48%***	*51%*	*51%*	*51%*
- Stage 2	***57%***	***0%***	***57%***	*57%*	*43%*	*57%*
- Stage 3	***55%***	***85%***	***56%***	*59%*	*80%*	*60%*
Gross new mortgage lending (4)	**817**	**70**	**887**	1,010	84	1,094
Of which:						
Owner occupied	**781**	**62**	**843**	966	79	1,045
Weighted average LTV	**66%**	**61%**	**65%**	68%	63%	68%
Buy-to-let	**36**	**8**	**44**	44	5	49
Weighted average LTV	**60%**	**67%**	**61%**	60%	75%	62%
Interest only variable rate	**12**	**29**	**41**	14	23	37
Interest only fixed rate	**62**	**20**	**82**	66	42	108
Mixed (1)	**30**	**—**	**30**	43	—	43
Mortgage forbearance						
Forbearance flow	**157**	**4**	**161**	140	—	140
Forbearance stock	**418**	**3**	**421**	439	—	439
Current	***226***	**—**	***226***	*231*	—	*231*
1-3 months in arrears	***83***	***3***	***86***	*105*	—	*105*
>3 months in arrears	***109***	**—**	***109***	*102*	—	*102*

Notes:
(1) Includes accounts which have an interest only sub-account and a capital and interest sub-account to provide a more comprehensive view of interest only exposures.
(2) Retail Banking excludes a non-material amount of provisions held on relatively small legacy portfolios.
(3) Comprises unsecured lending except for Private Banking, which includes both secured and unsecured lending. It excludes loans that are commercial in nature.
(4) Retail Banking excludes additional lending to existing customers.

Key points

- Although the economic outlook deteriorated, reflected in the IFRS 9 stage migrations and ECL described earlier, the overall credit risk profile and underlying performance of the Personal portfolio remained stable during 2020.
- Total mortgage lending reduced with redemptions and repayments exceeding new lending.
- New mortgage lending was lower than in 2019. The existing mortgage stock and new business were closely monitored against agreed risk appetite parameters. These included loan-to-value ratios, buy-to-let concentrations, new-build concentrations and credit quality. These criteria were appropriately amended during the year to manage the effects of COVID-19 on the credit risk profile.
- Portfolio LTVs decreased reflecting house price increases across UK regions, including Scotland, and lower new lending in 2020.
- 24% of the stock of lending was in Greater London and the South East (2019 – 24%). The average weighted loan-to-value for these regions was 42% (2019 – 42%) compared to 48% for all regions.
- Unsecured balances declined, with the decrease primarily a result of reductions in overdrafts and credit card borrowing in Retail Banking. Overdraft and credit card usage decreased significantly following the COVID-19 lockdown. RBS plc also responded to COVID-19 with a more cautious approach to new lending, to protect RBS plc and customers from potentially unaffordable borrowing.
- As detailed previously, the deteriorated economic outlook, including forecast increases in unemployment and declines in house prices, resulted in an increased ECL requirement.

Risk and capital management

Credit risk – Banking activities continued

Personal portfolio

Mortgage LTV distribution by stage

The table below shows gross mortgage lending and related ECL by LTV band for Retail Banking. Mortgage lending not within the scope of IFRS 9 ECL reflected portfolios carried at fair value.

	Mortgages						ECL provisions				ECL provisions coverage (2)			
2020	Stage 1 £m	Stage 2 £m	Stage 3 £m	Not within IFRS 9 ECL scope £m	Total £m	Of which: gross new lending £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total (1) £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	7,977	1,425	206	11	9,619	182	1	14	44	59	—	1.0	21.4	0.6
>50% and ≤70%	4,410	1,313	154	4	5,881	238	1	17	31	49	—	1.3	20.1	0.8
>70% and ≤80%	1,014	633	41	1	1,689	225	—	9	10	19	—	1.3	24.7	1.1
>80% and ≤90%	360	227	16	—	603	138	—	5	4	9	—	2.3	24.3	1.5
>90% and ≤100%	5	15	5	—	25	32	—	1	1	2	0.2	3.7	31.8	7.2
>100% and ≤110%	1	4	2	—	7	—	—	—	1	1	0.5	5.1	34.7	11.9
>110% and ≤130%	—	3	1	—	4	—	—	—	—	—	0.1	12.9	38.2	18.6
>130% and ≤150%	—	—	—	—	—	—	—	—	—	—	—	6.8	44.4	24.3
Total with LTVs	13,767	3,620	425	16	17,828	815	2	46	91	139	—	1.3	21.6	0.8
Other	3	1	—	—	4	2	—	—	1	1	0.3	12.4	—	13.5
Total	13,770	3,621	425	16	17,832	817	2	46	92	140	—	1.3	21.7	0.8
2019														
≤50%	8,948	1,031	196	12	10,187	219	1	8	37	46	—	0.8	18.9	0.4
>50% and ≤70%	5,346	1,010	169	4	6,529	270	1	10	28	39	—	1.0	16.4	0.6
>70% and ≤80%	1,740	308	47	1	2,096	193	—	5	11	16	—	1.3	22.4	0.7
>80% and ≤90%	829	161	30	—	1,020	234	—	3	8	11	—	1.9	27.6	1.1
>90% and ≤100%	185	37	7	—	229	91	—	1	2	3	0.1	3.0	28.0	1.4
>100% and ≤110%	7	8	3	—	18	—	—	—	1	1	0.2	4.9	31.6	7.3
>110% and ≤130%	2	3	1	—	6	—	—	—	—	—	0.3	6.9	32.7	9.2
>130% and ≤150%	—	—	1	—	1	—	—	—	—	—	0.2	2.4	38.9	20.3
Total with LTVs	17,057	2,558	454	17	20,086	1,007	2	27	87	116	—	1.0	19.2	0.6
Other	4	—	—	—	4	3	—	—	—	—	0.3	—	—	12.5
Total	17,061	2,558	454	17	20,090	1,010	2	27	87	116	—	1.0	19.3	0.6

Notes:
(1) Excludes a non-material amount of provisions held on relatively small legacy portfolios.
(2) ECL provisions coverage is ECL provisions divided by mortgages.

Key points

- ECL coverage rates increased through the LTV bands with Retail Banking having only limited exposures in the highest LTV bands. The relatively high coverage level in the lowest LTV band for Retail Banking included the effect of time-discounting on expected recoveries. Additionally, this also reflected the modelling approach that recognised an element of expected loss on mortgages that were not subject to formal repossession activity.
- The deteriorated economic outlook resulted in increased account level IFRS 9 PDs. Consequently, compared to the 2019 year-end, a larger proportion of accounts exhibited a SICR with an associated migration of exposures from Stage 1 to Stage 2.

Credit risk – Banking activities continued

Commercial real estate (CRE)

The CRE portfolio comprises exposures to entities involved in the development of, or investment in, commercial and residential properties (including house builders but excluding housing associations, construction and the building materials sub-sector). The sector is reviewed regularly by senior executive committees. Reviews include portfolio credit quality, capital consumption and control frameworks. All disclosures in the CRE section are based on current exposure (gross of provisions and risk transfer). Current exposure is defined as: loans; the amount drawn under a credit facility plus accrued interest; contingent obligations; the issued amount of the guarantee or letter of credit; derivatives – the mark-to-market value, netted where netting agreements exist and net of legally enforceable collateral.

By sub-sector	2020 £m	2019 £m
Investment		
Residential (1)	1,390	1,624
Office (2)	1,066	1,243
Retail (3)	1,961	2,260
Industrial (4)	742	773
Mixed/other (5)	365	358
	5,524	6,258
Development		
Residential (1)	824	849
Office (2)	38	37
Retail (3)	23	32
Industrial (4)	40	34
Mixed/other (5)	4	2
	929	954
Total (6)	6,453	7,212

Notes:
(1) Properties including houses, flats and student accommodation.
(2) Properties including offices in central business districts, regional headquarters and business parks.
(3) Properties including high street retail, shopping centres, restaurants, bars and gyms.
(4) Properties including distribution centres, manufacturing and warehouses.
(5) Properties that do not fall within the other categories. Mixed generally relates to a mixture of retail/office with residential.
(6) 98% (2019 – 100%) of the total exposure relates to the UK.

Risk and capital management

Credit risk – Banking activities continued

Commercial real estate (CRE)

CRE LTV distribution by stage

The table below shows CRE current exposure and related ECL by LTV band.

	Current exposure (gross of provisions) (1,2)					ECL provisions				ECL provisions coverage (4)			
2020	Stage 1 £m	Stage 2 £m	Stage 3 £m	Not within IFRS 9 ECL scope (3) £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	1,281	1,238	116	—	2,635	13	36	17	66	1.0	2.9	14.7	2.5
>50% and ≤70%	582	1,431	79	—	2,092	5	50	15	70	0.9	3.5	19.0	3.3
>70% and ≤80%	5	37	10	—	52	—	1	3	4	—	2.7	30.0	7.7
>80% and ≤90%	2	8	25	—	35	—	1	7	8	—	12.5	28.0	22.9
>90% and ≤100%	1	2	30	—	33	—	1	14	15	—	50.0	46.7	45.5
>100% and ≤110%	—	2	6	—	8	—	—	2	2	—	—	33.3	25.0
>110% and ≤130%	—	2	75	—	77	—	—	30	30	—	—	40.0	39.0
>130% and ≤150%	—	5	6	—	11	—	—	3	3	—	—	50.0	27.3
>150%	7	8	28	—	43	—	1	23	24	—	12.5	82.1	55.8
Total with LTVs	1,878	2,733	375	—	4,986	18	90	114	222	1.0	3.3	30.4	4.5
Total portfolio average LTV (%)	42%	48%	87%	39%	49%	—	—	—	—	—	—	—	—
Other (5)	359	70	105	4	538	1	5	52	58	0.3	7.1	49.5	10.9
Development (6)	452	446	31	—	929	2	13	15	30	0.4	2.9	48.4	3.2
Total	2,689	3,249	511	4	6,453	21	108	181	310	0.8	3.3	35.4	4.8
2019													
≤50%	2,968	197	16	8	3,189	3	2	5	10	0.1	1.0	31.3	0.3
>50% and ≤70%	2,017	49	116	13	2,195	3	3	25	31	0.1	6.1	21.6	1.4
>70% and ≤80%	135	27	27	1	190	—	—	13	13	—	—	48.1	6.9
>80% and ≤90%	17	5	8	1	31	—	—	2	2	—	—	25.0	6.7
>90% and ≤100%	2	16	17	—	35	—	—	13	13	—	—	76.5	37.1
>100% and ≤110%	3	1	2	—	6	—	—	1	1	—	—	50.0	16.7
>110% and ≤130%	1	—	23	1	25	—	—	8	8	—	—	34.8	33.3
>130% and ≤150%	1	5	14	—	20	—	—	5	5	—	—	35.7	25.0
>150%	11	3	18	—	32	—	—	10	10	—	—	55.6	31.3
Total with LTVs	5,155	303	241	24	5,723	6	5	82	93	0.1	1.7	34.0	1.6
Total portfolio average LTV (%)	45%	45%	98%	53%	48%	—	—	—	—	—	—	—	—
Other (5)	(103)	62	15	561	535	1	1	9	11	(1.0)	1.6	60.0	(42.3)
Development (6)	812	92	50	—	954	2	—	14	16	0.2	—	28.0	1.7
Total	5,864	457	306	585	7,212	9	6	105	120	0.2	1.3	34.3	1.8

Notes:
(1) Comprises gross lending, interest rate hedging derivatives and other assets carried at fair value that are managed as part of the overall CRE portfolio.
(2) The exposure in Stage 3 mainly related to legacy assets.
(3) Includes exposures relating to non-modelled portfolios and other exposures carried at fair value, including derivatives.
(4) ECL provisions coverage is ECL provisions divided by current exposure.
(5) Relates mainly to business banking, rate risk management products and unsecured corporate lending.
(6) Relates to the development of commercial and residential properties. LTV is not a meaningful measure for this type of lending activity.

Key points

- Overall – The majority of the CRE portfolio was located and managed in the UK. Business appetite and strategy remained aligned across the segments.
- 2020 trends – Portfolio exposure reduced slightly during 2020, with new business and refinance activity lower than in previous years, in part driven by the exit of some former Williams and Glynn customers. The portfolio remained broadly unchanged in composition although a migration of some assets from the mixed/other sub-sector was noted, following a reclassification carried out during the year. While new activity in 2020 was subdued due to COVID-19, RBS plc supported existing customers with capital repayment holidays, interest roll-ups and extensions using CRE specific criteria and government backed COVID-19 support schemes. Demand for scheme support reduced in the latter part of the year.
- The retail and leisure sectors were heavily affected by the lockdown, resulting in low rental payments, and these sectors remained under stress. The office sector was more resilient overall, albeit the smaller serviced-office sub-sector came under some stress given the short-term nature of income and site closures. Demand for office space in the medium-term was expected to decline, with flexible working trends continuing post COVID-19. Market sentiment remained negative for most retail assets, but there were tentative signs of improvement for retail warehousing (accounting for approximately 15% of the retail sub-sector) where investment in industrial assets was demonstrating increased demand. The residential development sector continued to attract institutional capital and was generally performing well.
- Credit quality – Despite significant challenges across the CRE sector, with customers utilising COVID-19 related government support measures, Heightened Monitoring inflows by volume were stable. By value however, Heightened Monitoring and Risk of Credit Loss exposures increased, with a rise of migration into AQ10. This increase was largely due to individually significant names, particularly in the retail sub-sector.
- Risk appetite – Appetite in CRE remained cautious. Pre-COVID-19 conservative lending criteria remained in place, including lower leverage required for new London office originations and parts of the retail sector. From January 2021, new minimum standards were introduced for CRE lending appetite for residential new build lending, which requires properties to achieve a minimum Energy Performance Certificate rating of B. In addition, standard lending terms for CRE now include RBS plc's preference for green leases to be used by commercial landlords. Green leases are a mechanism for landlords and tenants to work together to improve the sustainability of a building.

Credit risk – Banking activities continued

Flow statements

The flow statements that follow show the main ECL and related income statement movements. They also show the changes in ECL as well as the changes in related financial assets used in determining ECL. Due to differences in scope, exposures in this section may therefore differ from those reported in other tables, principally in relation to exposures in Stage 1 and Stage 2. These differences do not have a material ECL impact. Other points to note:

- Financial assets include treasury liquidity portfolios, comprising balances at central banks and debt securities, as well as loans. Both modelled and non-modelled portfolios are included.
- Stage transfers (for example, exposures moving from Stage 1 to Stage 2) are a key feature of the ECL movements, with the net re-measurement cost of transitioning to a worse stage being a primary driver of income statement charges. Similarly, there is an ECL benefit for accounts improving stage.
- Changes in risk parameters shows the reassessment of the ECL within a given stage, including any ECL overlays and residual income statement gains or losses at the point of write-off or accounting write-down.
- Other (P&L only items) includes any subsequent changes in the value of written-down assets (for example, fortuitous recoveries) along with other direct write-off items such as direct recovery costs. Other (P&L only items) affects the income statement but does not affect balance sheet ECL movements.
- Amounts written-off represent the gross asset written-down against accounts with ECL, including the net asset write-down for any debt sale activity.
- There were small ECL flows from Stage 3 to Stage 1. This does not, however, indicate that accounts returned from Stage 3 to Stage 1 directly. On a similar basis, there were flows from Stage 1 to Stage 3 including transfers due to unexpected default events.
- The effect of any change in PMAs during the year is typically reported under changes in risk parameters, as are any impacts arising from changes to the underlying models. Refer to the section on Governance and post model adjustments for further details.
- All movements are captured monthly and aggregated. Interest suspended post default is included within Stage 3 ECL with the movement in the value of suspended interest during the year reported under currency translation and other adjustments.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
RBS plc total	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	70,409	58	6,176	171	1,583	594	78,168	823
Currency translation and other adjustments	(9)	—	(93)	—	10	2	(92)	2
Inter-Group transfers	1,009	1	(51)	(5)	(7)	(3)	951	(7)
Transfers from Stage 1 to Stage 2	(21,975)	(121)	21,975	121	—	—	—	—
Transfers from Stage 2 to Stage 1	10,372	134	(10,372)	(134)	—	—	—	—
Transfers to Stage 3	(32)	—	(928)	(65)	960	65	—	—
Transfers from Stage 3	31	3	354	24	(385)	(27)	—	—
Net re-measurement of ECL on stage transfer		(101)		406		138		443
Changes in risk parameters (model inputs)		85		179		69		333
Other changes in net exposure	(984)	25	(2,869)	(64)	(363)	(5)	(4,216)	(44)
Other (P&L only items)		—		—		(55)		(55)
Income statement (releases)/charges		9		521		147		677
Amounts written-off	—	—	—	—	(182)	(182)	(182)	(182)
Unwinding of discount		—		—		(23)		(23)
At 31 December 2020	58,821	84	14,192	633	1,616	628	74,629	1,345
Net carrying amount	58,737		13,559		988		73,284	
At 1 January 2019	74,586	63	6,871	187	1,763	624	83,220	874
2019 movements	(4,177)	(5)	(695)	(16)	(180)	(30)	(5,052)	(51)
At 31 December 2019	70,409	58	6,176	171	1,583	594	78,168	823
Net carrying amount	70,351		6,005		989		77,345	

Risk and capital management

Credit risk – Banking activities continued

Flow statements

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - mortgages	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	**17,326**	**2**	**2,586**	**27**	**473**	**88**	**20,385**	**117**
Currency translation and other adjustments	**—**	**—**	**—**	**—**	**6**	**6**	**6**	**6**
Transfers from Stage 1 to Stage 2	**(2,910)**	**(1)**	**2,910**	**1**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**1,381**	**3**	**(1,381)**	**(3)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(3)**	**—**	**(158)**	**(6)**	**161**	**6**	**—**	**—**
Transfers from Stage 3	**—**	**—**	**122**	**9**	**(122)**	**(9)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(3)**		**22**		**1**		**20**
Changes in risk parameters (model inputs)		**1**		**1**		**18**		**20**
Other changes in net exposure	**(1,894)**	**—**	**(415)**	**(4)**	**(74)**	**(4)**	**(2,383)**	**(8)**
Other (P&L only items)		**—**		**—**		**(8)**		**(8)**
Income statement (releases)/charges		**(2)**		**19**		**7**		**24**
Amounts written-off	**—**	**—**	**—**	**—**	**(2)**	**(2)**	**(2)**	**(2)**
Unwinding of discount		**—**		**—**		**(12)**		**(12)**
At 31 December 2020	**13,900**	**2**	**3,664**	**47**	**442**	**92**	**18,006**	**141**
Net carrying amount	**13,898**		**3,617**		**350**		**17,865**	
At 1 January 2019	20,054	1	2,973	24	524	88	23,551	113
2019 movements	(2,728)	1	(387)	3	(51)	—	(3,166)	4
At 31 December 2019	17,326	2	2,586	27	473	88	20,385	117
Net carrying amount	17,324		2,559		385		20,268	

Key points

- The increase in ECL in Stage 2 was primarily due to the deterioration in the economic outlook, causing both PDs and LGDs to increase.
- The updated economics also resulted in a net migration of assets from Stage 1 to Stage 2 with a consequent increase from a 12 month ECL to a lifetime ECL. While the granting of a COVID-19 related payment holiday did not automatically trigger a migration to Stage 2, a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2 and their ECL uplifted, refer to the Governance and post model adjustments section for further details.
- In Stage 3, reflecting the various customer support mechanisms available, ECL was less affected than in Stage 2. The relatively small ECL cost for net re-measurement on stage transfer included the effect of risk targeted ECL adjustments when previously in Stage 2. Refer to the Governance and post model adjustments section for further details.
- In Stage 3, the ECL cost within changes in risk parameters included the monthly assessment of the loss requirement, capturing underlying portfolio movements.
- Write-off occurs once the repossessed property has been sold and there is a residual shortfall balance remaining outstanding. Write-off would typically be within five years from default but can be longer.

Risk and capital management

Credit risk – Banking activities continued

Flow statements

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - other personal unsecured	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	**1,121**	**11**	**458**	**46**	**132**	**113**	**1,711**	**170**
Currency translation and other adjustments	**—**	**—**	**—**	**—**	**1**	**1**	**1**	**1**
Transfers from Stage 1 to Stage 2	**(769)**	**(15)**	**769**	**15**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**279**	**15**	**(279)**	**(15)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(4)**	**—**	**(67)**	**(22)**	**71**	**22**	**—**	**—**
Transfers from Stage 3	**2**	**—**	**13**	**5**	**(15)**	**(5)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(11)**		**57**		**20**		**66**
Changes in risk parameters (model inputs)		**8**		**4**		**18**		**30**
Other changes in net exposure	**88**	**2**	**(209)**	**(13)**	**(8)**	**(3)**	**(129)**	**(14)**
Other (P&L only items)		**—**		**—**		**(13)**		**(13)**
Income statement (releases)/charges		**(1)**		**48**		**22**		**69**
Amounts written-off	**—**	**—**	**—**	**—**	**(64)**	**(64)**	**(64)**	**(64)**
Unwinding of discount		**—**		**—**		**(4)**		**(4)**
At 31 December 2020	**717**	**10**	**685**	**77**	**117**	**98**	**1,519**	**185**
Net carrying amount	**707**		**608**		**19**		**1,334**	
At 1 January 2019	1,142	11	413	43	115	92	1,670	146
2019 movements	(21)	—	45	3	17	21	41	24
At 31 December 2019	1,121	11	458	46	132	113	1,711	170
Net carrying amount	1,110		412		19		1,541	

Key points

- The increase in ECL in Stage 2 was primarily due to the deterioration in the economic outlook, causing PDs to increase.
- The updated economics also resulted in a net migration of assets from Stage 1 to Stage 2 with a consequent increase from a 12 month ECL to a lifetime ECL. While the granting of a COVID-19 related payment holiday did not automatically trigger a migration to Stage 2, a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2 and their ECL uplifted, refer to the Governance and post model adjustments section for further details.
- In Stage 3, reflecting the various customer support mechanisms available that mitigated against defaults, ECL was affected relatively less. In addition, debt sales also contributed to an ECL reduction year-on-year.
- Write-off occurs once recovery activity with the customer has been concluded or there are no further recoveries expected, but no later than six years after default

Risk and capital management

Credit risk – Banking activities continued

Flow statements

	Stage 1		Stage 2		Stage 3		Total	
Retail Banking - credit cards	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2020	**697**	**7**	**339**	**32**	**37**	**24**	**1,073**	**63**
Currency translation and other adjustments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Transfers from Stage 1 to Stage 2	**(323)**	**(10)**	**323**	**10**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**267**	**19**	**(267)**	**(19)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(5)**	**—**	**(29)**	**(9)**	**34**	**9**	**—**	**—**
Transfers from Stage 3	**—**	**—**	**4**	**2**	**(4)**	**(2)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(12)**		**46**		**13**		**47**
Changes in risk parameters (model inputs)		**2**		**(13)**		**2**		**(9)**
Other changes in net exposure	**(62)**	**5**	**(57)**	**(7)**	**(11)**	**1**	**(130)**	**(1)**
Other (P&L only items)		**(1)**		**1**		**(4)**		**(4)**
Income statement (releases)/charges		**(6)**		**27**		**12**		**33**
Amounts written-off	**—**	**—**	**—**	**—**	**(25)**	**(25)**	**(25)**	**(25)**
Unwinding of discount		**—**		**—**		**(2)**		**(2)**
At 31 December 2020	**574**	**11**	**313**	**42**	**31**	**20**	**918**	**73**
Net carrying amount	**563**		**271**		**11**		**845**	
At 1 January 2019	736	10	322	31	36	24	1,094	65
2019 movements	(39)	(3)	17	1	1	—	(21)	(2)
At 31 December 2019	697	7	339	32	37	24	1,073	63
Net carrying amount	690		307		13		1,010	

Key points

- The increase in ECL in Stage 1 and Stage 2 was primarily due to the deterioration in the economic outlook, causing PDs to increase.
- The updated economics also resulted in a net migration of assets from Stage 1 to Stage 2 with a consequent increase from a 12 month ECL to a lifetime ECL.
- In Stage 3, reflecting the various customer support mechanisms available, new flows to default were suppressed and consequently the ECL requirement reduced.
- Charge-off (analogous to partial write-off) typically occurs after 12 missed payments.

Risk and capital management

Credit risk – Banking activities continued
Flow statements

Commercial Banking - commercial real estate	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2020	**10,841**	**12**	**761**	**11**	**492**	**148**	**12,094**	**171**
Currency translation and other adjustments	**321**	**—**	**(112)**	**—**	**—**	**7**	**209**	**7**
Inter-group transfers	**252**	**—**	**1**	**—**	**—**	**—**	**253**	**—**
Transfers from Stage 1 to Stage 2	**(5,446)**	**(37)**	**5,446**	**37**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**1,380**	**15**	**(1,380)**	**(15)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(5)**	**—**	**(390)**	**(8)**	**395**	**8**	**—**	**—**
Transfers from Stage 3	**19**	**—**	**87**	**3**	**(106)**	**(3)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(10)**		**88**		**66**		**144**
Changes in risk parameters (model inputs)		**40**		**24**		**32**		**96**
Other changes in net exposure	**(768)**	**4**	**(753)**	**(17)**	**(135)**	**5**	**(1,656)**	**(8)**
Other (P&L only items)		**(1)**		**4**		**(1)**		**2**
Income statement (releases)/charges		**33**		**99**		**102**		**234**
Amounts written-off	**—**	**—**	**—**	**—**	**(26)**	**(26)**	**(26)**	**(26)**
Unwinding of discount		**—**		**—**		**(3)**		**(3)**
At 31 December 2020	**6,594**	**24**	**3,660**	**123**	**620**	**234**	**10,874**	**381**
Net carrying amount	**6,570**		**3,537**		**386**		**10,493**	
At 1 January 2019	12,228	15	617	11	463	222	13,308	248
2019 movements	(1,387)	(3)	144	—	29	(74)	(1,214)	(77)
At 31 December 2019	10,841	12	761	11	492	148	12,094	171
Net carrying amount	10,829		750		344		11,923	

Key points

- The increase in ECL in Stage 1 and Stage 2 was primarily due to the deterioration in the economic outlook, causing both PDs and LGDs to increase.
- The updated economics also resulted in a migration of assets from Stage 1 to Stage 2 with a consequential increase from a 12 month ECL to a lifetime ECL.
- Flows into Stage 3 were mainly due to a relatively small number of individual cases. Government support mechanisms continued to suppress a higher level of flows into Stage 3.
- Stage 3 recovery values started to show evidence of being negatively affected by deteriorated market conditions, leading to higher ECL charges.

Risk and capital management

Credit risk – Banking activities continued

Flow statements

Commercial Banking - business banking	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2020	**1,217**	**5**	**143**	**8**	**69**	**52**	**1,429**	**65**
Currency translation and other adjustments	**—**	**—**	**—**	**(1)**	**3**	**1**	**3**	**—**
Transfers from Stage 1 to Stage 2	**(469)**	**(3)**	**469**	**3**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**125**	**9**	**(125)**	**(9)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(4)**	**—**	**(25)**	**(5)**	**29**	**5**	**—**	**—**
Transfers from Stage 3	**3**	**1**	**8**	**3**	**(11)**	**(4)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(9)**		**23**		**8**		**22**
Changes in risk parameters (model inputs)		**3**		**6**		**3**		**12**
Other changes in net exposure	**1,086**	**1**	**(50)**	**(4)**	**(8)**	**(3)**	**1,028**	**(6)**
Other (P&L only items)		**—**		**(2)**		**(11)**		**(13)**
Income statement (releases)/charges		**(5)**		**23**		**(3)**		**15**
Amounts written-off	**—**	**—**	**—**	**—**	**(20)**	**(20)**	**(20)**	**(20)**
Unwinding of discount		**—**		**—**		**(1)**		**(1)**
At 31 December 2020	**1,958**	**7**	**420**	**24**	**62**	**41**	**2,440**	**72**
Net carrying amount	**1,951**		**396**		**21**		**2,368**	
At 1 January 2019	1,387	4	154	8	74	49	1,615	61
2019 movements	(170)	1	(11)	—	(5)	3	(186)	4
At 31 December 2019	1,217	5	143	8	69	52	1,429	65
Net carrying amount	1,212		135		17		1,364	

Key points

- The increase in ECL in Stage 1 and Stage 2 was primarily due to the deterioration in the economic outlook, causing both PDs and LGDs to increase.
- The updated economics also resulted in a migration of assets from Stage 1 to Stage 2 with a consequential increase from a 12 month ECL to a lifetime ECL.
- Flows of defaulted exposure into Stage 3 were suppressed reflecting the various government customer support mechanisms available, with ECL reducing during the year including the effect of a debt sale.
- Other changes in net exposures increased in Stage 1 as customers drew down on existing facilities and undertook new lending supported by government schemes.
- The portfolio continued to benefit from cash recoveries post write-off, which are reported as other (P&L only items). Write-off occurs once recovery activity with the customer has been concluded or there are no further recoveries expected, but no later than five years after default.

Credit risk – Banking activities continued

Flow statements

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial Banking - other	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	13,886	20	1,862	48	353	165	16,101	233
Currency translation and other adjustments	(269)	—	18	—	—	(13)	(251)	(13)
Inter-group transfers	275	—	(50)	(4)	(7)	(2)	218	(6)
Transfers from Stage 1 to Stage 2	(11,544)	(54)	11,544	54	—	—	—	—
Transfers from Stage 2 to Stage 1	6,457	71	(6,457)	(71)	—	—	—	—
Transfers to Stage 3	(6)	—	(235)	(15)	241	15	—	—
Transfers from Stage 3	5	1	98	3	(103)	(4)	—	—
Net re-measurement of ECL on stage transfer		(56)		171		28		143
Changes in risk parameters (model inputs)		30		155		(3)		182
Other changes in net exposure	93	14	(1,375)	(23)	(109)	2	(1,391)	(7)
Other (P&L only items)		1		1		(20)		(18)
Income statement (releases)/charges		(11)		304		7		300
Amounts written-off	—	—	—	—	(44)	(44)	(44)	(44)
Unwinding of discount		—		—		(2)		(2)
At 31 December 2020	8,897	26	5,405	318	331	142	14,633	486
Net carrying amount	8,871		5,087		189		14,147	
At 1 January 2019	16,412	21	2,360	70	503	144	19,275	236
2019 movements	(2,526)	(1)	(498)	(22)	(150)	21	(3,174)	(3)
At 31 December 2019	13,886	20	1,862	48	353	165	16,101	233
Net carrying amount	13,866		1,814		188		15,868	

Key points

- The increase in ECL in Stage 1 and Stage 2 was primarily due to the deterioration in the economic outlook, causing both PDs and LGDs to increase.
- The updated economics also resulted in the migration of assets from Stage 1 to Stage 2 with a consequential increase from a 12 month ECL to a lifetime ECL.
- The migration of exposures from Stage 2 to Stage 1 included the effect of the slight reduction in PDs arising from the relative improvement in the multiple economic scenarios in the second half of the year compared to the mid-year point, partially reversing some migrations into Stage 2 in the first half of 2020.
- For flows into Stage 3, defaults were suppressed reflecting the various government customer support mechanisms available.

Credit risk – Banking activities continued

Stage 2 decomposition – arrears status and contributing factors

The tables below show Stage 2 decomposition for the Personal and Wholesale portfolios.

	UK mortgages		Credit cards		Other		Total	
2020	£m	%	£m	%	£m	%	£m	%
Personal								
Currently >30 DPD	**101**	**5**	**3**	**1**	**12**	**4**	**116**	**10**
Currently <=30 DPD	**3,513**	**41**	**300**	**42**	**628**	**74**	**4,441**	**157**
- PD deterioration	***1,970***	***35***	***208***	***33***	***420***	***62***	***2,598***	***130***
- PD persistence	***871***	***2***	***67***	***5***	***185***	***9***	***1,123***	***16***
- Other driver (adverse credit, forbearance etc)	***672***	***4***	***25***	***4***	***23***	***3***	***720***	***11***
Total Stage 2	**3,614**	**46**	**303**	**43**	**640**	**78**	**4,557**	**167**
2019								
Personal								
Currently >30 DPD	127	4	4	2	14	3	145	9
Currently <=30 DPD	2,432	23	327	30	434	42	3,193	95
- PD deterioration	*1,278*	*20*	*193*	*22*	*279*	*34*	*1,750*	*76*
- PD persistence	*383*	*1*	*111*	*5*	*110*	*5*	*604*	*11*
- Other driver (adverse credit, forbearance etc)	*771*	*2*	*23*	*3*	*45*	*3*	*839*	*8*
Total Stage 2	2,559	27	331	32	448	45	3,338	104

Key points

- The deteriorated economic outlook, including forecast increases in unemployment, resulted in increased account level IFRS 9 PDs. Consequently, compared to 2019, a larger proportion of accounts exhibited a SICR causing Stage 2 exposures to increase significantly.
- In the absence of PD deterioration or other backstop SICR triggers, the granting of a COVID-19 related payment holiday did not automatically result in a migration to Stage 2.
- However, a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2. For mortgages, in Retail Banking, approximately £95 million of exposures were collectively migrated from Stage 1 to Stage 2. The impact of collective migrations on unsecured lending was much more limited.
- As expected, ECL coverage was higher in accounts that were more than 30 days past due than those in Stage 2 for other reasons.

	Property		Corporate		FI		Other		Total	
2020	£m	%	£m	%	£m	%	£m	%	£m	%
Wholesale										
Currently >30 DPD	**9**	**1**	**36**	**6**	**—**	**—**	**—**	**—**	**45**	**7**
Currently <=30 DPD	**3,688**	**127**	**5,384**	**327**	**178**	**5**	**90**	**—**	**9,340**	**459**
- PD deterioration	***3,529***	***122***	***4,755***	***292***	***174***	***5***	***90***	***—***	***8,548***	***419***
- PD persistence	***30***	***1***	***114***	***3***	***1***	***—***	***—***	***—***	***145***	***4***
- Other driver (forbearance, RoCL etc)	***129***	***4***	***515***	***32***	***3***	***—***	***—***	***—***	***647***	***36***
Total Stage 2	**3,697**	**128**	**5,420**	**333**	**178**	**5**	**90**	**—**	**9,385**	**466**
2019										
Wholesale										
Currently >30 DPD	16	—	10	1	—	—	—	—	26	1
Currently <=30 DPD	750	12	1,935	54	58	—	3	—	2,746	66
- PD deterioration	*419*	*9*	*1,207*	*38*	*12*	*—*	*3*	*—*	*1,641*	*47*
- PD persistence	*5*	*—*	*30*	*1*	*—*	*—*	*—*	*—*	*35*	*1*
- Other driver (forbearance, RoCL etc)	*326*	*3*	*698*	*15*	*46*	*—*	*—*	*—*	*1,070*	*18*
Total Stage 2	766	12	1,945	55	58	—	3	—	2,772	67

Key points

- The deteriorated economic outlook due to COVID-19, including significant reductions in GDP and commercial real estate valuations, resulted in increased IFRS 9 PDs. Consequently, compared to 2019, a larger proportion of the exposures exhibited a SICR causing Stage 2 exposures to increase significantly.
- PD deterioration remained the primary trigger for identifying a SICR and Stage 2 treatment, although there was also an increase in arrears.
- There was an increase in flows on to the Risk of Credit Loss framework. However, these were recorded under PD deterioration if the Stage 2 trigger was also met.

Credit risk – Banking activities continued

Stage 2 decomposition by a significant increase in credit risk trigger

2020	UK mortgages £m	UK mortgages %	Credit cards £m	Credit cards %	Other £m	Other %	Total £m	Total %
Personal trigger (1)								
PD movement	2,064	57.1	211	69.7	432	67.5	2,707	59.4
PD persistence	871	24.1	68	22.4	185	28.9	1,124	24.7
Adverse credit bureau recorded with credit reference agency	516	14.3	14	4.6	9	1.4	539	11.8
Forbearance support provided	35	1.0	—	—	2	0.3	37	0.8
Customers in collections	17	0.5	—	—	2	0.3	19	0.4
Other reasons	106	2.9	10	3.3	10	1.6	126	2.8
Days past due >30	5	0.1	—	—	—	—	5	0.1
	3,614	100	303	100	640	100	4,557	100
2019								
Personal trigger (1)								
PD movement	1,382	54.1	197	59.6	289	64.6	1,868	55.9
PD persistence	385	15.0	111	33.5	110	24.6	606	18.2
Adverse credit bureau recorded with credit reference agency	679	26.5	16	4.8	22	4.9	717	21.5
Forbearance support provided	48	1.9	—	—	2	0.4	50	1.5
Customers in collections	21	0.8	1	0.3	5	1.1	27	0.8
Other reasons	28	1.1	6	1.8	18	4.0	52	1.6
Days past due >30	16	0.6	—	—	2	0.4	18	0.5
	2,559	100	331	100	448	100	3,338	100

Key points

- The primary driver of credit deterioration was PD, which including persistence, accounted for the majority of movements into Stage 2. There was also a collective migration of a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk.
- The increase in exposures in Stage 2 due to persistence, primarily within UK mortgages, reflected the slight reduction in PDs arising from the relative improvement in the multiple economic scenarios in the second half of the year compared to the mid-year point; exposures cannot migrate back to Stage 1 until their PD has been back within the criteria threshold for three consecutive months.
- High risk back-stops, for example, forbearance and adverse credit bureau, provide additional valuable discrimination. However, with a larger proportion of exposures triggering PD deterioration following the deteriorated economic outlook, the proportion of accounts triggering high risk backstops alone decreased.

2020	Property £m	Property %	Corporate £m	Corporate %	FI £m	FI %	Other £m	Other %	Total £m	Total %
Wholesale trigger (1)										
PD movement	3,535	95.7	4,782	88.3	175	98.3	90	100.0	8,582	91.5
PD persistence	30	0.8	115	2.1	1	0.6	—	—	146	1.6
Risk of Credit Loss	38	1.0	321	5.9	—	—	—	—	359	3.8
Forbearance support provided	49	1.3	39	0.7	—	—	—	—	88	0.9
Customers in collections	5	0.1	18	0.3	—	—	—	—	23	0.2
Other reasons (2)	38	1.0	138	2.6	2	1.1	—	—	178	1.9
Days past due >30	2	0.1	7	0.1	—	—	—	—	9	0.1
	3,697	100	5,420	100	178	100	90	100	9,385	100
2019										
Wholesale trigger (1)										
PD movement	429	56.0	1,215	62.4	12	20.7	3	100.0	1,659	59.8
PD persistence	6	0.8	29	1.5	—	—	—	—	35	1.3
Risk of Credit Loss	306	39.9	552	28.3	46	79.3	—	—	904	32.6
Forbearance support provided	12	1.6	48	2.5	—	—	—	—	60	2.2
Customers in collections	3	0.4	11	0.6	—	—	—	—	14	0.5
Other reasons (2)	7	0.9	87	4.5	—	—	—	—	94	3.4
Days past due >30	3	0.4	3	0.2	—	—	—	—	6	0.2
	766	100	1,945	100	58	100	3	100	2,772	100

Notes:
(1) The table is prepared on a hierarchical basis from top to bottom, for example, accounts with PD deterioration may also trigger backstop(s) but are only reported under PD deterioration.
(2) Includes customers where a PD assessment cannot be undertaken due to missing PDs.

Key points

- PD deterioration continued to be the primary trigger of migration of exposures from Stage 1 to Stage 2. As the economic outlook deteriorated, it accounted for a higher proportion of the balances migrated to Stage 2.
- Moving exposures on to the Risk of Credit Loss framework remained an important backstop indicator of a SICR. The exposures classified under the Stage 2 Risk of Credit Loss framework trigger decreased over the period as more exposures were captured under the PD deterioration Stage 2 trigger.
- PD persistence relates to the business banking portfolio only, with the reason for the year-on-year increase the same as described above for the Personal portfolio.

Risk and capital management

Capital, liquidity and funding risk
NWH Group continually ensures a comprehensive approach is taken to the management of capital, liquidity and funding, underpinned by frameworks, risk appetite and policies, to manage and mitigate capital, liquidity and funding risks. The framework ensures the tools and capability are in place to facilitate the management and mitigation of risk ensuring the Group operates within its regulatory requirements and risk appetite.

Definitions
Regulatory capital consists of reserves and instruments issued that are available, have a degree of permanency and are capable of absorbing losses. A number of strict conditions set by regulators must be satisfied to be eligible as capital.

Capital adequacy risk is the risk that there is or will be insufficient capital and other loss absorbing debt instruments to operate effectively including meeting minimum regulatory requirements, operating within Board approved risk appetite and supporting its strategic goals.

Liquidity consists of assets that can be readily converted to cash within a short timeframe with a reliable value. Liquidity risk is the risk of being unable to meet financial obligations as and when they fall due.

Funding consists of on-balance sheet liabilities that are used to provide cash to finance assets. Funding risk is the risk of not maintaining a diversified, stable and cost-effective funding base.

Liquidity and funding risks arise in a number of ways, including through the maturity transformation role that banks perform. The risks are dependent on factors such as:
- Maturity profile;
- Composition of sources and uses of funding;
- The quality and size of the liquidity portfolio;
- Wholesale market conditions; and
- Depositor and investor behaviour.

Sources of risk
Capital
The eligibility of instruments and financial resources as regulatory capital is laid down by applicable regulation. Capital is categorised by applicable regulation under two tiers (Tier 1 and Tier 2) according to the ability to absorb losses, degree of permanency and the ranking of absorbing losses. There are three broad categories of capital across these two tiers:
- CET1 capital - CET1 capital must be perpetual and capable of unrestricted and immediate use to cover risks or losses as soon as these occur. This includes ordinary shares issued and retained earnings.
- Additional Tier 1 (AT1) capital - This is the second type of loss absorbing capital and must be capable of absorbing losses on a going concern basis. These instruments are either written down or converted into CET1 capital when the CET1 ratio falls below a pre-specified level.
- Tier 2 capital - Tier 2 capital is the bank entities' supplementary capital and provides loss absorption on a gone concern basis. Tier 2 capital absorbs losses after Tier 1 capital. It typically consists of subordinated debt securities with a minimum maturity of five years.

Minimum requirement for own funds and eligible liabilities (MREL)
In addition to capital, other specific loss absorbing instruments, including senior notes issued by RBS plc, may be used to cover certain gone concern capital requirements which, is referred to as MREL. Gone concern refers to the situation in which resources must be available to enable an orderly resolution, in the event that the Bank of England (BoE) deems that RBS plc has failed or is likely to fail.

Liquidity
Liquidity risk within RBS plc is managed as part of the UK Domestic Liquidity Sub-Group (UK DoLSub), which is regulated by the PRA and comprises NWH Group's four licensed deposit taking UK banks: The Royal Bank of Scotland plc, National Westminster Bank Plc, Coutts & Company and Ulster Bank Limited. NWH Group maintains a prudent approach to the definition of liquidity resources. NWH Group manages its liquidity to ensure it is always available when and where required, taking into account regulatory, legal and other constraints.

Liquidity resources of the UK DoLSub are divided into primary and secondary liquidity as follows:
- Primary liquid assets include cash and balances at central banks, Treasury bills and other high quality government and US agency bonds.
- Secondary liquid assets are eligible as collateral for local central bank liquidity facilities. These assets include own-issued securitisations or whole loans that are retained on balance sheet and pre-positioned with a central bank so that they may be converted into additional sources of liquidity at very short notice.

Funding
NWH Group maintains a diversified set of funding sources, including customer deposits, wholesale deposits and term debt issuance. RBS plc also retains access to central bank funding facilities.

Managing capital requirements: regulated entities
In line with paragraph 135 of IAS 1 'Presentation of Financial Statements', RBS plc manages capital having regard to regulatory requirements. Regulatory capital is monitored and reported on an individual regulated bank legal entity basis ('bank entities'), as relevant in the jurisdiction for large subsidiaries of NatWest Group. NatWest Group itself is monitored and reported on a consolidated basis.

Capital management
Capital management is the process by which the bank entities ensure that they have sufficient capital and other loss absorbing instruments to operate effectively including meeting minimum regulatory requirements, operating within Board approved risk appetite, maintaining credit ratings and supporting strategic goals. Capital management is critical in supporting the bank entities' businesses and is also considered at NatWest Group level. It is enacted through a NatWest Group-wide end to end framework.

Capital planning is integrated into RBS plc's wider annual budgeting process and is assessed and updated at least monthly. As a key operating entity, capital plans are produced and managed for RBS plc.

Risk and capital management

Capital, liquidity and funding risk continued

This is summarised below. Other elements of capital management, including risk appetite and stress testing, are set out on pages 11 and 12.

Produce capital plans	• Capital plans are produced for RBS plc, its key operating entities and its businesses over a five year planning horizon under expected and stress conditions. Stressed capital plans are produced to support internal stress testing in the ICAAP for regulatory purposes. • Shorter term forecasts are developed frequently in response to actual performance, changes in internal and external business environment and to manage risks and opportunities.
Assess capital adequacy	• Capital plans are developed to maintain capital of sufficient quantity and quality to support RBS plc's business, its subsidiaries and strategic plans over the planning horizon within approved risk appetite, as determined via stress testing, and minimum regulatory requirements. • Capital resources and capital requirements are assessed across a defined planning horizon. • Impact assessment captures input from across RBS plc including from businesses.
Inform capital actions	• Capital planning informs potential capital actions including buy backs, redemptions, dividends and new issuance to external investors or via internal transactions. • Decisions on capital actions will be influenced by strategic and regulatory requirements, risk appetite, costs and prevailing market conditions. • As part of capital planning, RBS plc will monitor its portfolio of issued capital securities and assess the optimal blend and most cost effective means of financing.

Capital planning is one of the tools that NatWest Group uses to monitor and manage capital risk on a going and gone concern basis, including the risk of excessive leverage.

Liquidity risk management

NWH Group manages its liquidity risk taking into account regulatory, legal and other constraints to ensure sufficient liquidity is available where required to cover liquidity stresses. Liquidity risk within RBS plc is managed as part of the UK DoLSub.

The size of the liquidity portfolio held in the UK DoLSub is determined by referencing NWH Group's liquidity risk appetite. The NWH Group retains a prudent approach to setting the composition of the liquidity portfolio, which is subject to internal policies and limits over quality of counterparty, maturity mix and currency mix.

NWB Plc manages the majority of the UK DoLSub portfolio, for which the NatWest Group Treasurer is responsible.

Funding risk management

NWH Group manages funding risk through a comprehensive framework which measures and monitors the funding risk on the balance sheet.

The asset and liability types broadly match. Customer deposits provide more funding than customer loans utilise.

Relief measures

The economic impact of COVID-19 was significant. While liquidity, capital and funding were closely monitored throughout, NatWest Group benefited from its strong positions, particularly in relation to CET1, going into the crisis. Prudent risk management continues to be important as the full economic effects of the global pandemic unfold.

In response to COVID-19, a number of relief measures to alleviate the financial stability impact have been announced and recommended by regulatory and supervisory bodies. One significant announcement in the quarter was on 26 June when the European Parliament passed an amended regulation to the CRR in response to the COVID-19 pandemic ("the CRR COVID-19 amendment"); NatWest Group has applied a number of the CRR amendments for FY 2020 reporting. The impact on capital and leverage of the CRR amendment and other relief measures are set out below.

- IFRS 9 Transition – NatWest Group has elected to take advantage of the transitional regulatory capital rules in respect of expected credit losses following the adoption of IFRS 9; it had previously had a negligible impact up to Q4 2019. The CRR COVID-19 amendment now requires a full CET1 addback for the movement in stage 1 and stage 2 ECL from 1 January 2020 for the next two years. The IFRS 9 transitional arrangement impact on RBS plc CET1 regulatory capital at 31 December 2020 is £0.4 billion.
- CRR Leverage exposure – The CRR COVID-19 amendment accelerated a change in CRR2 to allow the netting of regular-way purchase and sales settlement balances. RBS plc has applied this, and it has reduced the CRR leverage exposure by c.£0.4 billion.
- Infrastructure and SME RWA supporting factors – The CRR COVID-19 amendment allowed an acceleration of the planned changes to the SME supporting factor and the introduction of an Infrastructure supporting factor, with these now being applicable with immediate effect. RBS plc has implemented these beneficial changes to supporting factors which have reduced RWAs by c.£0.1 billion for SMEs and c.£0.2 billion for Infrastructure.
- Capital buffers – Many countries announced reductions in their countercyclical capital buffer rates in response to COVID-19. Most notably for NatWest Group, the Financial Policy Committee reduced the UK rate from 1% to 0% effective from 11 March 2020. The CBI also announced a reduction of the Republic of Ireland rate from 1% to 0% effective from 1 April 2020.

Capital, liquidity and funding risk continued

Key points

CET1 Ratio

2020 17.6%

2019 13.2%

Increase of 440 basis points driven by profit attributable to ordinary shareholders of £0.3 billion and the impact of IFRS 9 transitional relief of £0.4 billion for the increase in expected credit losses charged to the attributable profit.

RWA

2020 £25.1bn

2019 £28.9bn

Total RWAs decreased by £3.8 billion, reflecting a £2.9 billion decrease in credit risk RWAs as well as a £0.9 billion decrease in operational risk RWAs following the annual recalculation. The decrease in credit risk RWAs was largely driven by repayments in Commercial Banking as well as reduced balances and improved risk metrics for unsecured lending in Retail Banking.

Leverage

2020 6.3%

2019 5.3%

CRR leverage ratio increased by c.100 basis points driven by a £5.1 billion decrease in the leverage exposure driven predominantly by eligible balance sheet exposures in addition to a £0.6 billion increase in Tier 1 capital.

Liquidity portfolio

2020 £34.5bn

2019 £35.9bn

The Liquidity portfolio decreased by £1 billion in 2020 to £34 billion, with no movement in primary liquidity. The decrease in secondary liquidity is driven by amortisation of the prepositioned mortgages during the year.

Liquidity Coverage ratio

2020 152%

2019 145%

The DoLSub Liquidity Coverage Ratio (LCR) increased by 7% during the year to 152% driven by an increase in the liquidity portfolio offset with a lower level of increased net outflows. The increased liquidity portfolio was primarily driven by significant growth in customer deposits which outstripped growth in customer lending during the year.

NSFR

2020 144%

2019 137%

The net stable funding ratio (NSFR) for FY 2020 was 144% compared to 137% in prior year. The increase is mainly due to deposits growth.

Risk and capital management

Capital, liquidity and funding risk continued

Minimum requirements

Capital adequacy ratios

The bank entities are subject to minimum capital requirements relative to RWAs. The table below summarises the minimum ratios of capital to RWAs that the UK bank entities are expected to meet.

Type	CET1	Total Tier 1	Total capital
Minimum capital requirements	4.5%	6.0%	8.0%
Capital conservation buffer	2.5%	2.5%	2.5%
Countercyclical capital buffer (1)	—	—	—
Total (2)	7.0%	8.5%	10.5%

Notes:
(1) Many countries announced reductions in their countercyclical capital buffer rates in response to COVID-19. Most notably for NatWest Group, the Financial Policy Committee reduced the UK rate from 1% to 0% effective from 11 March 2020. The CBI also announced a reduction of the Republic of Ireland rate from 1% to 0% effective from 1 April 2020.
(2) The minimum requirements do not include any capital that the bank entities may be required to hold as a result of the Pillar 2 assessment.

Leverage ratio

Following the joint announcement of UK Treasury, PRA and FCA on 16 November 2020, we expect the PRA to consult on the application of leverage ratios to individual legal entities and sub Groups during 2021.

Liquidity and funding ratios

The table below summarises the minimum requirements for key liquidity and funding metrics, under the relevant legislative framework. RBS plc is a member of the UK DoLSub which is presented below.

Type	
Liquidity coverage ratio (LCR)	100%
Net stable funding ratio (NSFR) (1)	N/A

Note:
(1) NSFR reported in line with CRR2 regulations finalised in June 2019. Following the joint announcement of UK Treasury, PRA and FCA on 16 November 2020 to postpone the future EU CRR2 element of the Basel 3 package, we understand the PRA is due to consult on a binding Net Stable Funding ratio (NSFR) requirement to be introduced from January 2022.

Capital, liquidity and funding risk continued

Measurement

Capital, RWAs and leverage

The table below sets out the key Capital and leverage ratios on a PRA transitional basis. Refer to Note 19 of the consolidated accounts for a more detailed breakdown of regulatory capital.

	2020	2019
Capital (1)	£m	£m
CET1	**4,431**	3,828
Tier 1	**5,400**	4,797
Total	**6,815**	6,199
RWAs		
Credit risk	**20,341**	23,191
Counterparty credit risk	**—**	—
Market risk	**14**	15
Operational risk	**4,778**	5,714
Total RWAs	**25,133**	28,920
Capital adequacy ratios	%	%
CET1	**17.6**	13.2
Tier 1	**21.5**	16.6
Total	**27.1**	21.4
Leverage		
Tier 1 capital (£m)	**5,400**	4,797
Leverage exposure (£m)	**85,867**	90,981
Leverage ratio (%) (1)	**6.3**	5.3

Note:
(1) Includes the IFRS 9 transitional adjustment of £380 million. Excluding this adjustment, the CET1 ratio would be 16.1% and the leverage ratio would be 5.9%.

Liquidity key metrics

Liquidity within RBS plc is managed and regulated as part of the UK DoLSub. The table below sets out the key liquidity and related metrics for the UK DoLSub.

2020	UK DoLSub
Liquidity coverage ratio (1)	**152%**
Stressed outflow coverage (2)	**168%**
Net stable funding ratio (3)	**144%**
2019	
Liquidity coverage ratio (1)	145%
Stressed outflow coverage (2)	134%
Net stable funding ratio (3)	137%

Notes:
(1) The published LCR excludes Pillar 2 add-ons. NatWest Group calculates the LCR using its own interpretations of the EU LCR Delegated Act, which may change over time and may not be fully comparable with those of other financial institutions.
(2) Stressed outflow coverage (SOC) is an internal measure calculated by reference to liquid assets as a percentage of net stressed contractual and behavioural outflows over three months under the worst of three severe stress scenarios of a market-wide stress, an idiosyncratic stress and a combination of both as per ILAAP. This assessment is performed in accordance with PRA guidance.
(3) Following the joint announcement of UK Treasury, PRA and FCA on 16 November 2020 to postpone the future EU CRR2 element of the Basel 3 package we understand the PRA is due to consult on a binding Net Stable Funding ratio (NSFR) requirement to be introduced from January 2022.

Risk and capital management

Capital, liquidity and funding risk continued

Leverage exposure

The leverage exposure is based on the CRR Delegated Act.

Leverage	2020 £m	2019 £m
Cash and balances at central banks	**26,927**	26,597
Derivatives	**745**	366
Other financial assets	**70,838**	62,767
Other assets	**732**	872
Total assets	**99,242**	90,602
Derivatives		
- netting and variation margin	**—**	—
- potential future exposures	**194**	299
Securities financing transactions gross up	**—**	—
Undrawn commitments	**11,183**	8,766
Regulatory deductions and other adjustments	**(270)**	(377)
Exclusion of core UK-group exposures	**(24,482)**	(8,309)
Leverage exposure	**85,867**	90,981

Liquidity portfolio

The table below shows the liquidity portfolio by product, with primary liquidity aligned to internal stressed outflow coverage and regulatory Liquidity coverage ratio (LCR) categorisation. Secondary liquidity comprises assets eligible for discount at central banks, which do not form part of the liquid asset portfolio for LCR or internal stressed outflow purposes

	2020		2019	
	UK DoLSub (1) **£m**	**RBS plc** **£m**	UK DoLSub (1) £m	RBS plc £m
Cash and balances at central banks	**86,575**	**24,631**	51,080	24,629
AAA to AA- rated governments	**35,875**	**—**	34,585	—
A+ and lower rated governments	**—**	**—**	—	—
Government guaranteed issuers, PSEs and GSEs	**141**	**—**	90	—
International organisations and MDBs	**2,154**	**—**	1,717	—
Level 1 bonds	**38,170**	**—**	36,392	—
LCR level 1 eligible assets	**124,745**	**24,631**	87,472	24,629
LCR level 2 eligible assets	**—**	**—**	—	—
Non-LCR eligible assets	**—**	**—**	—	—
Primary liquidity	**124,745**	**24,631**	87,472	24,629
Secondary liquidity (2)	**88,774**	**9,858**	73,332	11,243
Total liquidity value	**213,519**	**34,489**	160,804	35,872

Notes:
(1) UK DoLSub comprises NatWest Group's four licensed deposit-taking UK banks: NWB Plc, RBS plc, Coutts and Company and Ulster Bank Limited.
(2) Comprises assets eligible for discounting at the Bank of England and other central banks.

Capital, liquidity and funding risk continued

Funding sources

The table below shows the carrying values of the principal funding sources based on contractual maturity. Balance sheet captions include balances held at all classifications under IFRS 9.

	2020			2019		
	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m
Bank deposits	1,152	—	1,152	1,206	—	1,206
Customer deposits						
Personal	34,101	220	34,321	30,177	209	30,386
Corporate	37,609	4	37,613	32,448	2	32,450
Non-bank financial institutions (NBFI)	12,693	1	12,694	11,977	—	11,977
	84,403	225	84,628	74,602	211	74,813
Amounts due to holding company and fellow subsidiaries						
Bank and customer deposits	2,386	274	2,660	3,028	250	3,278
CRR-compliant internal MREL	4	393	397	4	392	396
Subordinated liabilities	2	1,462	1,464	2	1,467	1,469
	2,392	2,129	4,521	3,034	2,109	5,143
Total funding	87,947	2,354	90,301	78,842	2,320	81,162
Of which: available in resolution (1)	*—*	*1,860*	*1,860*	*6*	*1,859*	*1,865*

Note:
(1) Eligible liabilities (as defined in the Banking Act 2009 as amended from time to time) that meet the eligibility criteria set out in the regulations, rules, policies, guidelines, or statements of the Bank of England including the Statement of Policy published by the Bank of England in June 2018.

Contractual maturity

The table shows the residual maturity of third party financial instruments, based on contractual date of maturity of RBS plc's banking activities, including third party and intercompany hedging derivatives. Trading activities comprising Mandatory fair value through profit or loss (MFVTPL) assets and held-for-trading (HFT) liabilities have been excluded from the maturity analysis due to their short-term nature and are shown in total in the table below.

	Banking activities										
2020	Less than 1 month £m	1-3 months £m	3-6 months £m	6 months - 1 year £m	Subtotal £m	1-3 years £m	3-5 years £m	More than 5 years £m	Total £m	Trading activities £m	Total £m
Cash and balances at central banks	26,927	—	—	—	26,927	—	—	—	26,927	—	26,927
Derivatives	73	—	—	206	279	355	73	28	735	10	745
Loans to banks - amortised cost	951	—	233	—	1,184	—	—	—	1,184	—	1,184
Loans to customers - amortised cost (1)	6,903	2,005	1,672	3,311	13,891	10,296	6,263	19,623	50,073	—	50,073
Personal	928	374	525	966	2,793	3,155	2,591	12,457	20,996	—	20,996
Corporate	5,521	1,620	1,137	2,332	10,610	6,976	3,571	6,722	27,879	—	27,879
NBFI	454	11	10	13	488	165	101	444	1,198	—	1,198
Other assets (2)	1	—	—	—	1	—	—	—	1	105	106
Total financial assets	34,855	2,005	1,905	3,517	42,282	10,651	6,336	19,651	78,920	115	79,035
2019											
Total financial assets	35,462	1,815	1,860	3,091	42,228	12,859	7,404	20,362	82,853	135	82,988
2020											
Bank deposits	1,058	94	—	—	1,152	—	—	—	1,152	—	1,152
Customer deposits	82,793	415	912	283	84,403	220	—	5	84,628	—	84,628
Personal	33,516	114	192	279	34,101	220	—	—	34,321	—	34,321
Corporate	36,978	297	331	3	37,609	—	—	4	37,613	—	37,613
NBFI	12,299	4	389	1	12,693	—	—	1	12,694	—	12,694
Derivatives	—	24	63	—	87	140	112	260	599	189	788
Notes in circulation	1,643	—	—	—	1,643	—	—	—	1,643	—	1,643
Lease liabilities	1	2	3	6	12	21	17	100	150	—	150
Total financial liabilities	85,495	535	978	289	87,297	381	129	365	88,172	189	88,361
2019											
Total financial liabilities	75,730	381	791	304	77,206	352	126	385	78,069	184	78,253

Notes:
(1) Loans to customers excludes £1,292 million (2019 - £790 million) of ECL provisions.
(2) Other assets relating to non-financial instruments of £626 million (2019 - £692 million) have been excluded from the table.

Risk and capital management

Non-traded market risk

Definition

Non-traded market risk is the risk to the value of assets or liabilities outside the trading book, or the risk to income, that arises from changes in market prices such as interest rates, foreign exchange rates and equity prices, or from changes in managed rates.

Sources of risk

Following the disposals of structured loans to local authorities (LOBOs) during 2019, non-traded market risk in this entity is very low.

RBS plc's non-traded market risk exposure largely comprises structural interest rate risk arising from asset and liability hedging.

Governance, risk appetite and controls

For general information on governance, risk appetite and controls in RBS plc, refer to pages 9 to 11. For further information specific to non-traded market risk, refer to the non-traded market risk section of the NatWest Group Annual Report and Accounts.

Measurement

Non-traded internal VaR (1-day 99%)

The following table shows one-day internal banking book value-at-risk (VaR) at a 99% confidence level, split by risk type. VaR is a statistical estimate of the potential change in the market value of a portfolio (and, thus, the impact on the income statement) over a specified time horizon at a given confidence level. For further information on non-traded VaR metrics, refer to the non-traded market risk section of the NatWest Group Annual Report and Accounts.

	2020				2019			
	Average £m	**Maximum £m**	**Minimum £m**	**Period-end £m**	Average £m	Maximum £m	Minimum £m	Period-end £m
Interest rate	**1.1**	**1.8**	**0.5**	**0.7**	2.7	6.9	0.5	1.1
Euro	**0.1**	**0.2**	**0.1**	**0.1**	0.2	0.3	—	0.2
Sterling	**1.0**	**1.7**	**0.4**	**0.6**	2.7	6.9	0.6	1.1
US dollar	**0.2**	**0.5**	**0.1**	**0.2**	0.3	0.9	—	0.1
Credit spread	**—**	**—**	**—**	**—**	1.0	1.4	0.5	—
Pipeline risk	**0.1**	**0.2**	**—**	**0.1**	0.1	0.1	—	0.1
Diversification (1)	**(0.1)**			**(0.1)**	(1.0)			(0.1)
Total	**1.1**	**1.8**	**0.5**	**0.7**	2.8	6.7	0.5	1.1

Note:
(1) RBS plc benefits from diversification across various financial instrument types, currencies and markets. The extent of the diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time. The diversification factor is the sum of the VaR on individual risk types less the total portfolio VaR.

Risk and capital management

Non-traded market risk continued

Interest rate risk

Non-traded interest rate risk (NTIRR) arises from the provision to customers of a range of banking products with differing interest rate characteristics. When aggregated, these products form portfolios of assets and liabilities with varying degrees of sensitivity to changes in market interest rates. Mismatches can give rise to volatility in net interest income as interest rates vary. NTIRR comprises three primary risk types: gap risk, basis risk and option risk.

To manage exposures within its risk appetite, RBS plc aggregates interest rate positions and hedges its residual exposure, primarily with interest rate swaps.

Structural hedging aims to reduce gap risk and the sensitivity of earnings to interest rate shocks. It also provides some protection against prolonged periods of falling rates.

For further information on the types and sources of non-traded interest rate risk as well as on the purpose and methodology of the structural hedging carried out, refer to the non-traded market risk section of the NatWest Group Annual Report and Accounts.

Non-traded interest rate risk can be measured from either an economic value-based or earnings-based perspective, or a combination of the two. RBS plc uses VaR as its value-based approach and sensitivity of net interest earnings as its earnings-based approach. For further detail on these measurement approaches, refer to the non-traded market risk section of the NatWest Group Annual Report and Accounts.

Structural hedging

RBS plc has a significant pool of stable, non and low interest-bearing liabilities, principally comprising equity and money transmission accounts.

NatWest Group has a policy of hedging these balances, either by investing directly in longer-term fixed-rate assets (primarily fixed-rate mortgage loans) or by using interest rate swaps, in order to provide a consistent and predictable revenue stream.

At 31 December 2020, RBS plc's structural hedge had a notional of £33 billion (2019 – £31 billion) with an average life of approximately three years.

Sensitivity of net interest earnings

Net interest earnings are sensitive to changes in the level of interest rates, mainly because maturing structural hedges are replaced at higher or lower rates and changes to coupons on managed rate customer products do not match changes in market rates of interest or central bank policy rates.

Earnings sensitivity is derived from a market-implied forward rate curve. Assumptions are applied to this curve to derive central bank policy rates. A simple scenario is shown that projects forward earnings over a 12-month period based on the 31 December 2020 balance sheet. A base-case earnings forecast is derived from the market-implied rate curve, which is then subject to interest rate shocks. The difference between the base-case forecast and the shock gives an indication of underlying sensitivity to interest rate movements.

The sensitivity of net interest earnings table below shows the expected impact of an immediate upward or downward change of 25 and 100 basis points to all interest rates. Yield curves are expected to move in parallel except that interest rates are assumed to floor at zero per cent or, for euro rates, at the current negative rate. At 31 December 2020, the floor also affects sterling interest rates, reducing the size of the down-rate shock at most maturities.

Reported sensitivities should not be considered a forecast of future performance in these rate scenarios. Actions that could reduce interest earnings sensitivity include changes in pricing strategies on customer loans and deposits as well as hedging. Management action may also be taken to stabilise total income also taking into account non-interest income.

	Shifts in yield curve			
2020	+25 basis points £m	-25 basis points with floor at 0% £m	+100 basis points £m	-100 basis points with floor at 0% £m
12-month interest earnings sensitivity	**93**	**(28)**	**291**	**(29)**
2019				
12-month interest earnings sensitivity	41	(39)	164	(178)

Sensitivity of cash flow hedging reserves to interest rate movements

Interest rate swaps are used to implement the structural hedging programme. Generally, these swaps are booked in hedge accounting relationships. Changes in the valuation of swaps that are in effective cash flow hedge accounting relationships are recognised in cash flow hedge reserves. The main driver of RBS plc's cash flow hedge reserve sensitivity is the interest rate swaps that form part of the structural hedge.

The table below shows an estimate of the sensitivity of cash flow hedge reserves to a parallel shift in all rates. In this analysis, interest rates have not been floored at zero. Cash flow hedges are assumed to be fully effective. For further information on the assumptions and methodology relating to this table, refer to the corresponding table in the NatWest Group Annual Report and Accounts.

2020	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m
Cash flow hedge reserves	**(162)**	**164**	**(635)**	**670**
2019				
Cash flow hedge reserves	(153)	155	(601)	634

Accounting volatility risk

Accounting volatility risk arises when an exposure is accounted for at amortised cost but economically hedged by a derivative that is accounted for at fair value. Although this is not an economic risk, the difference in accounting between the exposure and the hedge creates volatility in the income statement. For information on how this risk is managed, refer to the non-traded market risk section of the NatWest Group Annual Report and Accounts.

Risk and capital management

Compliance & conduct risk

Definition

Compliance risk is the risk that the behaviour of NatWest Group towards customers fails to comply with laws, regulations, rules, standards and codes of conduct. Such a failure may lead to breaches of regulatory requirements, organisational standards or customer expectations and could result in legal or regulatory sanctions, material financial loss or reputational damage.

Conduct risk is the risk that the conduct of NatWest Group and its subsidiaries and its staff towards customers – or in the markets in which it operates – leads to unfair or inappropriate customer outcomes and results in reputational damage, financial loss or both.

Sources of risk

Compliance and conduct risks exist across all stages of NatWest Group's relationships with its customers and arise from a variety of activities including product design, marketing and sales, complaint handling, staff training, and handling of confidential insider information.

Key developments in 2020

- A customer-focused COVID-19 response was mobilised, which included prioritised resource and operational capacity, forbearance and participation in government schemes.
- In-life monitoring of customer outcomes was extended to ensure treatment strategies remained timely, relevant and consistent, as a result of the continued economic uncertainty arising from COVID-19 and Brexit.
- Specialist training was delivered to support the continuous oversight of ring-fencing embeddedness.
- Work to develop a Digitised Rules Mapping platform was a significant management focus. The platform aims to facilitate risk-based rules mapping to regulatory obligations. This will enable more efficient risk management of regulatory compliance matters as well as intelligent risk taking.
- The roll-out of the Banking My Way service – which enables vulnerable customers to record their support needs – was also a focus, helping to drive tailored solutions and outcomes.
- A review of historic investment advice remediation was conducted in order to ensure the appropriate customer outcomes were achieved.

Governance

NatWest Group defines appropriate standards of compliance and conduct and ensures adherence to those standards through its risk management framework. Relevant compliance and conduct matters are escalated through Executive Risk Committee and Board Risk Committee.

Risk appetite

Risk appetite for compliance and conduct risks is set at Board level. Risk appetite statements articulate the levels of risk that legal entities, businesses and functions work within when pursuing their strategic objectives and business plans.

A range of controls is operated to ensure the business delivers good customer outcomes and is conducted in accordance with legal and regulatory requirements. A suite of policies addressing compliance and conduct risks set appropriate standards across NatWest Group. Examples of these include the Complaints Management Policy, Client Assets & Money Policy, and Product Lifecycle Policy as well as policies relating to customers in vulnerable situations, cross-border activities and market abuse. Continuous monitoring and targeted assurance is carried out as appropriate.

Monitoring and measurement

Compliance and conduct risks are measured and managed through continuous assessment and reporting to NatWest Group's senior risk committees and at Board level. The compliance and conduct risk framework facilitates the consistent monitoring and measurement of compliance with laws and regulations and the delivery of consistently good customer outcomes. The first line of defence is responsible for effective risk identification, reporting and monitoring, with oversight, challenge and review by the second line. Compliance and conduct risk management is also integrated into NatWest Group's strategic planning cycle.

Mitigation

Activity to mitigate the most-material compliance and conduct risks is carried out across NatWest Group with specific areas of focus in the customer-facing businesses and legal entities. Examples of mitigation include consideration of customer needs in business and product planning, targeted training, complaints management, as well as independent monitoring activity. Internal policies help support a strong customer focus across NatWest Group.

Financial crime risk

Definition

Financial crime risk is presented by criminal activity in the form of money laundering, terrorist financing, bribery and corruption, sanctions and tax evasion. It does not include fraud risk management.

Sources of risk

Financial crime risk may be presented if RBS plc's customers, employees or third parties undertake or facilitate financial crime, or if RBS plc's products or services are used to facilitate such crime. Financial crime risk is an inherent risk across all lines of business.

Key developments in 2020

- In view of the challenges presented by COVID-19, financial crime policies were reviewed and, where appropriate, updated to reflect the evolving environment as well as industry best practice.
- A new enterprise-wide Financial Crime Hub was established in the first line to detect and prevent financial crime. The Hub will facilitate a common, consistent approach to managing financial crime.
- A multi-year transformation plan was developed to ensure that, as the financial crime threat evolves with changes in technology, the economy and wider society, risks relating to money-laundering, terrorist-financing, tax evasion, bribery and corruption and financial sanctions are managed, mitigated and controlled as effectively as possible.
- A new Financial Crime executive steering committee was established to provide oversight of the transformation plan and its implementation.

Governance

The NatWest Group Financial Crime Risk Executive Committee, which is chaired by the NatWest Group Chief Financial Crime Risk Officer, is the principal financial crime risk management forum. The committee reviews and, where appropriate, escalates material financial crime risks and issues across NatWest Group to the NatWest Group Executive Risk Committee and the NatWest Group Board Risk Committee.

Risk appetite

There is no appetite to operate in an environment where systems and controls do not enable the identification, assessment, monitoring, management and mitigation of financial crime risk. RBS plc's systems and controls must be comprehensive and proportionate to the nature, scale and complexity of its businesses. There is no tolerance to systematically or repeatedly breach relevant financial crime regulations and laws.

RBS plc operates a framework of preventative and detective controls designed to mitigate the risk that it could facilitate financial crime. These controls are supported by a suite of policies, procedures and detailed instructions to ensure they operate effectively.

Monitoring and measurement

Financial crime risks are identified and reported through continuous risk management and regular monthly reporting to NatWest Group's senior risk committees and the NatWest Group Board. Quantitative and qualitative data is reviewed and assessed to measure whether financial crime risk is within risk appetite.

Risk and capital management

Financial crime risk continued

Mitigation

Through the financial crime framework, relevant policies, systems, processes and controls are used to mitigate financial crime risk. This includes the use of dedicated screening and monitoring controls to identify people, organisations, transactions and behaviours that may require further investigation or other actions. Centralised expertise is available to detect and disrupt threats to RBS plc and its customers. Intelligence is shared with law enforcement, regulators and government bodies to strengthen national and international defences against those who would misuse the financial system for criminal motives.

Climate-related risk

Definition

Climate-related risk is the threat of financial loss or adverse non-financial impacts associated with climate change and the political, economic and environmental responses to it.

Physical risks may arise from climate and weather-related events such as heatwaves, droughts, floods, storms and sea level rises. They can potentially result in financial losses, impairing asset values and the creditworthiness of borrowers. Transition risks may arise from the process of adjustment towards a low-carbon economy. Changes in policy, technology and sentiment could prompt reassessment of customers' financial risk and may lead to falls in the value of a large range of assets.

The NatWest Group Board is responsible for monitoring and overseeing climate-related risk within NatWest Group's overall business strategy and risk appetite. In 2020, the Board approved the allocation of Senior Management Function responsibility for identifying and managing financial risks from climate change jointly to the NatWest Group Chief Executive Officer (CEO) and the NatWest Group Chief Risk Officer.

Operational risk

Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events. It arises from day-to-day operations and is relevant to every aspect of the business.

Sources of risk

Operational risk may arise from a failure to manage operations, systems, transactions and assets appropriately. This can take the form of human error, an inability to deliver change adequately or on time, the non-availability of technology services, or the loss of customer data. Fraud and theft – as well as the threat of cyber attacks – are sources of operational risk, as is the impact of natural and man-made disasters. Operational risk can also arise from a failure to account for changes in law or regulations or to take appropriate measures to protect assets.

Key developments in 2020

- The impact of COVID-19 led to significant disruption and heightened the operational risk profile as RBS plc adapted to new ways of working as a result of the lockdown protocols. The control environment was continually monitored to ensure the resulting challenges were safely addressed.
- A NatWest Group-wide response was mobilised – supported by additional reporting on customer needs, people, processes and systems – to ensure the Board and senior management were regularly updated and to facilitate decision-making as COVID-19 evolved.
- The transformation agenda was impacted by COVID-19, with some activities being re-prioritised. A full risk assessment on the impact of the reprioritised activity was completed to ensure the potential impacts were understood and mitigated.
- Operational resilience remained a key focus. A series of scenarios – setting out the crystallisation of severe but plausible combinations of significant risks – were developed in order to support planning and appropriate forward-looking risk management strategies.
- The security threat and the potential for cyber attacks on NatWest Group's supply chain remains an area for close monitoring. Significant enhancements in managing such incidents and the broader security control environment were made. This included completion of work in response to the outcome of the 2019 CBEST test.
- NatWest Group's preparations for Brexit and the end of the transition period enabled NatWest Group to ensure that its processes and systems would ensure continuity of service for customers.

Governance

A strong operational risk management function is vital to support RBS plc's ambitions to serve its customers better. Improved management of operational risk against defined appetite is vital for stability and reputational integrity.

The first line of defence is responsible for managing operational risks directly while the second line is responsible for proactive oversight and continuous monitoring of operational risk management across RBS plc. The second line is responsible for reporting and escalating key concerns to Executive Risk Committee and Board Risk Committee.

Risk appetite

Operational risk appetite supports effective management of material operational risks. It expresses the level and types of operational risk RBS plc is willing to accept to achieve its strategic objectives and business plans. RBS plc's operational risk appetite statement encompasses the full range of operational risks faced by its legal entities, businesses and functions.

Mitigation

The Control Environment Certification (CEC) process is a half-yearly self-assessment by the CEOs of NatWest Group's principal businesses, functions and legal entities. It provides a consistent and comparable view on the adequacy and effectiveness of the internal control environment.

CEC covers material risks and the underlying key controls, including financial, operational and compliance controls, as well as supporting risk management frameworks. The CEC outcomes, including forward-looking assessments for the next two half-yearly cycles and progress on control environment improvements, are reported to the NatWest Group Audit Committee and Board Risk Committee. They are also shared with external auditors.

The CEC process helps to ensure compliance with the NatWest Group Policy Framework, Sarbanes-Oxley 404 requirements concerning internal control over financial reporting (as referenced in the Compliance report on page 152 of the NatWest Group Annual Report and Accounts), and certain requirements of the UK Corporate Governance Code.

Risks are mitigated by applying key preventative and detective controls, an integral step in the risk assessment methodology which determines residual risk exposure. Control owners are accountable for the design, execution, performance and maintenance of key controls. Key controls are regularly assessed for adequacy and tested for effectiveness. The results are monitored and, where a material change in performance is identified, the associated risk is re-evaluated.

In H1 2020, due to the impacts of COVID-19, the formal certification process was suspended. It resumed again in H2.

Monitoring and measurement

Risk and control assessments are used across all business areas and support functions to identify and assess material operational and conduct risks and key controls. All risks and controls are mapped to RBS plc's Risk Directory. Risk assessments are refreshed at least annually to ensure they remain relevant and capture any emerging risks and also ensure risks are reassessed.

Risk and capital management

Operational risk continued

The process is designed to confirm that risks are effectively managed in line with risk appetite. Controls are tested at the appropriate frequency to verify that they remain fit-for-purpose and operate effectively to reduce identified risks.

RBS plc uses the standardised approach to calculate its Pillar 1 operational risk capital requirement. This is based on multiplying three years' average historical gross income by coefficients set by the regulator based on business line. As part of the wider Internal Capital Adequacy Assessment Process an operational risk economic capital model is used to assess Pillar 2A, which is a risk-sensitive add-on to Pillar 1. The model uses historical loss data (internal and external) and forward-looking scenario analysis to provide a risk-sensitive view of RBS plc's Pillar 2A capital requirement.

Scenario analysis is used to assess how severe but plausible operational risks will affect RBS plc. It provides a forward-looking basis for evaluating and managing operational risk exposures.

Refer to the Capital, liquidity and funding risk section for operational risk capital requirement figures.

Operational resilience

RBS plc manages and monitors operational resilience through its risk and control assessment methodology. This is underpinned by setting and monitoring risk indicators and performance metrics for key business services. Progress continues on the response to regulator expectations on operational resilience, with involvement in a number of industry-wide operational resilience forums. This enables a more holistic view of the operational resilience risk profile and the pace of ongoing innovation and change, both internally and externally.

Event and loss data management

The operational risk event and loss data management process ensures RBS plc captures and records operational risk financial and non-financial events that meet defined criteria. Loss data is used for regulatory and industry reporting and is included in capital modelling when calculating economic capital for operational risk. The most serious events are escalated in a simple, standardised process to all senior management, by way of a Group Notifiable Event Process.

All financial impacts associated with an operational risk event are reported against the date they were recorded in RBS plc's financial accounts. A single event can result in multiple losses (or recoveries) that may take time to crystallise. Losses and recoveries with a financial accounting date in 2020 may relate to events that occurred, or were identified in, prior years. RBS plc purchases insurance against specific losses and to comply with statutory or contractual requirements.

Model risk

Definition

Model risk is the potential for adverse consequences arising from decisions based on model results that may be incorrect, misinterpreted, used inappropriately or based on an outdated model. RBS plc defines a model as a quantitative method, system, or approach that applies statistical, economic, financial, accounting, mathematical or data science theories, techniques and assumptions to process input data into quantitative estimates.

Sources of risk

RBS plc uses a variety of models in the course of its business activities. Examples include the use of model outputs to support customer decisioning, measuring and assessing risk exposures (including credit, market, and climate risk), as well as calculating regulatory capital and liquidity requirements.

Key developments in 2020

- Progress was made in embedding the model risk framework across RBS plc to ensure all models are identified and managed as per requirements.
- Enhanced model risk appetite measures were approved and monitored throughout 2020, with remediation plans under close management.
- All RBS plc models are now recorded within a single model inventory, providing increased transparency.
- As a result of COVID-19, there was an increased reliance on model performance monitoring to identify model limitations and qualitative overlays to ensure model outputs were used appropriately.

Governance

A governance framework is in place to ensure policies and processes relating to models are appropriate and effective. Two roles are key to this – Model Risk Owners and Model Risk Officers. Model Risk Owners, in the first line, are responsible for model approval and ongoing performance monitoring. Model Risk Officers, in the second line, are responsible for oversight, including ensuring that models are independently validated prior to use and on an ongoing basis aligned to the model's risk rating.

Model risk matters are escalated to senior management through the RBS plc Model Oversight Committee. The NatWest Group Model Risk Oversight Committee provides a direct escalation route to the NatWest Group Executive Risk Committee and, where applicable, onwards to the NatWest Group Board Risk Committee.

Risk appetite

Model risk appetite is set in order to limit the level of model risk that RBS plc is willing to accept in the course of its business activities. It is approved by the RBS plc Executive Risk Committee. Business areas are responsible for monitoring performance against appetite and remediating models outside appetite.

Risk controls

Policies and procedures related to the development, validation, approval and ongoing monitoring of models are in place to ensure adequate control across the lifecycle of an individual model. Validation of material models is conducted by an independent risk function comprised of skilled, well-informed subject matter experts. This is completed for new models or amendments to existing models and as part of an ongoing periodic programme to assess model performance. The frequency of periodic validation is aligned to the risk rating of the model. The independent validation focuses on a variety of model features, including modelling approach, the nature of the assumptions used, the model's predictive ability and complexity, the data used in the model, its implementation and its compliance with regulation.

Risk monitoring and measurement

The level of risk relating to an individual model is assessed through a model risk rating. A quantitative approach is used to determine the risk rating of each model, based on the model's materiality and validation rating. This approach provides the basis for model risk appetite measures and enables model risk to be robustly monitored and managed across RBS plc.

Ongoing performance monitoring is conducted by the first line and overseen by the second line to ensure parameter estimates and model constructs remain fit for purpose, model assumptions remain valid and that models are being used consistently with their intended purpose. This allows timely action to be taken to remediate poor model performance and/or any control gaps or weaknesses.

Risk and capital management

Model risk continued

Risk mitigation

By their nature – as approximations of reality – model risk is inherent in the use of models. It is managed by refining or redeveloping models where appropriate – either due to changes in market conditions, business assumptions or processes – and by applying adjustments to model outputs (either quantitative or based on expert opinion). Enhancements may also be made to the process within which the model output is used in order to further limit risk levels.

Reputational risk

Definition

Reputational Risk is defined as the risk of damage to stakeholder trust due to negative consequences arising from internal actions or external events.

Sources of risk

Reputational risks originate from internal actions and external events. The three primary drivers of reputational risk have been identified as: failure in internal execution; a conflict between RBS plc's values and the public agenda; and contagion (when RBS plc's reputation is damaged by failures in the wider financial sector).

Key developments in 2020

- Reputational risks arising from COVID-19 remained a key focus from Q1 onwards.
- A review of the reputational risk framework and policy began in 2020. This was required to reflect the purpose, capture a more complete view of reputation at a strategic level and align with more progressive industry leaders.
- The correlation between reputational risk and climate change issues remained a significant area of focus, supported by work to enhance the consideration of such issues within the reputational risk framework. As part of this work, enhancements were made to the Environmental, Social & Ethical risk management framework to mitigate reputational risk from carbon intensive sectors and support the transition to a lower carbon economy.

Governance

A reputational risk policy supports reputational risk management in RBS plc. Reputational risk committees review relevant issues at an individual business or entity level, while the Reputational Risk Committee – which has delegated authority from the Executive Risk Committee – opines on cases, issues, sectors and themes that represent a material reputational risk. The NatWest Group Board Risk Committee oversees the identification and reporting of reputational risk. The NatWest Group Sustainable Banking Committee has a specific focus on environmental, social and ethical issues.

Risk appetite

RBS plc manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and quantitative measures. RBS plc seeks continuous improvement in the identification, assessment and management of customers, transactions, products and issues that present a material reputational risk.

Standards of conduct are in place in RBS plc requiring strict adherence to policies, procedures and ways of working to ensure business is transacted in a way that meets – or exceeds – stakeholder expectations.

Monitoring and measurement

Relevant internal and external factors are monitored through regular reporting to the RBS plc reputational risk committees and escalated, where appropriate, to the NatWest Group Reputational Risk Committee, NatWest Group Board Risk Committee or the NatWest Group Sustainable Banking Committee.

Mitigation

Reputational risk is mitigated through the policy and governance framework, with ongoing staff training to ensure early identification, assessment and escalation of material issues. External events that could cause reputational damage are identified and mitigated through NatWest Group's top and emerging risks process. The most material threats to NatWest Group's reputation continued to originate from historical and more recent conduct issues. NatWest Group has in recent years been the subject of investigations and reviews by a number of regulators and governmental authorities, some of which have resulted in past fines, settlements and public censure. Refer to the Litigation and regulatory matters section of Note 26 to the NatWest Group consolidated financial statements for details of material matters currently impacting NatWest Group.

Report of the directors

The directors present their report together with the audited accounts for the year ended 31 December 2020.

Other information incorporated into this report by reference can be found at:

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Post balance sheet events	Note 27

RBS plc structure

The Royal Bank of Scotland plc ('RBS plc') is a wholly-owned subsidiary of NatWest Holdings Limited ('NWH Ltd' or 'the parent company'). NatWest Group plc ('NWG plc') is 'the ultimate holding company'. The term 'NatWest Group' refers to NatWest Group plc and its subsidiary and associated undertakings. NatWest Group plc is incorporated in Great Britain and has its registered office at 36 St Andrew Square, Edinburgh, EH2 2YB. Details of the principal subsidiary undertakings of RBS plc are shown in Note 28 on the accounts.

The financial statements of NatWest Group plc can be obtained from Legal, Governance and Regulatory Affairs, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through NatWest Group's website natwestgroup.com.

Activities

RBS plc is engaged principally in providing a wide range of banking and other financial services in the UK.

Results and dividends

The profit attributable to the ordinary shareholders of RBS plc for the year ended 31 December 2020 amounted to £297 million compared with a profit of £592 million for the year ended 31 December 2019, as set out in the income statement on page 80.

In 2020, RBS plc paid an ordinary dividend of £0.8 billion to its parent company, NWH Ltd. In 2019, RBS plc paid a distribution of £1.8 billion by ordinary dividend and a further ordinary dividend of £0.7 billion to NWH Ltd.

Employees

As at 31 December 2020, RBS plc employs 2,100 people (excluding temporary staff). National Westminster Bank Plc (NWB Plc) provides the majority of shared services (including technology) and operational processes under Intra-Group Agreements. Details of related costs are included in Note 3 on the accounts.

Corporate Governance statement

Following the introduction of new reporting requirements in 2019, the directors of RBS plc are required to provide a statement in the Report of the directors stating which corporate governance code, if any, RBS plc followed during the year, how it applied the code and any part of the code it did not follow.

For the financial year ended 31 December 2020 RBS plc has chosen to report against the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website (the Wates Principles). The disclosures below explain how RBS plc has applied the Wates Principles in the context of its corporate governance arrangements.

1. Purpose and leadership

NatWest Group's purpose is established by the NatWest Group plc Board, promoted across NatWest Group and cascaded to subsidiaries including RBS plc. In February 2020, and following an extensive period of stakeholder engagement, the NatWest Group plc Board approved a new purpose and strategy for NatWest Group.

NatWest Group's purpose is "we champion potential, helping people, families and businesses to thrive". It has been a galvanising force across the organisation as its response to the COVID-19 pandemic has evolved, acting as an important point of reference during Board discussions, debate and decision-making.

NatWest Group's strategy is set and approved by the NatWest Group plc Board. The board of directors of RBS plc (the Board) reviews and sets the strategic direction of the NWH Group and, as appropriate, the strategies for each of its businesses, within the parameters set by the NatWest Group plc Board. The Board also oversees the execution of NWH Group strategy and holds executive management to account for its delivery.

Further information on NatWest Group's progress against its purpose and strategy can be found in the NatWest Group plc 2020 Annual Report and Accounts.

Building a healthy culture that embodies Our Values is a core priority for NatWest Group 'Our Values' are at the heart of Our Code (the NatWest Group-wide Code of Conduct). They guide the way NatWest Group identifies the right people to serve customers well, and how NatWest Group manages, engages and rewards colleagues.

The Board assesses and monitors culture in several ways. In February 2020, representatives from the Banking Standards Board (BSB) joined a Board meeting to present the results of their 2019 industry-wide survey and thematic reports, together with their 2019 Assessment report on NatWest Group.

The Board also discussed an internal review of the BSB's thematic reports on 'Technology and Culture' and 'Decision-Making' from a NatWest Group perspective, including impacts for customers and employees.

Colleague opinion survey results were another useful culture oversight tool available to the Board. Directors considered the results of colleague pulse surveys conducted in May and June 2020, and in October 20202, reviewed the results of the annual colleague opinion survey, Our View. Key themes noted and discussed by the Board were culture, inclusion, capability, resilience and wellbeing (including financial wellbeing and colleague advocacy).

Directors are mindful of their responsibility to set the 'tone from the top' and take every opportunity to role model the desired culture both within the boardroom and beyond.

While opportunities for face to face interaction with colleagues were significantly curtailed during 2020, directors continued to engage with colleagues virtually where possible, for example through Colleague Advisory Panel events, Committee function visits and a virtual talent engagement session.

In December, as part of a spotlight on colleagues, the Board received an update on future ways of working and how this might evolve in a way that is consistent with NatWest Group purpose and strategy; continues to support colleagues; drives greater collaboration; and supports the long-term sustainability of NatWest Group.

The activities described above have supported the Board in meeting the Wates Principle 1 requirement to ensure that purpose, values, strategy and culture are aligned, within the wider NatWest Group governance structure.

2. Board composition

The Board has thirteen directors comprising the Chairman, two executive directors and ten independent non-executive directors, one of whom is the Senior Independent Director.

The names of the current directors and secretary are shown on page 5.

The Board considers that the Chairman was independent on appointment and that all the non-executive directors are independent. Non-executive director independence and individual directors' continuing contribution to RBS plc are considered at least annually.

Report of the directors

The Board operates a Boardroom Inclusion Policy which reflects the most recent industry targets and is aligned to the Inclusion Guidelines applying to the wider NatWest Group. The Boardroom Inclusion policy provides a framework to ensure that the Board attracts, motivates and retains the best talent and avoids limiting potential caused by bias, prejudice or discrimination. It currently applies to the Boards of NatWest Group plc, NWH Ltd, RBS plc, NWB Plc and Ulster Bank Limited (UBL). A copy of the Boardroom Inclusion Policy is available on natwestgroup.com.

The Boardroom Inclusion Policy contains a number of measurable objectives, targets and ambitions reflecting the ongoing commitment of the Board to inclusion progress. The Board aims to meet the highest industry standards and recommendations wherever possible. That includes, but is not limited to, aspiring to meet the targets set by the Hampton-Alexander Report: FTSE100 Women Leaders (33% female representation on the boards) and the Parker Report: Beyond 1 by '21 (at least one director from an ethnic minority background on the boards) by 2020/2021. The policy supports the NatWest Group-wide commitment to being fully gender balanced by 2030.

The Board currently meets the Parker target and exceeds the Hampton-Alexander target with a female representation of 38%.

The role of the Chairman is to lead the Board and ensure its overall effectiveness. This is distinct and separate from that of the Chief Executive Officer (CEO) who manages the business day-to-day.

All directors receive accurate, timely and clear information on relevant matters and have access to the advice and services of the Company Secretary. In addition, all directors are able, if necessary, to obtain independent professional advice at RBS plc's expense.

The Senior Independent Director acts as a sounding board for the Chairman and as an intermediary for other directors when necessary.

NWH Limited is the holding company for NatWest Group's ring-fenced operations, which include the retail, commercial and wealth services. A common board structure is operated such that directors of NWH Ltd are also directors of RBS plc, NWB Plc and Ulster Bank Limited (UBL). Known collectively as the NWH Sub Group, the boards of these four entities meet concurrently.

An integral part of NatWest Group's governance arrangements is the appointment of three Double Independent Non-Executive Directors (DINEDs) to the Boards and Board Committees, of the NWH Sub Group.

The DINEDs are independent in two respects: (i) independent of management as non-executives; and (ii) independent of the rest of NatWest Group by virtue of their NWH Sub Group only directorships.

The DINEDs play a critical role in NatWest Group's ring-fencing governance structure, and are responsible for exercising appropriate oversight of the independence and effectiveness of the NWH Sub Group's governance arrangements, including the ability of each board to take decisions independently. The DINEDs also have an enhanced role in managing any conflicts which may arise between the interests of RBS plc and other members of NatWest Group.

All NWH Sub Group directors who are not DINEDs are directors of NatWest Group plc. All DINEDs attend NatWest Group plc Board meetings in an observer capacity.

The governance arrangements for the Boards and Board Committees of NatWest Group plc and the NWH Sub Group have been designed to enable NatWest Group plc to exercise appropriate oversight and to ensure that, as far as is reasonably practicable, the NWH Sub Group is able to take decisions independently of the wider Group.

The Board is structured to ensure that the directors provide RBS plc with the appropriate balance of skills, experience and knowledge as well as independence. Given the nature of NWH Group's businesses, experience of banking and financial services is clearly of benefit. A number of directors have substantial experience in that area, including retail and commercial banking. In addition, the directors have relevant experience in customer service; government and regulatory matters; mergers and acquisitions; corporate recovery, resolution and insolvency; stakeholder management; environmental, social and governance; technology, digital and innovation; finance and accountancy; risk; and change management.

Board Committees also comprise directors with a variety of skills and experience so that no undue reliance is placed on any one individual.

The independent non-executive directors combine broad business and commercial experience with independent and objective judgement and provide independent challenge to the executive directors and the leadership team. The balance between independent non-executive and executive directors enables the Board to provide clear and effective leadership across NWH Group's business activities.

The Board monitors the commitment of the Chairman and directors and is satisfied that they are able to allocate sufficient time to enable them to discharge their duties and responsibilities effectively. Any additional external appointments require prior Board approval.

There is an induction programme for all new directors which is tailored to their specific experience and knowledge. Each new director receives a formal induction on joining the Board, which is co-ordinated by the Chief Governance Officer and Company Secretary and tailored to suit the requirements of the individual concerned. This includes visits to NatWest Group's major businesses and functions and meetings with directors and senior management. Meetings with external auditors, counsel and stakeholders are also arranged as appropriate.

All new directors receive a copy of the NatWest Group Director Handbook. The Handbook operates as a consolidated governance support manual for directors of NatWest Group plc and the NWH Sub Group, providing both new and current directors with a single source of information relevant to their role. It covers a range of topics including NatWest Group's corporate structure; the Board and Board Committee operating model; Board policies and processes and a range of technical guidance on relevant matters including directors' duties, conflicts of interest, and the UK Senior Managers' Regime. The Handbook forms part of a wider library of reference materials available via a resources portal.

The Board is supported in its succession planning activities, including the recruitment of non-executive directors, by the Nominations Committee, which is responsible for considering and making recommendations to the Board in respect of Board appointments. The Nominations Committee reviews the structure, size and composition of the Board, and makes recommendations to the Board in relation to any necessary changes, having regard to the overall balance of skills, knowledge, experience and diversity on the Board, the length of service of the Board as a whole; and the requirement to keep membership regularly refreshed. The Nominations Committee considers Board composition and succession planning at least annually. The NatWest Group plc Group Nominations and Governance Committee also approves all appointments to the Board, reflecting RBS plc's position as a subsidiary within NatWest Group.

A review of the effectiveness of the Board, including the Chairman, individual directors and Board Committees, is conducted at least annually

2020 Performance evaluation

The 2020 evaluation of the NWH Sub Group Boards was facilitated by the Chief Governance Officer and Company Secretary, Jan Cargill, during Q4 2020, alongside the evaluation of the NatWest Group plc Board. The conclusion of the 2020 Board evaluation was that the Board operated effectively throughout the year and fulfilled its remit as set out in its terms of reference.

Report of the directors

Directors noted the progress made against the 2019 evaluation actions, which were consistent across the NatWest Group plc and NWH Sub Group Boards and are described in more detail in the NatWest Group plc 2020 Annual Report and Accounts. Directors engaged fully with the evaluation exercise and commented positively in relation to many aspects of the Board's operations.

Key findings and recommendations were closely aligned with the NatWest Group plc findings and included the following:

- COVID-19 response - Directors felt that management had responded well to the pandemic. The Board had been kept regularly informed throughout, providing constructive challenge and support as appropriate, and virtual board meetings had worked efficiently.
- Purpose and strategy – Directors agreed that NatWest Group's purpose was clear and compelling, and that it was starting to embed and guide Board discussions and decision-making. The annual Board objectives were considered useful, but directors said a shorter list of focus items would be more impactful.
- Board stakeholder engagement – Engagement activity during the year had been worthwhile, despite limited opportunities for face to face meetings. Board sessions with institutional investors had been particularly useful, and the Colleague Advisory Panel was working well. Directors were keen to explore different options to engage with customers and understand their views. They were also interested in deeper customer insights and further focus on key supplier relationships.
- Board composition and succession planning – The majority of directors felt the Board is now right-sized with no material skills gaps. Directors expressed a desire for greater visibility of ExCo successors.
- Board culture and dynamics – The 2019 evaluation had identified Board dynamics as an area for further improvement. In 2020, directors commented positively on Board culture and dynamics, noting an improvement over the past 12 months. Relationships were considered to be good, although directors missed the opportunity for informal interaction, due to COVID-19 restrictions. Directors felt the balance of responsibilities between the Board and Board Committees was appropriate.
- How the Board operates - The Board's operating rhythm and increased meeting frequency had worked well. Directors expressed an interest in more in depth business discussions and some observed there was scope to streamline Committee Chair reporting. Directors appreciated the enhanced approach to management reporting and observed that Board paper templates continued to drive better and shorter papers.

Actions

Following Board discussion of the evaluation report, a number of actions were agreed for 2021, including the following: -

- Agree a shorter and more focused set of Board objectives for 2021.
- Explore different options for directors to engage with customers.
- Review potential enhancements to Board Management Information on customers and suppliers.
- Enhance Board visibility of ExCo successors.

Implementation of the 2020 Board evaluation actions will be overseen by the Nominations Committee during 2021.

The Chairman met each director individually to discuss their own performance and continuing professional development and establish whether each director continues to contribute effectively to the company's long-term sustainable success. The Chairman also shared peer feedback provided to the Company Secretary as part of the individual evaluation process.

Separately, the Senior Independent Director sought feedback on the Chairman's performance from the non-executive directors, executive directors and other key internal and external stakeholders and discussed it with the Chairman.

Non-executive directors discuss professional development annually with the Chairman and they participate in scheduled Board training sessions and other external sessions, as appropriate. With significant demands on Board time due to COVID-19, the Board training programme prioritised key areas of focus including financial crime and climate. Directors may also request individual in-depth briefings from time to time on areas of particular interest.

3. Director responsibilities

All directors receive guidance on their statutory duties under the Companies Act and are supported in the discharge of their duties by the Company Secretary, as further described on page 3.

Each director has a role profile which clearly articulates their responsibilities and accountabilities and any additional regulatory responsibilities and accountabilities are set out in their Statement of Responsibilities.

NatWest Group also produces and maintains a document called 'Our Governance' which sets out the governance, systems and controls applicable to NatWest Group plc and the NWH Sub Group. Our Governance is made available to all directors and is reviewed and approved by the Board at least annually.

The Directors' Conflicts of Interest policy sets out procedures to ensure that the Board's management of conflicts of interest and its powers for authorising certain conflicts are operating effectively. This includes the management of conflicts that may arise during Board decisions where the interests of RBS plc conflict with the interests of other members of NatWest Group. RBS plc maintains a register of directors' interests and appointments, which is reviewed annually by the Board, and there is discussion of directors' conflicts in Board meetings, as required.

The Board is the main decision-making forum for RBS plc. The Board is collectively responsible for the long-term success of RBS plc and the delivery of sustainable value to its shareholders. The Board's role is to provide leadership of RBS plc. It monitors and maintains the consistency of RBS plc's activities within the strategic direction of NatWest Group; it reviews and approves risk appetite for strategic and material risks in accordance with the NatWest Group Risk Appetite Framework and it monitors performance against risk appetite for RBS plc. It approves RBS plc's key financial objectives and keeps the capital and liquidity positions of RBS plc under review. The Board's terms of reference include a formal schedule of matters specifically reserved for the Board's decision and are reviewed at least annually.

The Board held seven scheduled meetings during the year. In March, reflecting the scale of the COVID-19 pandemic and lockdown restrictions, the Board's operating rhythm was revised to facilitate regular updates from the Group CEO and executive management team. A cycle of weekly meetings, later moving to fortnightly, supplemented the Board's scheduled meetings, and all meetings took place virtually.

The Chairman, CEO and Company Secretary are responsible for the quality and integrity of information provided to directors. At each scheduled Board meeting the directors received reports from the Chairman, Board Committee Chairs, CEO, CFO, and other members of the executive management team, as appropriate. Other senior executives attended Board meetings throughout the year to present reports to the Board. This provided the Board with an opportunity to engage directly with management on key issues and supports succession planning.

The format for Board and Board Committee papers was further enhanced during 2020 and now includes a dedicated section which explains how the proposal or update aligns to purpose, alongside existing sections detailing stakeholder impacts. This ensures that due consideration is given to purpose and stakeholders in the boardroom

Report of the directors

The Board's key areas of focus for 2020 included coronavirus updates; strategy, purpose; risk appetite framework; customer experience outcomes; colleagues; and Brexit planning and preparedness.

Board Committees

The Board has established a number of Board committees with particular responsibilities. The Audit, Performance & Remuneration, and Nominations Committees of NWH Ltd operate as committees of each of NWH Ltd, NWB Plc, RBS plc and UBL, with meetings running concurrently.

The Audit Committee comprises at least three independent non-executive directors, two of whom are DINEDs. The Committee assists the Board in discharging its responsibilities in relation to the disclosure of financial affairs. It also reviews accounting and financial reporting and regulatory compliance practices of RBS plc, RBS plc's system of standards of internal controls, and monitors RBS plc's processes for internal audit and external audit.

The Board Risk Committee comprises at least four independent non-executive directors, one of whom is the Chairman of the Audit Committee and two of whom are DINEDs. It provides oversight and advice to the Board in relation to current and potential future risk exposures, future risk profile, including oversight of RBS plc's Risk Management Framework and (in conjunction with the Audit Committee) internal controls required to manage risk.

The Performance and Remuneration Committee (RemCo) comprises at least four independent non-executive directors, one of whom is a DINED. It assists the NatWest Group plc Group Performance and Remuneration Committee with the oversight and implementation of NatWest Group's remuneration policy and also considers and makes recommendations on remuneration arrangements for senior executives of RBS plc.

The Nominations Committee comprises the Chairman, Senior Independent Director and at least three further independent non-executive directors. It is responsible for assisting the Board in the formal selection and appointment of directors. It reviews the structure, size and composition of the Board, and membership and chairmanship of Board Committees.

The Executive Committee

The Executive Committee comprises RBS plc's most senior executives and supports the CEO to discharge her individual accountabilities including matters relating to strategy, financials, capital, risk customer and operational issues, and culture and values.

4. Opportunity and risk

The role of the Board is to promote the long-term sustainable success of RBS plc.

The Board held 2 strategy sessions with the executive management team, in June and October. Within the context of a wider discussion at NatWest Group level, this provided an opportunity for the Board to assess opportunities and risks to the future success of the business, the sustainability of the business model and how its governance contributes to the delivery of its strategy.
The Board reviews and approves risk appetite for strategic and material risks in accordance with the NatWest Group risk appetite framework; monitors performance against risk appetite for RBS plc; and considers any material risks and approves, as appropriate, recommended actions escalated by the Board Risk Committee.

RBS plc's risk strategy is informed and shaped by an understanding of the risk landscape including a range of significant risks and uncertainties in the external economic, political and regulatory environments.

RBS plc complies with NatWest Group's risk appetite framework, which is approved annually by the NatWest Group plc Board, in line with NatWest Group's risk appetite statements, frameworks and policies. NatWest Group risk appetite is set in line with overall strategy.

NatWest Group operates an integrated risk management framework, which is centred around the embedding of a strong risk culture. The framework ensures the tools and capability are in place to facilitate sound risk management and decision-making across the organisation.

During 2020, a number of enhancements to the risk management framework were developed. The increasing significance of climate risk was considered as part of these developments and will be fully integrated as part of the implementation of the enhanced framework in 2021. Alignment with climate change regulation is also reported to the NatWest Group Executive Risk Committee and the NatWest Group Board Risk Committee.

RBS plc also complies with the NatWest Group Policy Framework, the purpose of which is to ensure that NatWest Group establishes and maintains NatWest Group-wide policies that adequately address the material inherent risks it faces in its business activities.

Further information on the RBS plc risk management framework including risk culture, risk governance, risk appetite, risk controls and limits, and risk identification and measurement can be found in the risk and capital management section of this report (pages 8 to 64).

5. Remuneration

The NatWest Group remuneration policy provides a consistent policy across all NatWest Group companies and ensures compliance with regulatory requirements. The remuneration policy is aligned with the business strategy, objectives, values and long-term interests of RBS plc. The policy supports a culture where individuals are rewarded for delivering sustained performance in line with risk appetite and for demonstrating the right conduct and behaviours.

RemCo reviews remuneration for executives of RBS plc and considers reports on the wider workforce including annual pay outcomes and diversity information. The RemCo helps to ensure that the remuneration policies, procedures and practices being applied are appropriate for RBS plc.

Executive remuneration structures incentivise individuals to deliver sustainable performance based on strategic objectives for NatWest Group and the relevant business area. Performance is assessed against a balanced scorecard of financial and non-financial measures and variable pay is subject to deferral as well as malus and clawback provisions to ensure rewards are justified in the long-term.

The approach to performance management provides clarity for colleagues about how their contribution links to NatWest Group's purpose and all employees have goals set across a balanced scorecard of measures. NatWest Group continues to ensure employees are paid fairly for the work they do and are supported by simple and transparent pay structures in line with industry best practices.

This clarity and certainty on how pay is delivered is also helping to improve colleagues' financial wellbeing, which is a priority. Employees are provided with flexibility in terms of how they wish to receive pay to suit their circumstances. Pay is compared against the external market so that pay and benefits are competitive. NatWest Group is a fully accredited Living Wage Employer in the UK with rates of pay that continue to exceed the Living Wage Foundation Benchmarks.

NatWest Group ensures that colleagues have a common awareness of the financial and economic factors affecting its performance through quarterly 'Results Explained' communications and Workplace Live events with the Group CEO and Group CFO.

Further information on the remuneration policy, pay ratios and employee share plans can be found in the Directors' remuneration report of the NatWest Group plc 2020 Annual Report and Accounts. Gender and Ethnicity Pay Gap information can be found in the Strategic report section of the NatWest Group plc 2020 Annual Report and Accounts, along with the steps being taken to build an inclusive and engaged workforce.

Report of the directors

6. Stakeholder relationships and engagement

In February 2020 the Board approved its annual objectives and confirmed the Board's key stakeholder groups. The Board's agenda and engagement plans were structured to enhance the Board's understanding of these stakeholders' views and interests. This in turn has informed Board discussions and decision-making.

For further details on Board engagement with shareholders and other stakeholders, including how planned engagement activity was adapted in light of COVID-19 restrictions, see pages 3 and 4 of the Strategic report which includes a section 172(1) statement.

Engagement with Colleagues, Suppliers, Customers and Others

For further details on the Board's engagement with colleagues, customers, suppliers and others, and how these stakeholders' interests have influenced Board discussions and principal decisions, see pages 3 and 4 of the Strategic report which includes a section 172(1) statement.

Internal control over financial reporting

The internal controls over financial reporting for RBS plc are consistent with those at NatWest Group level. RBS plc has designed and assessed the effectiveness of its internal control over financial reporting as of 31 December 2020 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 publication of 'Internal Control – Integrated Framework'. Any deficiencies identified are reported to the RBS plc Audit Committee along with management's remediation plans.

NatWest Group's auditors have audited the effectiveness of NatWest Group's internal control over financial reporting and have given an unqualified opinion.

Directors' interests

Where directors of RBS plc are also directors of NatWest Group plc, their interests in the shares of the ultimate holding company at 31 December 2020 are shown in the Corporate governance, Annual report on remuneration section of the NatWest Group plc 2020 Annual Report and Accounts. None of the directors held an interest in the loan capital of the ultimate holding company, or in the shares of RBS plc, during the period from 1 January 2020 to 18 February 2021.

Directors' indemnities

In terms of section 236 of the Companies Act 2006 (the 'Companies Act'), Qualifying Third Party Indemnity Provisions have been issued by the ultimate holding company to its directors, members of RBS plc's Executive Committee, individuals authorised by the PRA/FCA and certain directors and/or officers of NatWest Group subsidiaries.

Going concern

RBS plc's business activities and financial position, the factors likely to affect its future development and performance and its objectives and policies in managing the financial risks to which it is exposed, and its capital, are discussed in the Business review. RBS plc's regulatory capital resources and significant developments in 2020, and anticipated future developments are detailed in the Capital, liquidity and funding section on pages 52 to 58. This section also describes RBS plc's funding and liquidity profile, including changes in key metrics and the build up of liquidity reserves.

Having reviewed RBS plc's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that RSB plc will continue in operational existence for a period of not less than twelve months. Accordingly, the financial statements of RBS plc have been prepared on a going concern basis.

Political donations

During 2020, no political donations were made in the UK or EU, nor any political expenditure incurred in the UK or EU.

Directors' disclosure to auditors

Each of the directors at the date of approval of this report confirms that:
(a) so far as the director is aware, there is no relevant audit information of which RBS plc's auditors are unaware; and
(b) the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that RBS plc's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act.

Auditors

Ernst & Young LLP (EY LLP) are RBS plc's auditors and have indicated their willingness to continue in office. A resolution to re-appoint EY LLP as RBS plc's auditors will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Jan Cargill
Company Secretary
18 February 2021

The Royal Bank of Scotland plc
is registered in Scotland No. SC083026

Statement of directors' responsibilities

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on pages 72 to 79.

The directors are responsible for the preparation of the Annual Report and Accounts. The directors are required by the Companies Act 2006 to prepare company accounts, for each financial year in accordance with international accounting standards in conformity with the requirements of the Companies Act. They are responsible for preparing accounts that present fairly the financial position, financial performance and cash flows of the Bank. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and to enable them to ensure that the Annual Report and Accounts complies with the Companies Act 2006. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank taken as a whole; and
- the Strategic report and Directors' report (incorporating the Financial review) include a fair review of the development and performance of the business and the position of the Bank taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Howard Davies Chairman	Alison Rose-Slade Chief Executive Officer	Katie Murray Chief Financial Officer

18 February 2021

Board of directors

Chairman	**Executive directors**	**Non-executive directors**
Howard Davies	Alison Rose-Slade	Francesca Barnes
	Katie Murray	Graham Beale
		Ian Cormack
		Patrick Flynn
		Morten Friis
		Robert Gillespie
		Yasmin Jetha
		Mike Rogers
		Mark Seligman
		Lena Wilson

Financial Statements

Independent auditors' report to the members of The Royal Bank of Scotland plc

Opinion

We have audited the financial statements of The Royal Bank of Scotland plc (the Bank) for the year ended 31 December 2020 which comprise the Income statement, the Statement of comprehensive income, the Balance Sheet, the Statement of changes in equity, the Cash flow statement, the Accounting policies and the related notes 1 to 28, and the Risk and capital management section of the Strategic report identified by a bracket in the margins. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the Bank's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Bank's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Bank's financial close process, we confirmed our understanding of management's Going Concern assessment process and also engaged with management early to ensure all key factors were considered in their assessment;
- We evaluated management's going concern assessment which included reviewing their evaluation of long-term business and strategic plans, capital adequacy, liquidity and funding positions. It also assessed these positions considering internal stress tests which included consideration of principal and emerging risks. The Bank's risk profile and risk management practices were considered including credit risk, market risk, compliance and conduct risk, and operational risk;
- We evaluated management's assessment by considering their viability in different scenarios considering the economic impact of COVID-19. We used economic specialists in assessing the macroeconomic assumptions in the forecast through benchmarking to institutional forecasts, HMT consensus and peer comparative economic forecasts;
- We considered the Bank's operational resilience and their response to the impact COVID-19 had on its business operations, including the operations of its third party providers; and
- We reviewed the Bank's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern for a period of up to 18 February 2022, being not less than twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Bank's ability to continue as a going concern.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Bank. This enables us to form an opinion on the financial statements. We take into account the size and risk profile of the component and its activities, the organisation of the Bank and effectiveness of NWG Group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each component.

In assessing the risk of material misstatement to the Bank financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the five reporting components of the Bank, we selected three components based on size and risk, which represent the principal business units within the Bank.

Component	Scope	Key locations
Retail Banking	Full	United Kingdom
Commercial Banking	Full	United Kingdom
Central items and other (including Services, and Treasury)	Full	United Kingdom, India

Changes from the prior year

The table below illustrates the coverage obtained from the work performed by our audit teams. We considered total assets, total equity and total income to verify we had appropriate overall coverage.

	Full scope (1)	Specific scope (2)	Other procedures (3)	Total
Total assets	97%	-	3%	100%
Total equity	98%	-	2%	100%
Total income	98%	-	2%	100%

Notes:
(1) Full scope: audit procedures on all significant accounts.
(2) Specific scope: audit procedures on selected accounts.
(3) Other procedures: considered in analytical procedures.

As a result of the COVID-19 outbreak and resulting lockdown restrictions in all of the countries where full or specific scope audit procedures have been performed, we have modified our audit strategy to allow for the audit to be performed remotely at both the Group and component locations. This approach was supported through remote user access to the Group's financial systems and the use of EY software collaboration platforms for the secure and timely delivery of requested audit evidence.

Involvement with component teams

In establishing our overall approach to the Bank audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. The primary audit engagement team interacted regularly with the component audit teams where appropriate throughout the course of the audit, which included holding planning meetings, maintaining regular communications on the status of the audits, reviewing key working papers and taking responsibility for the scope and direction of the audit process. The primary audit team continued to follow a programme of oversight visits that has been designed to ensure that the Senior Statutory Auditor, or another Group audit partner, visits all full scope and specific scope locations. During the current year's audit cycle, due to COVID-19, the visits undertaken by the primary audit team were necessarily virtual visits. These visits involved video call meetings with local management, and discussions on the audit approach with the component team and any issues arising from their work. The primary team interacted regularly with the component teams and maintained a continuous and open dialogue with component teams, as well as holding formal closing meetings quarterly, to ensure that the primary team were fully aware of their progress and results of their procedures. The primary team also reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
Expected Credit Loss Provisions	
At 31 December 2020 the Bank reported total gross loans of £72 billion (2019: £63 billion) and £1.4 billion of expected credit losses (ECL) provisions (2019: £0.8 billion). Management's judgements and estimates are especially subjective due to significant uncertainty associated with the assumptions used. Uncertainty associated with COVID-19 and its consequent implications including lockdowns and recovery assumptions as well as government intervention, increased the level of judgement in ECL. Assumptions with increased complexity in respect of the timing and measurement of ECL include: • Staging - Allocation of assets to stage 1, 2, or 3 on a timely basis using criteria in accordance with IFRS 9 considering the impact of COVID-19 and related government support measures, such as payment deferrals, on customer behaviours and the identification of underlying significant deterioration in credit risk; • Model estimations - Accounting interpretations, modelling assumptions and data used to build and run the models that calculate the ECL considering the impact of COVID-19 on model performance and any additional data to be considered in the ECL calculation; • Economic scenarios - Inputs, assumptions and weightings used to estimate the impact of multiple economic scenarios particularly those influenced by COVID-19 and Brexit including any changes to scenarios required through 31 December 2020; • Adjustments - Appropriateness, completeness and valuation of model adjustments including any COVID-19 specific adjustments due to the increased uncertainty and less reliance on modelled outputs which increases the risk of management override; • Individual provisions - Measurement of individual provisions including the assessment of multiple scenarios considering the impact of COVID-19 on exit strategies, collateral valuations and time to collect; and • Disclosure - The completeness and preparation of disclosures considering the key judgments, sources of data and the design of the disclosures.	Controls testing: We evaluated the design and operating effectiveness of controls across the processes relevant to ECL, including the judgements and estimates noted. These controls, among others, included: • the allocation of assets into stages including management's monitoring of stage effectiveness; • recording and approval of payment deferrals and government supported lending such as bounce back loans and Coronavirus Business Interruption Loan Schemes (CBILs); • model governance including monitoring, the governance and review of both in-model adjustments and post model adjustments, and model validation; • data accuracy and completeness; • credit monitoring; • multiple economic scenarios; • individual provisions and • production of journal entries and disclosures. In evaluating the governance process we observed the executive finance and risk committee meetings where the inputs, assumptions and adjustments to the ECL were discussed and approved, among other procedures. We performed an overall assessment of the ECL provision levels by stage to assess if they were reasonable by considering the overall credit quality of the Bank's portfolios, risk profile, impact of the COVID-19 including geographic considerations and high risk industries, the impact government support measures, such as payment deferrals, may have had on delaying expected defaults, credit risk management practices and the macroeconomic environment by considering trends in the economy and industries to which the Bank is exposed. We also considered the appropriateness of provisions applied to government supported lending such as bounce back loans and CBILs which included assessing the respective eligibility criteria. We performed peer benchmarking where available to assess overall staging and provision coverage levels. For a sample of industries, we also assessed the ECL against an independently developed methodology estimating unsustainable debt levels. Based on our assessment of the key judgements we used specialists to support the audit team in the areas of economics, modelling and, collateral and business valuations. Staging**:** We evaluated the criteria used to allocate a financial asset to stage 1, 2 or 3 in accordance with IFRS 9; this included peer benchmarking to assess staging levels. We recalculated the assets in stage 1, 2 and 3 to assess if they were allocated to the appropriate stage and performed sensitivity analysis to assess the impact of different criteria on the ECL and also considered the impact of performing collective staging downgrades to industries and geographic regions particularly impacted by COVID-19. To test credit monitoring which drives the probability of default estimates used in the staging calculation, we recalculated the risk ratings for a sample of performing loans and focused our testing on high risk industries impacted by COVID-19. We also assessed the timing of the annual review performed by management on each wholesale loan exposure to evaluate whether it appropriately considered COVID-19 risk factors by considering independent publicly available information. Model estimations - We performed a risk assessment on all models involved in the ECL calculation to select a sample of models to test. We involved modelling specialists to assist us to test this sample of ECL models by testing the assumptions, inputs and formulae used. This included a combination of assessing the appropriateness of model design and formulae used, alternative modelling techniques, recalculating the Probability of Default, Loss Given Default and Exposure at Default, and model implementation. We also considered the results of internal model validation results. To evaluate data quality, we agreed a sample of ECL calculation data points to source systems, including balance sheet data used to run the models and historic loss data to monitor models. We also tested the ECL data points from the calculation engine through to the general ledger and disclosures. We included COVID-19 specific data points in this testing.

Risk	Our response to the risk
Expected Credit Loss Provisions continued	
	Economic scenarios - We involved economic specialists to assist us to evaluate the base case and alternative economic scenarios, including evaluating probability weights and comparing these to other scenarios from a variety of external sources. This assessment included the latest developments related to COVID-19 and Brexit at 31 December 2020, including the announcement of planned vaccines. We assessed whether forecasted macroeconomic variables were complete and appropriate, such as GDP, unemployment rate, interest rates and the House Price Index. With the support of our modelling specialists we evaluated the correlation and translation of the macroeconomic factors to the ECL. Adjustments - We tested material in-model and post-model adjustments including those which were applied as a result of COVID-19. With our modelling specialists, we assessed the completeness of these adjustments and their appropriateness by considering the data, judgments, methodology, sensitivities, and governance of these adjustments as well as considering model shortcomings. Individual provisions - We involved valuation specialists to recalculate a sample of individual provisions including the alternative scenarios and evaluating probability weights assigned. The sample was based on a number of factors, including higher risk sectors such as commercial real estate, retail, leisure and aviation, and materiality. We considered the impact COVID-19 had on collateral valuations and time to collect as well as whether planned exit strategies remained viable. Disclosure - We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards and regulatory considerations including expectations of COVID-19 specific disclosures.

Key observations communicated to the NatWest Holdings (NWH) Group Audit Committee (1)

We are satisfied that provisions for the impairment of loans were reasonable and recognised in accordance with IFRS 9. We highlighted the following matters to the NWH Group Audit Committee:

- Overall provision levels were reasonable which also considered available peer information and our understanding of the credit environment;
- Our testing of models and model assumptions identified some instances of under estimation. We aggregated these differences and were satisfied that the overall estimate recorded was reasonable;
- The in-model and post-model adjustments applied were reasonable and addressed model shortcomings identified;
- We recalculated the staging of all retail and wholesale exposures in material portfolios and noted no material differences. We also performed sensitivity analysis on the staging criteria and noted that substantial changes would be needed to the criteria to result in a material difference;
- For individually assessed impairments, in a few instances we reported judgemental differences in respect of the extent of the impairment identified, however, none of these differences were considered material; and

We noted improvements to the governance framework throughout the year to respond to the challenges posed by COVID-19. Control deficiencies were identified, particularly in data processes and models where compensating controls were identified and operated effectively.

Relevant references in the Annual Report and Accounts

Report of the Group Audit Committee
Credit Risk section of the Risk and capital management section
Accounting policies
Note 11 to the financial statements

Note:
(1) NWH Audit Committee covers the ring-fenced bank legal entities of NatWest Group, including RBS plc.

Independent auditors' report to the members of The Royal Bank of Scotland plc

Risk	Our response to the risk
Provisions conduct and litigation claims	
At 31 December 2020, the Bank has reported £0.3 billion (2019: £0.6 billion) of provisions for liabilities and charges, including £0.2 billion (2019: £0.5 billion) for conduct and litigation claims, including Payment Protection Insurance (PPI) as detailed in Note 15 of the financial statements. Regulatory scrutiny and the continued litigious environment give rise to a high level of management judgement in determining appropriate provisions and disclosures. Management judgement is needed to determine whether a present obligation exists, and a provision should be recorded at 31 December 2020 in accordance with the accounting criteria set out under IAS 37. The most significant areas of judgement are: • Judgement and risk of management bias - Auditing the adequacy of these provisions is complex because judgement is involved in the selection and use of assumptions (such as expected claim rates, legal costs, and the timing of settlement) in the estimation of material provisions and there is a risk of management bias in the determination of whether an outflow in respect of identified material conduct or legal matters is probable and can be estimated reliably; and • Disclosure - Judgement is required to assess the adequacy of disclosures of provision for contingent liabilities given the underlying estimation uncertainty in the provisions.	Controls testing: We evaluated the design and operating effectiveness of controls over the identification, estimation, monitoring and disclosure of provisions related to legal and conduct matters considering the potential for management override of controls. The controls tested, among others, included those to identify and monitor claims, determine when a provision is required and to ensure the completeness and accuracy of data used to estimate provisions. Examination of regulatory correspondence: Among other procedures, we examined the relevant regulatory and legal correspondence to assess developments in certain cases. We also considered regulatory developments to identify actual or possible non-compliance with laws and regulations that might have a material effect on the financial statements.. For cases which were settled during the period, we compared the actual outflows with the provision that had been recorded, considered whether further risk existed, and evaluated the level of disclosures provided. Inquiry of legal counsel: For significant legal matters, we received confirmations from the Bank's external legal counsel for significant matters to evaluate the existence of the obligation and management's estimate of the outflow at year-end. We also conducted inquiries with internal legal counsel over the existence of the legal obligations and related provision. We performed a test for unrecorded provisions to assess if there were cases not considered in the provision estimate by assessing against external legal confirmations and discussing with internal counsel. Testing of assumptions: Where appropriate, we involved our conduct risk specialists to assist us in evaluating the provision. We tested the underlying data and assumptions used in the determination of the provisions recorded, including expected claim rates, legal costs, and the timing of settlement. We considered the accuracy of management's historical estimates and peer bank settlement in similar cases by comparing the actual settlement to the provision. We assessed the reasonableness of the assumptions used by management by comparing to the results of our independently performed benchmarking and sensitivity analysis. We also developed our own range of reasonable alternative estimates and compared them to management's provision. We tested utilisations of the PPI provision during the year and assessed the sufficiency of the remaining provision for PPI customer redress yet to be paid. Disclosure: We evaluated the disclosures provided on conduct, litigation, regulatory, customer remediation and claims provisions to assess whether they complied with accounting standards.

Key observations communicated to the NWH Group Audit Committee

We are satisfied that provisions for conduct, litigation and regulatory matters, customer remediation and claims are reasonable and recognised in accordance with IFRS. We concurred with the recognition, measurement and level of disclosures of other conduct and litigation provisions. We did not identify any material unrecorded provisions. We communicated the following matters to the NWH Group Audit Committee:

- The level of provisions by their nature incorporate significant judgements to be made and may change as a result of future developments.
- Continued vigilance in assessing conduct risks from the impact of COVID-19, which may not manifest until well after the pandemic has passed.

Relevant references in the Annual Report and Accounts

Accounting policies
Note 15 to the financial statements

Independent auditors’ report to the members of The Royal Bank of Scotland plc

Risk	Our response to the risk
IT systems and controls impacting financial reporting	
The IT environment is complex and pervasive to the operations of the Bank due to the large volume of transactions processed in numerous locations daily and the reliance on automated and IT dependent manual controls. Appropriate IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner. This risk is also impacted by the greater dependency on third-parties, increasing use of cloud platforms, decommissioning of legacy systems, and migration to new systems. Such controls contribute to mitigating the risk of potential fraud or errors as a result of changes to applications and data. **Controls** User access management across application, database and operating systems. We have identified user access deficiencies in the past and while the number of deficiencies has reduced year over year, there remains a risk of inappropriate access.	We evaluated the design and operating effectiveness of IT general controls over the applications, operating systems and databases that are relevant to financial reporting. During our planning and test of design phases, we performed procedures to determine whether the ongoing global COVID-19 pandemic had caused material changes in IT processes or controls and noted no such changes that would result in an increased IT risk. **Controls testing** We tested user access by assessing the controls in place for in-scope applications and verifying the addition and periodic recertification of users’ access. During 2020, the Bank consolidated their access management tools and moved further in-scope application onto a strategic platform (SLX) which will facilitate most of the Bank’s Manage Access IT General Controls across applications and infrastructure platforms. We performed procedures around the transition process between IT tools, focusing on the completeness of user data and the adequacy of the control environment. A number of systems are outsourced to third party service providers. For these systems, we tested IT general controls through evaluating the relevant Service Organisation Controls reports (where available). This included assessing the timing of the reporting, the controls tested by the service auditor and whether they address relevant IT risks and the impact COVID-19 had on the overall control environment. We also tested required complementary user entity controls performed by management. Where a SOC report was not available we identified and reviewed compensating business controls to address this risk. Where control deficiencies were identified, we tested remediation activities performed by management and compensating controls in place and assessed what additional testing procedures were necessary to mitigate any residual risk.

Key observations communicated to the NWH Group Audit Committee

We are satisfied that IT controls impacting financial reporting are designed and operating effectively. The following matters were reported to the NWH Group Audit Committee:

- We have seen an overall reduction in the number of discrete IT control deficiencies identified compared to prior year.
- Improvements were made to standardise access management processes and controls across the Bank. However, particular attention should continue to be paid to controls over user access management including ensuring the completeness and accuracy of the data used to perform access controls. Where issues were noted in relation to access management these were remediated by year end or mitigated by compensating controls. We also performed additional testing in response to deficiencies identified, where required.
- For a robust control environment, the bank should seek to build and end-to-end view of controls across both infrastructure and application layers, including documentation of automated business controls, and IT general controls at the application layer.
- A high volume of control deficiencies had been remediated prior to year end, and the remaining compensated for, however, we have seen examples where further diligence could be applied to ensure consistent and continued effective control operation.

In the prior year, our auditor’s report included a key audit matter in relation to Legal entity transactions. In the current year, the process was enhanced and control improved and was no longer considered a key audit matter.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Bank to be £35 million (2019: £65 million), which is 5% (2019: 5%) of profit before tax of the Bank of £368 million (2019: £998 million) adjusted for certain loan impairment charges arising from COVID-19, conduct releases and strategic costs. The largest impact was a result of adjusting the loan impairment charge to pre-COVID-19 levels by £0.5 billion using 2019 as a basis. We believe removing items that would otherwise have a disproportionate impact on materiality reflects the most useful measure for users of the financial statements and is consistent with the prior year. The 5% basis used for Bank materiality is consistent with the wider industry and is the standard for listed and regulated entities.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely £18 million (2019: £33 million). We have set performance materiality at this percentage (which is at the lowest end of the range of our audit methodology) based on various considerations including the past history of misstatements, our ability to assess the likelihood of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting.

Audit work of component teams for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component team is based on the relative scale and risk of the component to the Bank as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated by the primary audit engagement team to components was between £9 million and £18 million (2019: £25 million to £30 million).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £2 million (2019: £3 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report and Accounts, including the Strategic report, Report of the directors, and Statement of directors' responsibilities, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Report of the directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Report of the directors.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditors' report to the members of The Royal Bank of Scotland plc

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Bank and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant are the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA); and Companies Act 2006.
- We understood how the Bank is complying with those frameworks by making inquiries of management, internal audit and those responsible for legal and compliance matters. We also reviewed correspondence between the Bank and regulatory bodies; reviewed minutes of the Board and Risk Committees; and gained an understanding of the Bank's governance framework.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by considering the controls established to address risks identified to prevent or detect fraud. We also identified the risks of fraud in our key audit matters as described above and identified areas that we considered when performing our fraud procedures, such as cybersecurity, the impact of remote working, implementation of new government supported lending products, and the appropriateness of sources used when performing confirmation testing on accounts such as cash, loans and securities.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of legal counsel, executive management, and internal audit. We also tested controls and performed procedures to respond to the fraud risks as identified in our key audit matters. These procedures were performed by both the primary team and component teams with oversight from the primary team.
- The Bank operates in the banking industry which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, involving specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the Audit Committee we were appointed by the Bank on 4 May 2016 to audit the financial statements of the Bank for the year ending 31 December 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 5 years, covering the periods from our appointment through 31 December 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remain independent of the Bank in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Simon Michaelson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom
18 February 2021

Income statement for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Interest receivable		**1,717**	2,168
Interest payable		**(188)**	(330)
Net interest income	1	**1,529**	1,838
Fees and commissions receivable		**419**	577
Fees and commissions payable		**(87)**	(110)
Other operating income		**71**	74
Non-interest income	2	**403**	541
Total income		**1,932**	2,379
Staff costs		**(111)**	(108)
Premises and equipment		**(20)**	(30)
Other administrative expenses		**(723)**	(998)
Depreciation and amortisation		**(20)**	(38)
Operating expenses	3	**(874)**	(1,174)
Profit before impairment losses		**1,058**	1,205
Impairment losses	11	**(690)**	(207)
Operating profit before tax		**368**	998
Tax charge	7	**(2)**	(338)
Profit for the year		**366**	660
Attributable to:			
Ordinary shareholders		**297**	592
Paid-in equity holders		**69**	68
		366	660

Statement of comprehensive income for the year ended 31 December 2020

	2020 £m	2019 £m
Profit for the year	**366**	660
Items that do not qualify for reclassification		
Tax	**2**	—
	2	—
Items that do qualify for reclassification		
Cash flow hedges	**275**	170
Tax	**(78)**	(41)
	197	129
Other comprehensive income after tax	**199**	129
Total comprehensive income for the year	**565**	789
Attributable to:		
Ordinary shareholders	**496**	721
Paid-in equity holders	**69**	68
	565	789

The accompanying notes on pages 88 to 109, the accounting policies on pages 84 to 87 and the audited sections of the Financial review and Risk and capital management on pages 6 to 64 form an integral part of these financial statements.

Balance sheet as at 31 December 2020

	Note	2020 £m	2019 £m
Assets			
Cash and balances at central banks	8	**26,927**	26,597
Derivatives	14	**745**	366
Loans to banks - amortised cost	8	**1,184**	1,561
Loans to customers - amortised cost	8	**48,781**	53,493
Amounts due from holding companies and fellow subsidiaries	8	**20,873**	7,713
Other assets	13	**732**	872
Total assets		**99,242**	90,602
Liabilities			
Bank deposits	8	**1,152**	1,206
Customer deposits	8	**84,628**	74,813
Amounts due to holding companies and fellow subsidiaries	8	**4,521**	5,143
Derivatives	14	**788**	763
Notes in circulation		**1,643**	1,267
Other liabilities	15	**840**	1,436
Total liabilities		**93,572**	84,628
Total equity		**5,670**	5,974
Total liabilities and equity		**99,242**	90,602

The accompanying notes on pages 88 to 109, the accounting policies on pages 84 to 87 and the audited sections of the Financial review and Risk and capital management on pages 6 to 64 form an integral part of these financial statements.

The accounts were approved by the Board of directors on 18 February 2021 and signed on its behalf by:

Howard Davies
Chairman

Alison Rose-Slade
Chief Executive Officer

Katie Murray
Chief Financial Officer

The Royal Bank of Scotland plc
Registration No. SC083026

Statement of changes in equity for the year ended 31 December 2020

	2020 £m	2019 £m
Called-up share capital - at 1 January and 31 December	**20**	20
Paid-in equity - at 1 January and 31 December	**969**	969
FVOCI reserve - at 1 January		
Realised gains	**(6)**	—
Tax	**2**	—
At 31 December	**(4)**	—
Cash flow hedging reserve - at 1 January	**179**	50
Amount recognised in equity	**416**	241
Amount transferred from equity to earnings	**(141)**	(71)
Tax	**(78)**	(41)
At 31 December	**376**	179
Retained earnings - at 1 January	**4,806**	6,522
Implementation of IFRS 16 on 1 January 2019	**—**	(23)
Profit attributable to ordinary shareholders and other equity owners	**366**	660
Ordinary dividends	**(800)**	(700)
Paid-in equity dividends paid	**(69)**	(68)
Realised gains in period on FVOCI equity shares		
- gross	**6**	—
Distribution (1)	**—**	(1,800)
Capital contribution (2)	**—**	215
At 31 December	**4,309**	4,806
Total equity at 31 December	**5,670**	5,974
Attributable to:		
Ordinary shareholders	**4,701**	5,005
Paid-in equity holders	**969**	969
	5,670	5,974

Notes:
(1) A distribution of £1.8 billion was paid to NWH Ltd on the 26 February 2019.
(2) In 2019, a capital contribution of £215 million in respect of tax losses transferred from NWM Plc as a consequence of the ring fencing regulations.

The accompanying notes on pages 88 to 109, the accounting policies on pages 84 to 87 and the audited sections of the Financial review and Risk and capital management on pages 6 to 64 form an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Operating profit before tax		**368**	998
Adjustments for:			
Impairment losses		**690**	207
Depreciation, amortisation and impairment of other assets		**20**	38
Change in fair value taken to profit or loss of other assets		**(1)**	—
Change in fair value taken to profit or loss on other liabilities and subordinated liabilities		**55**	60
Elimination of foreign exchange differences		**(3)**	110
Other non-cash items		**(141)**	(61)
Profit on sale of other assets		**(5)**	(14)
Dividends receivable from group undertakings		**(16)**	(20)
Interest payable on MRELs and subordinated liabilities		**92**	88
Charges and releases on provisions		**(20)**	338
Defined benefit pension schemes		**11**	—
Net cash flows from trading activities		**1,050**	1,744
Decrease/(increase) in derivative assets		**37**	(252)
Increase in loans to banks		**(13)**	(16)
Decrease in loans to customers		**4,063**	6,846
Decrease in amounts due from due from holding companies and fellow subsidiaries		**1,470**	81
Decrease in other assets		**53**	311
Decrease in bank deposits		**(54)**	(10)
Increase/(decrease) in customers deposits		**9,815**	(211)
Decrease in amounts due to holding companies and fellow subsidiaries		**(617)**	(2,395)
Increase/(decrease) in derivative liabilities		**25**	(111)
Increase/(decrease) in notes in circulation		**376**	(19)
Decrease in other liabilities		**(356)**	(207)
Changes in operating assets and liabilities		**14,799**	4,017
Income tax paid		**(291)**	(249)
Net cash flows from operating activities (1)		**15,558**	5,512
Cash flows from investing activities			
Sale and maturity of other assets		**7**	—
Sale of property, plant and equipment		**23**	19
Purchase of property, plant and equipment		**(10)**	(37)
Net movement in business interests and intangible assets		**7**	—
Dividends received from subsidiaries		**16**	20
Net cash flows from investing activities		**43**	2
Cash flows from financing activities			
Movement in MRELs		**(17)**	370
Movement in subordinated liabilities		**(75)**	(75)
Dividends and distributions paid		**(869)**	(2,568)
Net cash flows from financing activities		**(961)**	(2,273)
Effects of exchange rate changes on cash and cash equivalents		**(57)**	(155)
Net increase in cash and cash equivalents		**14,583**	3,086
Cash and cash equivalents at 1 January		**31,843**	28,757
Cash and cash equivalents at 31 December	22	**46,426**	31,843

Note:
(1) Includes interest received of £1,719 million (2019 - £2,146 million) and interest paid of £208 million (2019 - £330 million).

The accompanying notes on pages 88 to 109, the accounting policies on pages 84 to 87 and the audited sections of the Financial review and Risk and capital management on pages 6 to 64 form an integral part of these financial statements.

Accounting policies

1. Presentation of accounts

The accounts set out on pages 80 to 109, including these accounting policies on pages 84 to 87 and the audited sections of the Financial review: Risk and capital management on pages 8 to 64, are prepared on a going concern basis (see the Report of the directors, page 69) and in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. The significant accounting policies and related judgments are set out below.

The Royal Bank of Scotland plc (RBS plc) is incorporated in the UK and registered in Scotland. Its accounts are presented in accordance with the Companies Act 2006.

The accounts are presented in the functional currency, pounds sterling.

With the exception of certain financial instruments as described in Accounting policy 6, the accounts are presented on a historical cost basis.

Accounting changes effective 1 January 2020

Amendments to IFRS 3 Business Combinations (IFRS 3) - Changes to the definition of a business

The IASB amended IFRS 3 to provide additional guidance on the definition of a business. The amendment aims to help entities when determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments are in line with current accounting policy and therefore did not affect the accounts.

Definition of material – Amendments to IAS 1 – Presentation of Financial Statements (IAS 1) and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8)

The IASB clarified the definition of 'material' and aligned the definition of material used in the Conceptual Framework and in other IFRS standards. The amendments clarify that materiality will depend on the nature or magnitude of information. Under the amended definition of materiality, an entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the accounts. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. RBS plc's definition and application of materiality is in line with the definition in the amendments.

Interest Rate Benchmark Reform (IBOR reform) Phase 1 amendments to IFRS 9 and IAS 39

The IASB issued 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments focused on hedge accounting and allow hedge relationships affected by the IBOR reform to be accounted for as continuing hedges. Amendments are effective for annual reporting periods beginning on or after 1 January 2020 with early application permitted. RBS plc early adopted these amendments for the annual period ending on 31 December 2019.

Interest Rate Benchmark Reform (IBOR reform) Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

Phase 2 of the IASB's IBOR project (published in August 2020) addresses the wider accounting issues arising from the IBOR reform. The amendments are effective for annual reporting periods beginning on or after 1 January 2021 with early application permitted. As RBS plc early adopted these amendments for the annual period ending on 31 December 2020, which have been endorsed by the EU and UK in January 2021, RBS plc has applied International Accounting Standards, which have been adopted for use within the UK. RBS plc's IBOR transition program remains on-track and key milestones have been met. Conversion from rates subject to reform to alternative risk-free rates (RFRs) is expected to increase as RFR-based products become more widely available and key market-driven conversion events occur.

2. Revenue recognition

Interest income or expense relates to financial instruments measured at amortised cost and debt instruments classified as fair value through OCI using the effective interest rate method and the effective part of any related accounting hedging instruments. Negative effective interest accruing to financial assets is presented in interest payable.

Other interest relating to financial instruments measured at fair value is recognised as part of the movement in fair value.

Fees in respect of services are recognised as the right to consideration accrues through the performance of each distinct service obligation to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable.

3. Employee benefits

Short-term employee benefits, such as salaries, paid absences, and other benefits are accounted for on an accruals basis over the period in which the employees provide the related services. Employees may receive variable compensation satisfied by cash, by debt instruments issued by NatWest Group or by NatWest plc shares. NatWest Group operates a number of share-based compensation schemes under which it awards NatWest Group plc shares and share options to its employees. Such awards are generally subject to vesting conditions.

Variable compensation that is settled in cash or debt instruments is charged to profit or loss on a straight-line basis over the vesting period, taking account of forfeiture and clawback criteria.

Contributions to defined contribution pension schemes are recognised in profit or loss when payable.

4. Tax

Income tax expense or income, comprising current tax and deferred tax, is recorded in the income statement except income tax on items recognised outside profit or loss which is credited or charged to other comprehensive income. The tax consequences of servicing equity instruments are recognised in the income statement.

Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the year arising in profit or loss, other comprehensive income or equity. Provision is made for current tax at rates enacted, or substantively enacted, at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and the carrying amount for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent their recovery is probable.

Deferred tax is not recognised on temporary differences that arise from initial recognition of an asset or a liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

Deferred tax assets and liabilities are offset where RBS plc has a legally enforceable right to offset and where they relate to income taxes levied by the same taxation authority either on an individual company or on NatWest Group companies in the same tax group that intend, in future periods, to settle current tax liabilities and assets on a net basis or on a gross basis simultaneously.

Accounting for taxes is judgmental and carries a degree of uncertainty because tax law is subject to interpretation, which might be questioned by the relevant tax authority. RBS plc recognises the most likely current and deferred tax liability or asset, assessed for uncertainty using consistent judgments and estimates. Current and deferred tax assets are only recognised where their recovery is deemed probable, and current and deferred tax liabilities are recognised at the amount that represents the best estimate of the probable outcome having regard to their acceptance by the tax authorities.

5. Provisions and contingent liabilities
RBS plc recognises a provision for a present obligation resulting from a past event when it

is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably.

Provision is made for restructuring costs, including the costs of redundancy, when RBS plc has a constructive obligation to restructure. An obligation exists when RBS plc has a detailed formal plan for the restructuring and has raised a valid expectation in those affected by starting to implement the plan or by announcing its main features.

RBS plc recognises any onerous cost of the present obligation under a contract as a provision. An onerous cost is the unavoidable cost of meeting RBS plc's contractual obligations that exceed the expected economic benefits. When RBS plc vacates a leasehold property, the right of use asset would be tested for impairment and a provision may be recognised for the ancillary contractual occupancy costs, such as rates.

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote

6. Financial instruments
Financial instruments are classified either by product, by business model or by reference to the IFRS default classification.

Classification by product relies on specific designation criteria which are applicable to certain classes of financial assets or circumstances where accounting mismatches would otherwise arise. Classification by business model reflects how RBS plc manages its financial assets to generate cash flows. A business model assessment determines if cash flows result from holding financial assets to collect the contractual cash flows, from selling those financial assets, or both.

The product classifications apply to financial assets that are either designated at fair value through profit or loss (DFV), or to equity investments designated as at fair value through other comprehensive income (FVOCI). Financial assets may also be irrevocably designated at fair value through profit or loss upon initial recognition if such designation eliminates, or significantly reduces, accounting mismatch. In all other instances, fair value through profit or loss (MFVTPL) is the default classification and measurement category for financial assets.

Regular way purchases of financial assets classified as amortised cost, are recognised on the settlement date; all other regular way transactions in financial assets are recognised on the trade date.

Business model assessment of assets is made at portfolio level, being the level at which they are managed to achieve a predefined business objective. This is expected to result in the most consistent classification of assets because it aligns with the stated objectives of the portfolio, its risk management, manager's remuneration and the ability to monitor sales of assets from a portfolio.

Financial assets which are managed under a 'held to collect' business model, and have contractual cash flows that comprise solely payments of principal and interest are measured at amortised cost.

Other financial assets which are managed under a business model of both 'held to collect and sell' and have contractual cash flows comprising solely of payments of principal and interest are measured at fair value through other comprehensive income ('FVOCI').

The contractual terms of a facility; any leverage features; prepayment and extension terms; and triggers that might reset the effective rate of interest; are considered in determining whether cash flows comprise solely payments of principal and interest.
All financial instruments are measured at fair value on initial recognition.

All liabilities not subsequently measured at fair value are measured at amortised cost.

7. Impairment: expected credit losses (ECL)
At each balance sheet date each financial asset or portfolio of loans measured at amortised cost or at fair value through other comprehensive income, issued financial guarantee and loan commitment is assessed for impairment and presented as impairments in the income statement. Loss allowances are forward-looking, based on 12 month ECL where there has not been a significant increase in credit risk rating, otherwise allowances are based on lifetime expected losses.

ECL are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. In the absence of a change in credit rating, allowances are recognised when there is a reduction in the net present value of expected cash flows. On a significant increase in credit risk, allowances are recognised without a change in the expected cash flows, although typically expected cash flows do also change; and ECL are adjusted from 12 month to lifetime expectations.

Judgement is exercised as follows:

- Models – in certain low default portfolios Basel parameter estimates are also applied for IFRS 9.
- Non-modelled portfolios, mainly in Private Banking, RBS plc uses a standardised capital requirement under Basel II. Under IFRS 9, they have bespoke treatments for the identification of significant increase in credit risk. Benchmark PDs, EADs and LGDs are reviewed annually for appropriateness. The ECL calculation is based on expected future cash-flows which is typically applied at a portfolio level.
- Multiple economic scenarios (MES) – the central, or base, scenario is most critical to the ECL calculation, independent of the method used to generate a range of alternative outcomes and their probabilities.
- Significant increase in credit risk - IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current lifetime PD (i.e. the current probability of default over the remaining lifetime) with the equivalent lifetime PD as determined at the date of initial recognition.

On restructuring a financial asset without causing derecognition of the original asset the revised cash flows are used in re-estimating the credit loss. Where restructuring causes derecognition of the original financial asset, the fair value of the replacement asset is used as the closing cash flow of the original asset.

Where, in the course of the orderly realisation of a loan, it is exchanged for equity shares or property, the exchange is accounted for as the sale of the loan and the acquisition of equity securities or investment property.

The costs of loss allowances on assets held at amortised cost, fair value through comprehensive income (excluding equity shares), and in respect of financial guarantees and loan commitments are presented as impairments in the income statement.

Impaired loans are written off and therefore derecognised from the balance sheet when RBS plc concludes that there is no longer any realistic prospect of recovery of part, or all, of the loan. For loans that are individually assessed for impairment, the timing of the write off is determined on a case by case basis. Such loans are reviewed regularly and write off will be prompted by bankruptcy, insolvency, renegotiation and similar events.

Accounting policies

The typical time frames from initial impairment to write off for RBS plc's collectively-assessed portfolios are:

- Retail mortgages: write off usually occurs within five years, or earlier, when an account is closed, but can be longer where the customer engages constructively,
- Credit cards: the irrecoverable amount is typically written off after twelve arrears cycles or at four years post default any remaining amounts outstanding are written off,
- Overdrafts and other unsecured loans: write off occurs within six years,
- Commercial loans: write offs are determined in the light of individual circumstances; and Business loans are generally written off within five years.

8. Financial guarantee contracts

Under a financial guarantee contract, RBS plc, in return for a fee, undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. A financial guarantee is recognised as a liability; initially at fair value and, if not designated as at fair value through profit or loss, subsequently at the higher of its initial value less cumulative amortisation and any provision under the contract measured in accordance with Accounting policy 7. Amortisation is calculated to recognise fees receivable in profit or loss over the period of the guarantee.

9. Loan commitments

Provision is made for ECL on loan commitments, other than those classified as held-for-trading. Syndicated loan commitments in excess of the level of lending under the commitment approved for retention by RBS plc are classified as held-for-trading and measured at fair value through profit or loss.

10. Derecognition

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition. Conversely, an asset is not derecognised by a contract under which RBS plc retains substantially all the risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred, RBS plc does not derecognise an asset over which it has retained control but limits its recognition to the extent of its continuing involvement.

A financial liability is removed from the balance sheet when the obligation is discharged, or is cancelled, or expires.

11. Capital instruments

RBS plc classifies a financial instrument that it issues as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms and as equity if it evidences a residual

interest in the assets of RBS plc after the deduction of liabilities. The components of a compound financial instrument issued by RBS plc are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate. Incremental costs and related tax that are directly

attributable to an equity transaction are deducted from equity.

12. Derivatives and hedging

Derivative financial instruments are initially recognised, and subsequently measured, at fair value. RBS plc's approach to determining the fair value of financial instruments is set out in the Critical accounting policies section and key sources of estimation uncertainty entitled Fair value - financial instruments; further details are given in Note 9 on the accounts.

A derivative embedded in a financial liability contract is accounted for as a stand-alone derivative if its economic characteristics are not closely related to the economic characteristics of the host contract; unless the entire contract is measured at fair value with changes in fair value recognised in profit or loss.

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge and derivatives that are managed together with financial instruments designated at fair value; these gains and losses are included in Other operating income.

RBS plc enters into two types of hedge relationship: hedges of changes in the fair value of a recognised asset or liability or unrecognised firm commitment (fair value hedges); hedges of the variability in cash flows from a recognised asset or liability or a highly probable forecast transaction (cash flow hedges).

Hedge relationships are formally designated and documented at inception in line with the requirements of IAS 39 Financial instruments – Recognition and measurement. The documentation identifies the hedged item, the hedging instrument and details of the risk that is being hedged, and the way in which effectiveness will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in offsetting changes in fair values or cash flows attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued. Hedge accounting is also discontinued if RBS plc revokes the designation of a hedge relationship.

Fair value hedge - in a fair value hedge, the gain or loss on the hedging instrument is recognised in profit or loss. The gain or loss on the hedged item attributable to the hedged risk is recognised in profit or loss and, where the hedged item is measured at amortised cost, adjusts the carrying amount of the hedged item. Hedge accounting is

discontinued if the hedge no longer meets the criteria for hedge accounting; or if the hedging instrument expires or is sold, terminated or exercised; or if hedge designation is revoked. If the hedged item is one for which the effective interest rate method is used, any cumulative adjustment is amortised to profit or

loss over the life of the hedged item using a recalculated effective interest rate.

Cash flow hedge - in a cash flow hedge, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion in profit or loss. When the forecast transaction results in the recognition of a financial asset or financial liability, the cumulative gain or loss is reclassified from equity to profit or loss in the same periods in which the hedged forecast cash flows affect profit or loss. Otherwise the cumulative gain or loss is removed from equity and recognised in profit or loss at the same time as the hedged transaction. Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; if the hedging instrument expires or is sold, terminated or exercised; if the forecast transaction is no longer expected to occur; or if hedge designation is revoked. On the discontinuation of hedge accounting (except where a forecast transaction is no longer expected to occur), the cumulative unrealised gain or loss is reclassified from equity to profit or loss when the hedged cash flows occur or, if the forecast transaction results in the recognition of a financial asset or financial liability, when the hedged forecast cash flows affect profit or loss. Where a forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

13. Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprises cash and deposits with banks with an original maturity of less than three months together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

14. Shares in RBS plc's subsidiary entities

RBS plc's investments in its subsidiaries are stated at cost less any impairment.

Accounting policies

Critical accounting policies and key sources of estimation uncertainty

The reported results of RBS plc are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its accounts. UK company law and IFRS require the directors, in preparing RBS plc's accounts, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's 'Conceptual Framework for Financial Reporting'. The judgements and assumptions involved in RBS plc's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by RBS plc would affect its reported results. During 2020, estimation uncertainty has been affected by the COVID-19 pandemic. The COVID-19 pandemic has continued to cause significant economic and social disruption during 2020. Key financial estimates are based on management's latest five-year revenue and cost forecasts. Measurement of goodwill, deferred tax and expected credit losses are highly sensitive to reasonably possible changes in those anticipated conditions. Other reasonably possible assumptions about the future include a prolonged financial effect of the COVID-19 pandemic on the economy of the UK and other countries. Changes in judgements and assumptions could result in a material adjustment to those estimates in the next reporting periods. Consideration of this source of estimation uncertainty has been set out in the notes below (as applicable).

Critical accounting policy	Note
Deferred tax	7
Loan impairment provision	11
Provisions for liabilities and charges	15

Future accounting developments

International Financial Reporting Standards

COVID-19 amendments on lease modifications – Amendments to IFRS 16 – Leases (IFRS 16)

The IASB published 'amendments to IFRS 16 covering COVID-19-Related Rent Concessions'. These provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after 1 June 2020. The effect of the amendment on RBS plc's accounts is immaterial and will be adopted from 1 January 2021.
Other new standards and amendments that are effective for annual periods beginning after 1 January 2022, with earlier application permitted, are set out below.

Effective 1 January 2022

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- Fees in the "10 per cent" test for Derecognition of Financial Liabilities (Amendments to IFRS 9).

Effective 1 January 2023

- IFRS 17 Insurance Contracts (Amendments to IFRS 17 Insurance Contracts).

RBS plc is assessing the effect of adopting these standards and amendments on its financial statements but do not expect the effect to be material.

Notes to the financial statements

1 Net interest income

	2020 £m	2019 £m
Balances at central banks	**46**	156
Loans to banks - amortised cost	**61**	47
Loans to customers - amortised cost	**1,564**	1,887
Amounts due from holding company and fellow subsidiaries	**46**	78
Interest receivable	**1,717**	2,168
Balances with banks	**—**	2
Customer deposits	**111**	207
Amounts due to holding company and fellow subsidiaries	**75**	121
Other financial liabilities	**2**	—
Interest payable	**188**	330
Net interest income	**1,529**	1,838

Interest income on financial instruments measured at amortised cost and debt instruments classified as FVOCI is measured using the effective interest rate which allocates the interest income or interest expense over the expected life of the asset or liability at the rate that exactly discounts all estimated future cash flows to equal the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

2 Non-interest income

	2020 £m	2019 £m
Net fees and commissions (1)	**332**	467
Other operating income		
Operating lease and other rental income	**—**	4
Changes in fair value of other financial assets held at mandatory fair value through profit or loss (2)	**—**	28
Hedge ineffectiveness	**32**	26
Cost of economic hedging	**6**	(15)
Gain on disposal of amortised cost assets	**5**	4
Profit on sale of property, plant and equipment	**2**	14
Dividend income	**16**	20
Other income (3)	**10**	(7)
	71	74
Non-interest income	**403**	541

Notes:
(1) Refer to Note 4 for further analysis.
(2) Includes instruments that have failed SPPI testing under IFRS 9.
(3) Included activities other than banking.

3 Operating expenses

	2020 £m	2019 £m
Wages, salaries and other staff costs	**89**	85
Social security costs	**8**	9
Pension costs	**14**	14
- defined benefit schemes (see Note 5)	**11**	11
- defined contribution schemes	**3**	3
Staff costs	**111**	108
Premises and equipment	**20**	30
Other administrative expenses (1,2)	**723**	998
Depreciation and amortisation	**20**	38
Administrative expenses	**763**	1,066
Operating expenses	**874**	1,174

Notes:
(1) Includes recharges from other NatWest Group entities, mainly National Westminster Bank Plc which provides the majority of shared services (including technology) and operational processes.
(2) Includes litigation and conduct costs. Further details are provided in Note 15.

2,000 front office customer-facing staff (2019 – 2,300) are contractually employed by NWB Plc with all related staff costs paid by RBS plc and 100 staff (2019 – 100) contractually employed by and paid by RBS Plc.

Notes to the financial statements

4 Segmental analysis

Reportable operating segments

The reportable operating segments are as follows:

Retail Banking serves individuals and mass affluent customers in the UK.

Commercial Banking serves start-up, SME, commercial and corporate customers in the UK.

Private Banking serves UK connected high net worth individuals and their business interests.

Central items & other comprises corporate treasury activity on behalf of RBS plc and its fellow subsidiaries and RBS plc's corporate service and functions activities.

2020	Retail Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Net interest income	857	660	21	(9)	1,529
Net fees and commissions	80	241	11	—	332
Other operating income	(1)	(18)	9	81	71
Total income	936	883	41	72	1,932
Operating expenses	(427)	(377)	(50)	—	(854)
Depreciation and amortisation	(10)	(9)	(1)	—	(20)
Impairment losses	(126)	(549)	(2)	(13)	(690)
Operating profit/loss	373	(52)	(12)	59	368
2019					
Net interest income	910	905	28	(5)	1,838
Net fees and commissions	145	317	5	—	467
Other operating income	11	(16)	5	74	74
Total income	1,066	1,206	38	69	2,379
Operating expenses	(727)	(374)	(35)	—	(1,136)
Depreciation and amortisation	(19)	(16)	(3)	—	(38)
Impairment losses	(63)	(143)	—	(1)	(207)
Operating profit/loss	257	673	—	68	998

	2020			2019		
Total revenue (1)	External £m	Inter segment £m	Total £m	External £m	Inter segment £m	Total £m
Retail Banking	935	104	1,039	1,186	32	1,218
Commercial Banking	840	(69)	771	1,189	52	1,241
Private Banking	46	—	46	46	2	48
Central items & other	386	(35)	351	398	(86)	312
Total	2,207	—	2,207	2,819	—	2,819

Note:
(1) Total revenue comprises interest receivable, fees and commissions receivable and other operating income.

	2020			2019		
Total income	External £m	Inter segment £m	Total £m	External £m	Inter segment £m	Total £m
Retail Banking	832	104	936	1,034	32	1,066
Commercial Banking	952	(69)	883	1,154	52	1,206
Private Banking	41	—	41	36	2	38
Central items & other	107	(35)	72	155	(86)	69
Total	1,932	—	1,932	2,379	—	2,379

Notes to the financial statements

4 Segmental analysis continued

Analysis of net fees and commissions

2020	Retail Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Fees and commissions receivable					
- Payment services	56	118	2	—	176
- Credit and debit card fees	60	33	—	—	93
- Lending and financing	8	123	—	—	131
- Other	13	—	9	(3)	19
Total	137	274	11	(3)	419
Fees and commissions payable	(57)	(33)	—	3	(87)
Net fees and commissions	80	241	11	—	332

2019	Retail Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Fees and commissions receivable					
- Payment services	62	160	2	—	224
- Credit and debit card fees	86	47	—	—	133
- Lending and financing	45	148	—	—	193
- Other	21	3	3	—	27
Total	214	358	5	—	577
Fees and commissions payable	(69)	(41)	—	—	(110)
Net fees and commissions	145	317	5	—	467

	2020		2019	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Retail Banking	22,707	35,164	25,054	31,360
Commercial Banking	28,412	52,632	30,609	46,697
Private Banking	2,577	2,407	2,526	2,359
Central items & other	45,546	3,369	32,413	4,212
Total	99,242	93,572	90,602	84,628

All of RBS plc's activities, by location of offices, are based in the UK.

5 Pensions

Eligible employees of RBS plc can participate in membership of the NatWest Group operated pension schemes. The principal defined benefit scheme is the NatWest Group Pension Fund (the "Main section"). The Main section was closed to new entrants in October 2006 and since then employees have been offered membership to the RBS Group Retirements Savings Plan, a defined contribution pension scheme. The NatWest Group pension schemes are further disclosed in the NatWest Group 2020 Annual Report and Accounts.

6 Auditor's remuneration

Amounts payable to RBS plc's auditor for statutory audit and other services are set out below:

	2020 £m	2019 £m
Fees payable for the audit of RBS plc's annual accounts	4.2	3.2
Fees payable to the auditor for other services to RBS plc	—	0.6
Total audit and audit-related assurance service fees	4.2	3.8

Fees payable to the auditor for non-audit services are disclosed in the consolidated financial statements of NatWest Group plc.

Notes to the financial statements

7 Tax

	2020 £m	2019 £m
Current tax		
Charge for the year	**(50)**	(295)
(Under)/over provision in respect of prior years	**(10)**	28
	(60)	(267)
Deferred tax		
Credit/(charge) for the year	**24**	(36)
Increase/(decrease) in the carrying value of deferred tax assets in respect of UK losses	**35**	(9)
Under provision in respect of prior years	**(1)**	(26)
Tax charge for the year	**(2)**	(338)

The actual tax charge differs from the expected tax charge, computed by applying the standard rate of UK corporation tax of 19% (2019 – 19%), as follows:

	2020 £m	2019 £m
Expected tax charge	**(67)**	(190)
Items not allowed for tax:		
- UK bank levy	**(5)**	(5)
- regulatory and legal actions	**14**	(61)
- other disallowable items	**11**	(1)
Non-taxable items	**2**	8
Increase/(decrease) in the carrying value of deferred tax assets in respect of:		
- UK losses	**35**	(9)
Banking surcharge	**(11)**	(95)
Tax on paid-in equity	**13**	13
UK tax rate change impact (1)	**17**	—
Adjustments in respect of prior years (2)	**(11)**	2
Actual tax charge	**(2)**	(338)

Notes:
(1) The Finance Bill 2020 amended the rate of UK corporation tax to 19% for the financial year beginning 1 April 2020. This reverses the rate reduction to 17% for the financial year beginning 1 April 2020 previously enacted. Deferred tax balances previously based on the lower rate have been restated accordingly.
(2) Prior year tax adjustments incorporate refinements to tax computations made on submission and agreement with the tax authorities.

Deferred tax

RBS plc makes provision for deferred tax on temporary differences where tax recognition occurs at a different time from accounting recognition. Deferred tax assets of £92 million were recognised as at 31 December 2020 (2019 - £111 million).

	2020 £m	2019 £m
Deferred tax liability	**—**	—
Deferred tax asset	**(92)**	(111)
Net deferred tax asset	**(92)**	(111)

Net deferred tax asset comprised:

	Accelerated capital allowances £m	Expense provisions £m	Financial instruments £m	Tax losses carried forward £m	Other £m	Total £m
At 1 January 2019	(36)	(7)	40	—	—	(3)
Implementation of IFRS 16 on 1 January 2020	—	—	—	—	(7)	(7)
Acquisitions and disposals of subsidiaries	1	—	—	—	—	1
Charge/(credit) to income statement	6	3	(3)	65	—	71
Charge to other comprehensive income	—	—	42	—	—	42
Currency translation and other adjustments (1)	—	—	—	(215)		(215)
At 31 December 2019	(29)	(4)	79	(150)	(7)	(111)
(Credit)/charge to income statement	**(10)**	**3**	**(1)**	**(50)**	**—**	**(58)**
Charge to other comprehensive income	**—**	**—**	**77**	**—**	**—**	**77**
At 31 December 2020	**(39)**	**(1)**	**155**	**(200)**	**(7)**	**(92)**

Note:
(1) £215 million capital contribution in respect of losses transferred from NatWest Markets Plc as a consequence of the ring-fencing regulations.

Critical accounting policy: Deferred tax

The deferred tax assets of £92 million as at 31 December 2020 (2019 - £111 million) principally comprises losses which arose in the UK, and temporary differences. These deferred tax assets are recognised to the extent that it is probable that there will be future taxable profits to recover them.

Judgment – RBS plc has considered the carrying value of deferred tax assets and concluded that, based on management's estimates, sufficient taxable profits will be generated in future years to recover recognised deferred tax assets.

Estimate **-** These estimates are partly based on forecast performance beyond the horizon for management's detailed plans. They have regard to inherent uncertainties, such as Brexit, climate change, and the impact of COVID.

7 Tax continued

UK tax losses - Under UK tax rules, tax losses can be carried forward indefinitely. As the recognised tax losses arose prior to 1 April 2015, credit in future periods is given against 25% of profits at the main rate of UK corporation tax, excluding the Banking Surcharge 8% rate introduced by The Finance (No. 2) Act 2015. Deferred tax assets and liabilities at 31 December 2020 take into account the reduced rates in respect of tax losses and temporary differences and where appropriate, the banking surcharge inclusive rate in respect of other banking temporary differences.

RBS plc – A deferred tax asset of £200 million has been recognised in respect of losses of £1,053 million of total losses of £4,242 million carried forward at 31 December 2020. The losses were transferred from NatWest Markets Plc as a consequence of the ring fencing regulations. RBS plc expects the deferred tax asset to be utilised against future taxable profits by the end of 2026.

8 Financial instruments - classification

The following tables analyses financial assets and liabilities in accordance with the categories of financial instruments on an IFRS 9. Assets basis and liabilities outside the scope of IFRS 9 are shown within other assets and other liabilities.

Assets	MFVTPL (6) £m	FVOCI (6) £m	Amortised cost £m	Other assets £m	Total £m
Cash and balances at central banks			**26,927**		**26,927**
Derivatives (1)	**745**				**745**
Loans to banks - amortised cost (2)			**1,184**		**1,184**
Loans to customers - amortised cost (3)			**48,781**		**48,781**
Amounts due from holding companies and fellow subsidiaries	**—**	**—**	**20,873**	**—**	**20,873**
Other assets	**105**		**1**	**626**	**732**
31 December 2020	**850**	**—**	**97,766**	**626**	**99,242**
Cash and balances at central banks			26,597		26,597
Derivatives (1)	366				366
Loans to banks - amortised cost (2)			1,561		1,561
Loans to customers - amortised cost (3)			53,493		53,493
Amounts due from holding companies and fellow subsidiaries	—	—	7,685	28	7,713
Other assets	127	6	47	692	872
31 December 2019	493	6	89,383	720	90,602

Liabilities	Held-for-trading (6) £m	Amortised cost £m	Other liabilities £m	Total £m
Bank deposits (4)		**1,152**		**1,152**
Customer deposits		**84,628**		**84,628**
Amounts due to holding companies and fellow subsidiaries	**—**	**4,521**	**—**	**4,521**
Derivatives (1)	**788**			**788**
Notes in circulation		**1,643**		**1,643**
Other liabilities (5)		**199**	**641**	**840**
31 December 2020	**788**	**92,143**	**641**	**93,572**
Bank deposits (4)		1,206		1,206
Customer deposits		74,813		74,813
Amounts due to holding companies and fellow subsidiaries	—	5,143	—	5,143
Derivatives (1)	763			763
Notes in circulation		1,267		1,267
Other liabilities (5)	—	233	1,203	1,436
31 December 2019	763	82,662	1,203	84,628

Notes:
(1) Includes hedging derivative assets of £735 million (2019 - £358 million) and hedging derivative liabilities of £599 million (2019 - £579 million).
(2) Includes items in the course of collection from other banks of £11 million (2019 - £18 million).
(3) Includes finance lease receivables of £44 million (2019 - £93 million).
(4) Includes items in the course of transmission to other banks of £1 million (2019 - £3 million).
(5) Includes lease liabilities of £150 million (2019 - £157 million) held at amortised cost.
(6) Includes instruments predominantly held in level 2 of the fair value hierarchy.

Judgment: classification of financial assets

Classification of financial assets between amortised cost and fair value through other comprehensive income requires a degree of judgement in respect of business models and contractual cashflows.

- The business model criteria is assessed at a portfolio level to determine whether assets are classified as held to collect or held to collect and sell. Information that is considered in determining the applicable business model includes the portfolio's policies and objectives, how the performance and risks of the portfolio are managed, evaluated and reported to management; and the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for sales.
- The contractual cash flow characteristics of financial assets are assessed with reference to whether the cash flows represent SPPI. A level of judgement is made in assessing terms that could change the contractual cash flows so that it would not meet the condition for SPPI are considered, including contingent and leverage features, non-recourse arrangements and features that could modify the time value of money.

Notes to the financial statements

8 Financial instruments – classification continued

The above includes amounts due from/to holding companies and fellow subsidiaries:

	2020			2019		
	Holding companies £m	Fellow subsidiaries £m	Total £m	Holding companies £m	Fellow subsidiaries £m	Total £m
Assets						
Loans to banks - amortised cost	—	19,023	19,023	—	4,507	4,507
Loans to customers - amortised cost	—	1,850	1,850	—	3,178	3,178
Other assets	—	—	—	—	28	28
Amounts due from holding companies and fellow subsidiaries	—	20,873	20,873	—	7,713	7,713
Derivatives (1)	—	745	745	—	366	366
Liabilities						
Bank deposits - amortised cost	—	2,146	2,146	—	2,649	2,649
Customer deposits - amortised cost	—	514	514	—	629	629
CRR-compliant internal MREL	397	—	397	396	—	396
Other financial liabilities - subordinated liabilities (2)	1,464	—	1,464	1,469	—	1,469
Amounts due to holding companies and fellow subsidiaries	1,861	2,660	4,521	1,865	3,278	5,143
Derivatives (1)	—	788	788	—	763	763

Notes:

(1) Intercompany derivatives are included within derivative classification on the balance sheet.

(2) $1,850 million fixed rate subordinated notes 2023, dated loan capital (tier 2).

8 Financial instruments – classification continued

Interest rate benchmark reform

In 2020 NatWest Group continued to implement its entity-wide LIBOR programme with the view of being ready for the various transition events that are expected to occur prior to the cessation of the vast majority of the IBOR benchmark rates at the end of 2021 and the USD LIBOR in 2023. In the UK, regulators, most notably the Bank of England (BoE) and the Financial Conduct Authority (FCA), have issued guidance on how market participants are expected to approach transition as well as the regulatory expectations in relation to the credit adjustment spread calculation methodologies, conversion strategies amongst, existence of products referencing IBOR benchmark rates amongst other items.

The group-wide programme continued to address the key areas that will be affected by the IBOR reform most notably:

- Client stratification, engagement and education;
- Contract fall-back remediation;
- Transition on an economically equivalent basis;
- Effect of modifications to existing terms beyond those that are attributable to the IBOR reform;
- Funding and liquidity management, planning and forecast;
- Risk management;
- Financial reporting and valuation; and,
- Changes to processes and systems covering front-end, risk and finance systems.

NatWest Group continued to develop new products across its different segments that reference the new alternative risk-free rates and worked with clients to assess their readiness and ability to adopt new products or transition existing products. A comprehensive review of the effect of IBOR reform on funding, liquidity and risk management has also been conducted. This is expected to be fully implemented over the course of 2021. NatWest Group will continue to adapt its key systems, methodologies and processes to meet the requirements of the new risk-free rates. This is expected to be concluded in advance of the LIBOR cessation date at the end of 2021.

NatWest Group also remained engaged with regulators, standard setters and other market participants on key matters related to the IBOR reform and an open dialogue is expected throughout 2021. It is expected that the programme will meet all timelines set by the regulators.

The table below provides an overview of IBOR related exposure by currency and nature of financial instruments. Non-derivative financial instruments are presented on the basis of their carrying amounts excluding expected credit losses while derivative financial instruments are presented on the basis of their notional amount.

	Rates subject to IBOR reform				Balances not subject to IBOR reform	Expected credit losses	Total
	GBP LIBOR £m	USD IBOR (1) £m	EUR IBOR £m	Other IBOR £m	£m	£m	£m
Loans to banks - amortised cost	11	—	—	—	1,173	—	1,184
Loans to customers - amortised cost	10,435	1,018	12	—	38,609	(1,293)	48,781
Amounts due from holding companies and fellow subsidiaries	—	—	—	—	20,887	(14)	20,873
Other assets	—	—	—	—	105	—	105
Bank deposits	—	—	—	—	1,152		1,152
Customer deposits	—	—	—	—	84,628		84,628
Amounts due to holding companies and fellow subsidiaries	—	397	—	—	4,124		4,521
Loan commitments (2)	7,237	2,164	172	112	15,831		25,516
Derivatives notional (£bn)	24.6	2.2	0.6	—	5.0		32.4

Notes:
(1) USD LIBOR is now expected to convert to alternative risk free rates in mid-2023 subject to consultation.
(2) Certain loan commitments are multi-currency facilities. Where these are fully undrawn, they are allocated to the principal currency of the facility. Where the facilities are partly drawn, the remaining loan commitment is allocated to the currency with the largest drawn amount.

AT1 issuances

RBS plc has issued certain capital instruments (AT1) under which reset clauses are linked to IBOR rates subject to reform. Where under the contractual terms of the instrument the coupon resets to an IBOR rate or to a rate which has IBOR as a specified component of its pricing structure these are subject to IBOR reform and are shown in Note 16.

Notes to the financial statements

9 Financial Instruments: fair value of financial instruments measured at amortised cost

The following table shows the carrying value and fair value of financial instruments measured at amortised cost on the balance sheet.

2020	Items where fair value approximates carrying value £m	Carrying value £m	Fair value £m	Fair value hierarchy level: Level 2 £m	Level 3 £m
Financial assets					
Cash and balances at central banks	**26,927**				
Loans to banks	**12**	**1,172**	**1,172**	**1,132**	**40**
Loans to customers		**48,781**	**48,382**	**—**	**48,382**
Amounts due from holding companies and fellow subsidiaries		**20,873**	**20,874**	**—**	**20,874**
Other assets	**1**				
Financial liabilities					
Bank deposits	**1,057**	**95**	**95**	**—**	**95**
Customer deposits	**75,962**	**8,666**	**8,673**	**928**	**7,745**
Amounts due to holding companies and fellow subsidiaries	**1,821**	**2,700**	**2,746**	**1,907**	**839**
Notes in circulation	**1,643**				
Other liabilities	**—**				

2019					
Financial assets					
Cash and balances at central banks	26,597				
Loans to banks		1,561	1,561	1,254	307
Loans to customers		53,493	53,219	—	53,219
Amounts due from holding companies and fellow subsidiaries		7,685	7,660	—	7,660
Other assets	47				
Financial liabilities					
Deposits by banks	1,205	1	1	—	1
Customer deposits	66,201	8,612	8,616	1,171	7,445
Amounts due to holding companies and fellow subsidiaries	1,579	3,564	3,574	1,907	1,667
Notes in circulation	1,267				
Other liabilities	76				

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted market values are used where available; otherwise, fair values have been estimated based on discounted expected future cash flows and other valuation techniques. These techniques involve uncertainties and require assumptions and judgments covering prepayments, credit risk and discount rates. Furthermore there is a wide range of potential valuation techniques. Changes in these assumptions would significantly affect estimated fair values. The fair values reported would not necessarily be realised in an immediate sale or settlement.

The assumptions and methodologies underlying the calculation of fair values of financial instruments at the balance sheet date are as follows:

Short-term financial instruments

For certain short-term financial instruments: cash and balances at central banks, items in the course of collection from other banks, settlement balances, items in the course of transmission to other banks, customer demand deposits and notes in circulation, carrying value is a reasonable approximation of fair value.

Loans to banks and customers

In estimating the fair value of net loans to customers and banks measured at amortised cost, RBS plc's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans. Two principal methods are used to estimate fair value:

(a) Contractual cash flows are discounted using a market discount rate that incorporates the current spread for the borrower or where this is not observable, the spread for borrowers of a similar credit standing.

(b) Expected cash flows (unadjusted for credit losses) are discounted at the current offer rate for the same or similar products. This approach is adopted for lending portfolios in Retail Banking, Commercial Banking (SME loans) and Private Banking in order to reflect the homogeneous nature of these portfolios which are included in assets of disposal groups.

For certain portfolios where there are very few or no recent transactions a bespoke approach is used.

Bank and customer deposits

Fair values of deposits are estimated using discounted cash flow valuation techniques.

Notes to the financial statements

10 Financial instruments - maturity analysis

Remaining maturity

The following table shows the residual maturity of financial instruments, based on contractual date of maturity.

	2020			2019		
	Less than 12 months £m	More than 12 months £m	Total £m	Less than 12 months £m	More than 12 months £m	Total £m
Assets						
Cash and balances at central banks	26,927	—	26,927	26,597	—	26,597
Derivatives	30	715	745	8	358	366
Loans to banks - amortised cost	1,184	—	1,184	1,561	—	1,561
Loans to customers - amortised cost	12,599	36,182	48,781	13,131	40,362	53,493
Amounts due from holding companies and fellow subsidiaries (1)	20,472	401	20,873	7,331	354	7,685
Other assets (2)	9	97	106	50	130	180
Liabilities						
Bank deposits	1,152	—	1,152	1,206	—	1,206
Customer deposits	84,403	225	84,628	74,602	211	74,813
Amounts due to holding companies and fellow subsidiaries	2,392	2,129	4,521	3,034	2,109	5,143
Derivatives	18	770	788	17	746	763
Notes in circulation	1,643	—	1,643	1,267	—	1,267
Lease liabilities	12	138	150	15	142	157
Other liabilities	—	—	—	47	—	47

Notes:
(1) Excludes non-financial instruments of nil (2019 - £28 million).
(2) Excludes non-financial instruments of £626 million (2019 - £692 million).

Liabilities by contractual cash flow maturity

The tables below show the timing of cash outflows to settle financial liabilities, prepared on the following basis:

Financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty. If repayment is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the liability is included at the earliest possible date that the conditions could be fulfilled without considering the probability of the conditions being met. For example, if a structured note automatically prepays when an equity index exceeds a certain level, the cash outflow will be included in the less than three months' period whatever the level of the index at the year end.

Liabilities with a contractual maturity of greater than 20 years - the principal amounts of financial liabilities that are repayable after 20 years or where the counterparty has no right to repayment of the principal, are excluded from the table along with interest payments after 20 years.

The maturity of guarantees and commitments is based on the earliest possible date they would be drawn in order to evaluate RBS plc's liquidity position.

HFT liabilities of £189 million (2019 - £184 million) have been excluded from the tables

2020	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Liabilities by contractual maturity						
Bank deposits	1,152	—	—	—	—	—
Customer deposits	83,207	1,196	220	—	6	—
Amounts due to holding companies and fellow subsidiaries	2,365	110	1,660	457	63	—
Derivatives	24	64	140	112	174	86
Notes in circulation	1,643	—	—	—	—	—
Lease liabilities	3	9	21	17	31	69
	88,394	1,379	2,041	586	274	155
Guarantees and commitments notional amount						
Guarantees (1)	409	—	—	—	—	—
Commitments (2)	25,516	—	—	—	—	—
	25,925	—	—	—	—	—
2019						
Liabilities by contractual maturity						
Bank deposits	1,206	—	—	—	—	—
Customer deposits	73,571	1,033	209	—	2	—
Amounts due to holding companies and fellow subsidiaries	2,971	150	290	1,972	49	—
Derivatives	66	53	127	113	185	104
Notes in circulation	1,267	—	—	—	—	—
Lease liabilities	4	11	21	17	31	73
	79,085	1,247	647	2,102	267	177
Guarantees and commitments notional amount						
Guarantees (1)	442	—	—	—	—	—
Commitments (2)	25,704	—	—	—	—	—
	26,146	—	—	—	—	—

Notes:
(1) RBS plc is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. RBS plc expects most guarantees it provides to expire unused.
(2) RBS plc has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. RBS plc does not expect all facilities to be drawn, and some may lapse before drawdown.

Notes to the financial statements

11 Loan impairment provisions

Loan exposure and impairment metrics

The table below summarises loan and related credit impairment measures within the scope of ECL framework.

	2020 £m	2019 £m
Loans - amortised cost		
Stage 1	**35,198**	47,765
Stage 2	**13,942**	6,110
Stage 3	**1,486**	1,435
Inter-Group	**20,894**	7,694
	71,520	63,004
ECL provisions		
Stage 1	**84**	58
Stage 2	**633**	171
Stage 3	**628**	594
Inter-Group	**14**	—
	1,359	823
ECL provision coverage (1,2)		
Stage 1 (%)	**0.24**	0.12
Stage 2 (%)	**4.54**	2.80
Stage 3 (%)	**42.26**	41.39
Inter-Group (%)	**0.07**	—
	2.66	1.49
Impairment losses		
ECL charge		
Stage 1	**9**	(47)
Stage 2	**521**	51
Stage 3	**147**	203
Inter-Group	**13**	—
	690	207
ECL loss rate - annualised (basis points) (2)	**134**	37
Amounts written off	**182**	281

Notes:

(1) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost and FVOCI.

(2) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively. ECL loss rate is calculated as annualised third party ECL charge divided by loans - amortised cost and FVOCI.

(3) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 28 for Financial instruments within the scope of the IFRS 9 ECL framework for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £26.5 billion (2019 – £26.1 billion).

Credit risk enhancement and mitigation

For information on credit risk enhancement and mitigation held as securities, refer to Risk and capital management – Credit risk enhancement and mitigation section.

Critical accounting policy: Loan impairment provisions

The loan impairment provisions have been established in accordance with IFRS 9. Accounting policy 7 sets out how the expected loss approach is applied. At 31 December 2020, customer loan impairment provisions amounted to £1,359 million (2019 - £823 million). A loan is impaired when there is objective evidence that the cash flows will not occur in the manner expected when the loan was advanced. Such evidence includes, changes in the credit rating of a borrower, the failure to make payments in accordance with the loan agreement, significant reduction in the value of any security, breach of limits or covenants, and observable data about relevant macroeconomic measures.

The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

The measurement of credit impairment under the IFRS expected loss model depends on management's assessment of any potential deterioration in the creditworthiness of the borrower, its modelling of expected performance and the application of economic forecasts. All three elements require judgments that are potentially significant to the estimate of impairment losses. For further information and sensitivity analysis, refer to Risk and capital management – Measurement uncertainty and ECL sensitivity analysis section.

IFRS 9 ECL model design principles

To meet IFRS 9 requirements, PD, LGD and EAD used in ECL calculations must be:

- Unbiased – material regulatory conservatism has been removed to produce unbiased model estimates.
- Point-in-time – recognise current economic conditions.
- Forward-looking – incorporated into PD estimates and, where appropriate, EAD and LGD estimates.
- For the life of the loan – all PD, LGD and EAD models produce term structures to allow a lifetime calculation for assets in Stage 2 and Stage 3.

IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current lifetime PD (i.e. the probability of default over the remaining lifetime at the reporting date) with the equivalent lifetime PD as determined at the date of initial recognition.

The general approach for the IFRS 9 LGD models is to leverage corresponding Basel LGD models with bespoke adjustments to ensure estimates are unbiased and where relevant forward-looking.

For wholesale, while conversion ratios in the historical data show temporal variations, these cannot be sufficiently explained by the CCI measure (unlike in the case of PD and some LGD models) and are presumed to be driven to a larger extent by exposure management practices. Therefore point-in-time best estimates measures for EAD are derived by estimating the regulatory model specification on a rolling five-year window.

Approach for multiple economic scenarios (MES)

The base scenario plays a greater part in the calculation of ECL than the approach to MES.

Notes to the financial statements

12 Investments in Group undertakings

Investments in Group undertakings are carried at cost less impairment losses as follows.

	2020 £m	2019 £m
At 1 January and 31 December	**28**	28

The table below shows the principal subsidiaries of RBS plc. Their capital consists of ordinary shares which are unlisted. All of the subsidiary undertakings are owned by RBS plc directly and have an accounting reference date of 31 December. Refer to Note 28 for details of all subsidiary undertakings.

	Nature of business	Country of incorporation and principal area of operation
Adam & Company Investment Management Limited	Investment Management	Great Britain
The One Account Limited	Banking	Great Britain

13 Other assets

	2020 £m	2019 £m
Other financial assets	**105**	133
Intangible assets	**85**	85
Investment in Group undertakings (Note 12)	**28**	28
Property, plant and equipment	**194**	248
Accrued income	**37**	50
Deferred tax (Note 7)	**92**	111
Acceptances	**173**	131
Other assets	**18**	86
	732	872

14 Derivatives

RBS plc transacts derivatives to manage balance sheet interest rate risk.

	2020			2019		
	Notional £m	Assets £m	Liabilities £m	Notional £m	Assets £m	Liabilities £m
Interest rate contracts	32,358	745	788	33,290	366	763
		745	788		366	763

RBS plc applies hedge accounting to manage interest rate risk.

RBS plc's interest rates hedging relate to the management of RBS plc's non-trading structural interest rate risk, caused by the mismatch between fixed interest rates and floating interest rates. RBS plc manages this risk within approved limits. Residual risk positions are hedged with derivatives principally interest rate swaps. Suitable larger financial instruments are fair value hedged; the remaining exposure, where possible, is hedged by derivatives documented as cash flow hedges.

Cash flow hedges of interest rate risk relate to exposures to the variability in future interest payments and receipts due to the movement of benchmark interest rates on forecast transactions and on recognised financial assets and financial liabilities. This variability in cash flows is hedged by interest rate swaps, fixing the hedged cash flows. For these cash flow hedge relationships, the hedged items are actual and forecast variable interest rate cash flows arising from financial assets and financial liabilities with interest rates linked to the relevant benchmark rate LIBOR, EURIBOR or the Bank of England Official Bank Rate. The variability in cash flows due to movements in the relevant benchmark rate is hedged; this risk component is identified using the risk management systems of RBS plc. This risk component comprises the majority of cash flow variability risk.

Fair value hedges of interest rate risk involve interest rate swaps transforming the fixed interest rate risk in recognised financial assets and financial liabilities to floating. The hedged risk is the risk of changes in the hedged items fair value attributable to changes in the benchmark interest rate embedded in the hedged item. The significant embedded benchmarks are LIBOR and EURIBOR. This risk component is identified using the risk management systems of RBS plc. This risk component comprises the majority of the hedged items fair value risk.

For all cash flow hedging and fair value hedge relationships RBS plc determines that there is an adequate level of offsetting between the hedged item and hedging instrument via assessing the initial and ongoing effectiveness by comparing movements in the fair value of the expected highly probable forecast interest cash flows/fair value of the hedged item attributable to the hedged risk with movements in the fair value of the expected changes in cash flows from the hedging interest rate swap. Hedge effectiveness is measured on a cumulative basis over a time period management determines to be appropriate. RBS plc uses either the actual ratio between the hedged item and hedging instruments or one that minimises hedge ineffectiveness to establish the hedge ratio for hedge accounting.

A number of the current cash flow and fair value hedges of interest rate risk that mature post 31 December 2021 will be directly affected by interest rate benchmark reform. RBS plc early adopted the amendments to IAS 39 and IFRS 7 issued in September 2019 for reporting periods beginning 1 January 2019; these amendments are known as Phase 1 relief. The relief allows, where uncertainty arising from benchmark rate reform exists, the following:

- When assessing if affected forecasted cash flows are highly probable or still expected to occur; it is assumed the IBOR based forecasted hedged cash flows are not altered as a result of interest rate benchmark reform.
- For the purpose of the prospective effectiveness assessment; it is assumed the IBOR based hedged cash flows and/or hedged risk are not altered as a result of interest rate benchmark reform.
- Hedge accounting relationships will not be discontinued if they fall outside the 80 – 125% range when performing a retrospective effectiveness assessment.
- The assessment as to whether a non-contractually specified IBOR risk component is separately identifiable, is done only at the inception of the relationship.

The disclosures made for the notional of hedging instruments and risk exposures affected by interest rate benchmark reform contain information for both the hedging instrument and hedged risks even if only one of these will be directly impacted by the reform. RBS plc early adopted the amendments to IAS 39 issued in August 2020 for reporting periods beginning 1 January 2021; these amendments are known as Phase 2 relief and apply at the point where components of a hedge accounting relationships transition to reference an alternative interest rate benchmark. Where relationships have transitioned in the year, the impacted hedge accounting relationships had their designations amended in line with the Phase 2 relief.

The following phase 2 reliefs have been applied:

- Where forecasted cash flows in cash flow hedge relationships have transitioned to an alternative benchmark interest rate, the relevant hedge accounting designations have been amended.
- As a result of the amended designations the balances in other comprehensive income linked to the transitioned forecasted cash flows are now deemed based on the alternative benchmark interest rate.

Included in the table above are derivatives held for hedging purposes as follows:

	2020				2019			
	Notional £m	Assets £m	Liabilities £m	Change in fair value used for hedge ineffectiveness (1) £m	Notional £m	Assets £m	Liabilities £m	Change in fair value used for hedge ineffectiveness (1) £m
Fair value hedging - Interest rate contracts	3,812	140	574	(8)	3,861	87	558	34
Cash flow hedging - Interest rate contracts	26,035	595	25	307	22,498	271	21	186
		735	599	299		358	579	220

Note:
(1) The change in fair value used for hedge ineffectiveness includes instruments that were derecognised in the year.

Notes to the financial statements

14 Derivatives continued

The notional of hedging instruments affected by interest rate benchmark reform is as follows:

	2020 £bn	2019 £bn
Fair value hedging		
- EURIBOR	0.1	0.1
- GBP LIBOR	1.9	1.8
- USD LIBOR	1.7	1.8
Cash flow hedging		
- EURIBOR	0.3	0.2
- GBP LIBOR	21.5	15.4
- USD LIBOR	0.4	0.3

The following table shows the period in which the hedging contract ends:

2020	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m	20+ years £m	Total £m
Fair value hedging								
Hedging assets - Interest rate risk	12	82	120	310	588	807	172	2,091
Hedging liabilities - Interest rate risk	—	—	1,355	366	—	—	—	1,721
Cash flow hedging								
Hedging assets - Interest rate risk	450	2,230	9,288	8,052	2,472	—	—	22,492
Average fixed interest rate (%)	1.15	1.29	1.28	0.56	1.00	—	—	0.99
Hedging liabilities - Interest rate risk	—	800	2,567	49	127	—	—	3,543
Average fixed interest rate (%)	—	1.07	0.31	0.82	0.78	—	—	0.51
2019								
Fair value hedging								
Hedging assets - Interest rate risk	20	42	177	144	690	896	112	2,081
Hedging liabilities - Interest rate risk	—	—	—	1,780	—	—	—	1,780
Cash flow hedging								
Hedging assets - interest rate risk	300	1,320	7,159	8,664	2,395	—	—	19,838
Average fixed interest rate (%)	1.02	1.11	1.29	1.13	1.21	—	—	1.19
Hedging liabilities - interest rate risk	—	1,200	1,284	—	176	—	—	2,660
Average fixed interest rate (%)	—	0.90	0.97	—	0.79	—	—	0.93

The table below analyses assets and liabilities, including intercompany, subject to hedging derivatives:

2020	Carrying value (CV) of hedged assets and liabilities £m	Impact on hedged items included in CV £m	Change in fair value used as a basis to determine ineffectiveness (1) £m	Impact on hedged items ceased to be adjusted for hedging gains or losses £m
Fair value hedging - interest rate				
Loans to customers - amortised cost	2,542	431	78	17
Other financial liabilities - debt securities in issue	397	26	(15)	—
Subordinated liabilities	1,464	106	(47)	—
Total	1,861	132	(62)	—
Cash flow hedging - interest rate				
Loans to banks and customers - amortised cost	22,492		(297)	
Bank and customer deposits	3,543		14	
2019				
Fair value hedging - interest rate				
Loans to customers - amortised cost	2,494	389	45	20
Other financial liabilities - debt securities in issue	396	13	(14)	—
Subordinated liabilities	1,470	65	(50)	—
Total	1,866	78	(64)	—
Cash flow hedging - interest rate				
Loans to banks and customers - amortised cost	19,838		(178)	
Bank and customer deposits	2,660		3	

Note:
(1) The change in fair value used for hedge ineffectiveness includes instruments that were derecognised in the year.

14 Derivatives continued

The following risk exposures will be affected by interest rate benchmark reform (notional, hedged adjustment):

	2020		2019	
	Notional £bn	Hedged adjustment £m	Notional £bn	Hedged adjustment £m
Fair value hedging				
- EURIBOR	0.1	22	0.1	22
- GBP LIBOR	1.6	299	1.8	334
- USD LIBOR	1.7	(133)	1.8	(78)
- GBP SONIA	0.4	120	—	—
Cash flow hedging				
- EURIBOR	0.3	(1)	0.2	(2)
- GBP LIBOR	6.8	(230)	6.7	(135)
- USD LIBOR	0.4	(16)	0.4	(7)
- BOE Base rate	14.7	(234)	8.7	(64)

The following shows analysis of cash flow hedge reserve and foreign exchange hedge reserve:

	2020 Cash flow hedge reserve £m	2019 Cash flow hedge reserve £m
Continuing		
Interest rate risk	509	230
De-designated		
Interest rate	6	8
Total	515	238

	2020 Cash flow hedge reserve £m	2019 Cash flow hedge reserve £m
Interest rate risk		
Amount recognised in equity	416	241
Amount transferred from equity to net interest income	(138)	(68)
Amount transferred from equity to non interest income	(3)	(3)
Total	275	170

Hedge ineffectiveness recognised in other operating income comprised:

	2020 £m	2019 £m
Fair value hedging		
Gains/(losses) on the hedged items attributable to the hedged risk	16	(19)
(Losses)/gains on the hedging instruments	(8)	34
Fair value hedging ineffectiveness	8	15
Cash flow hedging		
- Interest rate risk	24	11
- Foreign exchange risk	—	—
Cash flow hedging ineffectiveness	24	11
Total	32	26

The main sources of ineffectiveness for interest rate risk hedge accounting relationships are:

- the effect of the counterparty credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate (fair value hedge);
- differences in the repricing basis between the hedging instrument and hedged cash flows (cash flow hedge); and
- upfront present values on the hedging derivatives where hedge accounting relationships have been designated after the trade date (cash flow hedge and fair value hedge).

Additional information on cash flow hedging can be found in the Statement of changes in equity on page 82.

Notes to the financial statements

15 Other liabilities

	2020 £m	2019 £m
Lease liabilities (Note 17)	**150**	157
Provisions for liabilities and charges	**309**	599
Accruals	**55**	68
Deferred income	**68**	70
Current tax	**65**	296
Acceptances	**173**	131
Other liabilities	**20**	115
	840	1,436

Provisions for liabilities and charges	Payment protection insurance (1) £m	Other customer redress £m	Litigation and other (2) £m	Total £m
At 1 January	**422**	**51**	**126**	**599**
Expected credit losses impairment charge	**—**	**—**	**20**	**20**
Currency translation and other movements	**(2)**	**—**	**—**	**(2)**
Charge to income statement	**—**	**87**	**19**	**106**
Releases to income statement	**(100)**	**(11)**	**(15)**	**(126)**
Provisions utilised	**(196)**	**(35)**	**(57)**	**(288)**
At 31 December	**124**	**92**	**93**	**309**

Notes:
(1) 31 December 2020 includes provisions held in relation to offers made in 2019 and earlier years of £44 million.
(2) Materially comprises provisions relating to property closures and restructuring costs.

Critical accounting policy: Provisions for liabilities

The key judgement is involved in determining whether a present obligation exists. There is often a high degree of uncertainty and judgement is based on the specific facts and circumstances relating to individual events in determining whether there is a present obligation. Judgement is also involved in estimation of the probability, timing and amount of any outflows. Where RBS plc can look to another party such as an insurer to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received.

Estimates **-** Provisions are liabilities of uncertain timing or amount and are recognised when there is a present obligation as a result of a past event, the outflow of economic benefit is probable and the outflow can be estimated reliably. Any difference between the final outcome and the amounts provided will affect the reported results in the period when the matter is resolved.

- PPI: The provision reflects the estimated cost of PPI redress attributable to claims prior to the Financial Conduct Authority (FCA) complaint deadline of 29 August 2019. All pre-deadline complaints have been processed which removes complaint volume estimation uncertainty from the provision estimate. RBS plc continues to conclude remaining bank-identified closure work and conclude cases with the Financial Ombudsmen Service.
- Other customer redress: Provisions reflect the estimated cost of redress attributable to claims where it is determined that a present obligation exists.
- Litigation and other provisions: These materially comprise provisions for property onerous contracts and restructuring costs. Onerous contract provisions comprise an estimate of the costs involved with fulfilling the terms and conditions of contracts net of any expected benefits to be received. This includes provision for contractual costs such as rates associated with vacant properties. Redundancy and restructuring provisions comprise the estimated cost of restructuring, including redundancy costs where an obligation exists. For further information in relation to legal proceedings and discussion of the associated uncertainties, refer to Note 20.

Notes to the financial statements

16 Share capital and reserves

Allotted, called up and fully paid	2020 £m	2019 £m	Number of shares 2020 000s	2019 000s
Ordinary shares of £1	**20**	20	**19,500**	19,500

Ordinary shares
No ordinary shares were issued during 2020 or 2019.

In 2020, RBS plc paid an ordinary dividend of £0.8 billion to NWH Ltd. In 2019, RBS plc paid a distribution of £1.8 billion by ordinary dividend and a further ordinary dividend of £0.7 billion to NWH Ltd.

Paid-in equity
Comprises equity instruments issued by RBS plc other than those legally constituted as shares.

Additional Tier 1 Instruments issued by RBS plc having the legal form of debt are classified as equity under IFRS. The coupons on these Instruments are non-cumulative and payable at RBS's discretion.

	2020 £m	2019 £m
Additional Tier 1 instruments		
US$1,350 billion 6.49% instruments callable August 2023	**969**	969
	969	969

Capital recognised for regulatory purposes cannot be redeemed without Prudential Regulation Authority consent. This includes ordinary shares and additional Tier 1 Instruments.

17 Leases

RBS plc is party to lease contracts as lessee to support its operations. The following table provides information in respect of those lease contracts as lessee.

Lessees	2020 £m	2019 £m
Amounts recognised in income statement		
Interest payable	**(3)**	(4)
Depreciation (1)	**(10)**	(21)
	£m	£m
Amounts recognised on balance Sheet		
Right of use assets included in property, plant and equipment	**79**	120
Additions to right of use assets	**4**	9
Lease liabilities (2)	**(150)**	(157)

The total cash outflow for leases is £18 million (2019 - £21 million), including payment of principal amount of £14 million (2019 - £18 million) which are included in the operating activities in cash flow statement.

Notes:
(1) Depreciation includes impairment of right of use assets of nil (2019 - £8 million).
(2) Contractual cashflows of lease liabilities is shown in Note 10.

Lessor
Acting as a lessor, RBS plc provides asset finance to its customers. It purchases plant, equipment and intellectual property, renting them to customers under lease arrangements that, depending on their terms, qualify as either operating or finance leases.

Amount receivable under finance leases	2020 £m	2019 £m
Within 1 year	**17**	—
1 to 2 years	**25**	47
2 to 3 years	**2**	43
3 to 4 years	**—**	3
4 to 5 years	**—**	1
After 5 years	**—**	—
Lease payments total	**44**	94
Unearned income	**—**	(1)
Present value of lease payments	**44**	93
Impairments	**—**	—
Net investment in finance leases	**44**	93

18 Unconsolidated structured entities
RBS plc has lending to unconsolidated structured entities of £137 million (2019 - £149 million) and loan commitments of £7 million (2019 – £44 million).

Notes to the financial statements

19 Capital resources

The minimum requirement for own funds is set out under the Capital Requirements Regulation on a legal entity and consolidated basis. Transitional arrangements on the phasing in of end-point capital resources are set by the relevant regulatory authority.

The capital resources based on the PRA transitional basis are set out below.

	2020 £m	2019 £m
Shareholders' equity (excluding non-controlling interests)		
Shareholders' equity	**5,670**	5,974
Preference shares - equity	**—**	—
Other equity instruments	**(969)**	(969)
	4,701	5,005
Regulatory adjustments and deductions		
Cash flow hedging reserve	**(376)**	(179)
Deferred tax assets	**(186)**	(87)
Prudential valuation adjustments	**(3)**	(10)
Other intangible assets	**(85)**	(85)
Expected losses less impairments	**—**	(16)
Adjustment under IFRS 9 transitional arrangements	**380**	—
Foreseeable ordinary dividend	**—**	(800)
	(270)	(1,177)
CET1 capital	**4,431**	3,828
Additional Tier 1 (AT1) capital		
Qualifying instruments and related share premium	**969**	969
	969	969
Tier 1 capital	**5,400**	4,797
Qualifying Tier 2 capital		
Qualifying instruments and related share premium	**1,355**	1,402
Other regulatory adjustments	**60**	—
Tier 2 capital	**1,415**	1,402
Total regulatory capital	**6,815**	6,199

In the management of capital resources, RBS plc is governed by NatWest Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, NatWest Group has regard to the supervisory requirements of the PRA. The PRA uses capital ratios as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are 'weighted' to reflect the inherent credit and other risks); by international agreement, the Pillar 1 capital ratios, excluding capital buffers, should be not less than 8% with a Common Equity Tier 1 component of not less than 4.5%. RBS plc has complied with the PRA's capital requirements throughout the year.

A number of subsidiaries and sub-groups within NatWest Group, principally banking entities, are subject to various individual regulatory capital requirements in the UK and overseas. Furthermore, the payment of dividends by subsidiaries and the ability of members of NatWest Group to lend money to other members of NatWest Group may be subject to restrictions such as local regulatory or legal requirements, the availability of reserves and financial and operating performance.

Notes to the financial statements

20 Memorandum items

Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2020. Although RBS plc is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of RBS plc's expectation of future losses.

	2020	2019
	£m	£m
Contingent liabilities and commitments		
Guarantees and assets pledged as collateral security	**409**	442
Other contingent liabilities	**562**	709
Standby facilities, credit lines and other commitments	**25,905**	26,102
	26,876	27,253

Banking commitments and contingent obligations, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. RBS plc's maximum exposure to credit loss, in the event of its obligation crystallising and all counterclaims, collateral or security proving valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to RBS plc's normal credit approval processes.

Guarantees – RBS plc gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that RBS plc will meet a customer's specified obligations to a third party if the customer fails to do so. The maximum amount that RBS plc could be required to pay under a guarantee is its principal amount as in the table above. RBS plc expects most guarantees it provides to expire unused.

Other contingent liabilities - these include standby letters of credit, supporting customer debt issues and contingent liabilities relating to customer trading activities such as those arising from performance and customs bonds, warranties and indemnities.

Standby facilities and credit lines - under a loan commitment RBS plc agrees to make funds available to a customer in the future. Loan commitments, which are usually for a specified term may be unconditionally cancellable or may persist, provided all conditions in the loan facility are satisfied or waived. Commitments to lend include commercial standby facilities and credit lines, liquidity facilities to commercial paper conduits and unutilised overdraft facilities.

Other commitments - these include documentary credits, which are commercial letters of credit providing for payment by RBS plc to a named beneficiary against presentation of specified documents, forward asset purchases, forward deposits placed and undrawn note issuance and revolving underwriting facilities, and other short-term trade related transactions.

Capital Support Deed

RBS plc, together with certain other subsidiaries of NatWest Holdings Ltd, is party to a Capital Support Deed (CSD). Under the terms of the CSD, RBS plc may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to RBS plc's capital resources in excess of the capital and financial resources needed to meet its regulatory requirements. RBS plc may also be obliged to make onward distribution to its ordinary shareholders of dividends or other capital distributions received from subsidiaries that are party to the CSD. The CSD also provides that, in certain circumstances, funding received by RBS plc from other parties to the CSD becomes immediately repayable, such repayment being limited to RBS plc's available resources.

Contractual obligations for future expenditure not provided for in the accounts

The following table shows contractual obligations for future expenditure not provided for in the accounts at the year end.

	2020	2019
	£m	£m
Capital expenditure on property, plant and equipment	**6**	9
	6	9

Notes to the financial statements

20 Memorandum items continued

Trustee and other fiduciary activities

In its capacity as trustee or other fiduciary role, RBS plc may hold or place assets on behalf of individuals, trusts, companies, pension schemes and others. The assets and their income are not included in its financial statements. RBS plc earned fee income of £9 million (2019 - £20 million) from these activities.

The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort for customers of authorised financial services firms, pays compensation if a firm is unable to meet its obligations. The FSCS funds compensation for customers by raising management expenses levies and compensation levies on the industry. In relation to protected deposits, each deposit-taking institution contributes towards these levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year (which runs from 1 April to 31 March), subject to annual maxima set by the Prudential Regulation Authority. In addition, the FSCS has the power to raise levies on a firm that has ceased to participate in the scheme and is in the process of ceasing to be authorised for the costs that it would have been liable to pay had the FSCS made a levy in the financial year it ceased to be a participant in the scheme.

Litigation and regulatory matters

RBS plc and certain members of NatWest Group are party to legal proceedings and involved in regulatory matters, including as the subject of investigations and other regulatory and governmental action ('Matters') in the United Kingdom (UK), the United States (US), the European Union (EU) and other jurisdictions.

NatWest Group recognises a provision for a liability in relation to these Matters when it is probable that an outflow of economic benefits will be required to settle an obligation resulting from past events, and a reliable estimate can be made of the amount of the obligation.

In many of these Matters, it is not possible to determine whether any loss is probable or to estimate reliably the amount of any loss, either as a direct consequence of the relevant proceedings and regulatory matters or as a result of adverse impacts or restrictions on NatWest Group's reputation, businesses and operations. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and document production exercises and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a liability can reasonably be estimated for any claim. NatWest Group cannot predict if, how, or when such claims will be resolved or what the eventual settlement, damages, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages.

There are situations where NatWest Group may pursue an approach that in some instances leads to a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, or in order to take account of the risks inherent in defending claims or regulatory matters, even for those Matters for which NatWest Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such Matters affect the amount and timing of any potential outflows for both Matters with respect to which provisions have been established and other contingent liabilities.

The future outflow of resources in respect of any Matter may ultimately prove to be substantially greater than or less than the aggregate provision that NatWest Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. NatWest Group expects that in future periods additional provisions, settlement amounts and customer redress payments will be necessary, in amounts that are expected to be substantial in some instances.

Litigation

Claims by customers regarding NatWest Group's Global Restructuring Group (GRG)

NatWest Group is dealing with a number of active and threatened litigation claims brought by current and former customers of RBS plc and other NatWest Group companies on a wide variety of bases who allege that they have suffered losses as a result of NatWest Group's treatment of SME customers by its former Global Restructuring Group. These include customers who were ineligible, or chose not, to pursue a complaint through NatWest Group's designated complaints process for SME customers, which is now closed to new complaints.

RBS plc remains exposed to potential new litigation claims from customers who are dissatisfied with their complaint outcome or who were ineligible to complain.

Regulatory matters (including investigations and customer redress programmes)

NatWest Group's businesses and financial condition can be affected by the actions of various governmental and regulatory authorities in the UK, the US, the EU and elsewhere. NatWest Group has engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the UK, the US, the EU and elsewhere, on an ongoing and regular basis, and in response to informal and formal inquiries or investigations, regarding operational, systems and control evaluations and issues including those related to compliance with applicable laws and regulations, including consumer protection, investment advice, business conduct, competition/anti-trust, VAT recovery, anti-bribery, anti-money laundering and sanctions regimes.

Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and regulatory authorities, increased costs being incurred by NatWest Group, remediation of systems and controls, public or private censure, restriction of NatWest Group's business activities and/or fines. Any of the events or circumstances mentioned in this paragraph or below could have a material adverse effect on RBS plc, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it, or lead to material additional provisions being taken.

RBS plc is co-operating fully with the matters described below.

Investigations

FCA investigation into NatWest Group's compliance with the Money Laundering Regulations 2007

In July 2017, the FCA notified NatWest Group that it was undertaking an investigation into NatWest Group's compliance with the UK Money Laundering Regulations 2007 in relation to certain money service businesses and related parties. The investigation is assessing both criminal and civil culpability. NatWest Group is co-operating with the investigation, including responding to information requests from the FCA.

Systematic Anti-Money Laundering Programme assessment

In December 2018, the FCA commenced a Systematic Anti-Money Laundering Programme assessment of NatWest Group. The FCA provided its written findings to NatWest Group in June 2019, and NatWest Group responded on 8 August 2019. On 28 August 2019, the

Notes to the financial statements

20 Memorandum items continued

Litigation and regulatory matters

FCA instructed NatWest Group to appoint a Skilled Person under section 166 of the Financial Services and Markets Act 2000 to provide assurance on financial crime governance arrangements in relation to two financial crime change programmes. NatWest Group is co-operating with the Skilled Person's review, which is ongoing.

FCA mortgages market study

In December 2016, the FCA launched a market study into the provision of mortgages. In March 2019 the final report was published. This found that competition was working well for many customers but also proposed remedies to help customers shop around more easily for mortgages. A period of consultation is underway and the FCA has indicated that it intends to provide updates on the remedies in due course.

Customer redress programmes

FCA review of NatWest Group's treatment of SMEs

In 2014, the FCA appointed an independent Skilled Person under section 166 of the Financial Services and Markets Act 2000 to review NatWest Group's treatment of SME customers whose relationship was managed by NatWest Group's Global Restructuring Group (GRG) in the period 1 January 2008 to 31 December 2013. In response to the Skilled Person's final report and update in 2016, NatWest Group announced redress steps for SME customers in the UK and the Republic of Ireland that were in GRG between 2008 and 2013. These steps were (i) an automatic refund of certain complex fees; and (ii) a new complaints process, overseen by an independent third party. The complaints process has since closed to new complaints.

RBS plc's remaining provisions in relation to these matters at 31 December 2020 were £9 million.

Investment advice review

During October 2019, the FCA notified NatWest Group of its intention to appoint a Skilled Person under section 166 of the Financial Services and Markets Act 2000 to conduct a review of whether NatWest Group's past business review of investment advice provided during 2010 to 2015 was subject to appropriate governance and accountability and led to appropriate customer outcomes. NatWest Group is co-operating with the Skilled Person's review and, subject to discussion with the FCA, expects to conduct additional review / remediation work during 2021. Accordingly, NatWest Group recognised an increased provision in relation to these matters at 31 December 2020.

21 Analysis of changes in financing during the year

	Share capital, share premium, and paid-in equity		Subordinated liabilities		MRELs	
	2020	2019	**2020**	2019	**2020**	2019
	£m	£m	**£m**	£m	**£m**	£m
At 1 January	**989**	989	**1,469**	1,467	**396**	—
Interest on subordinated liabilities			**(75)**	(75)		
Issue of MRELs					**—**	379
Interest on MRELs					**(17)**	(9)
Net cash (outflow)/inflow from financing	**—**	—	**(75)**	(75)	**(17)**	370
Effects of foreign exchange	**—**	—	**(46)**	(45)	**(13)**	—
Changes in fair value of subordinated liabilities/MRELs			**41**	47	**14**	13
Interest on subordinated liabilities/MRELs			**75**	75	**17**	13
At 31 December	**989**	989	**1,464**	1,469	**397**	396

22 Analysis of cash and cash equivalents

	2020	2019
	£m	£m
At 1 January		
- cash	**26,597**	21,650
- cash equivalents	**5,246**	7,107
	31,843	28,757
Net cash inflow	**14,583**	3,086
At 31 December	**46,426**	31,843
Comprising:		
Cash and balances at central banks	**26,927**	26,597
Net loans to banks including intragroup balances	**19,499**	5,246
Cash and cash equivalents	**46,426**	31,843

Notes to the financial statements

23 Directors' and key management remuneration

The composition of RBS plc's board of directors is aligned to its intermediate holding company NatWest Holdings Ltd. The directors are remunerated for their services to NatWest Group as a whole, and their remuneration cannot be apportioned in respect of their services to RBS plc.

The directors' emoluments in the table below represent the NWH Group emoluments of the directors.

Directors remuneration	2020 £000	2019 £000
Non-executive directors emoluments	**2,078**	2,276
Chairman and executive directors emoluments	**4,349**	6,471
	6,427	8,747
Amounts receivable under long-term incentive and share option plans	**609**	741
	7,036	9,488

The total emoluments and amounts receivable under long-term incentive plans and share option plans of the highest paid director were £2,561,000 (2019 - £2,082,000).

No directors accrued benefits under defined benefit schemes or defined contribution schemes during 2020. The executive directors may participate in the NatWest Group's long-term incentive plans, executive share option and sharesave schemes. Where directors of RBS plc are also directors of NatWest Group plc, details of their share interests can be found in the NatWest Group 2020 Annual Report and Accounts in line with regulations applying to NatWest Group plc as a premium listed company.

Compensation of key management

The aggregate remuneration of directors and other members of key management(1) during the year was as follows:

	2020 £000	2019 £000
Short-term benefits	**15,099**	17,295
Post-employment benefits	**363**	249
Share-based payments	**2,707**	1,686
	18,169	19,230

Note:
(1) Key management comprises members of the NWH Ltd Executive Committee.

24 Transactions with directors and key management

At 31 December 2020, amounts outstanding in relation to transactions, arrangements and agreements entered into by RBS plc, as defined in UK legislation, were £1,329,122 in respect of loans to six persons who were directors of RBS plc at any time during the financial period.

For the purposes of IAS 24 'Related Party Disclosures', key management comprises directors of RBS plc and members of RBS plc's Executive Committee. Applying the captions in RBS plc's primary financial statements the following amounts are attributable, in aggregate, to key management.

	2020 £000	2019 £000
Loans to customers - amortised cost	**5,105**	1,566
Customer deposits	**39,164**	29,887

Amounts in the above table are attributed to each person at their highest level of NatWest Group key management.

Key management have banking relationships with NatWest Group which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features. Key management had no reportable transactions or balances with the holding companies.

Notes to the financial statements

25 Related parties

UK Government

The UK government through HM Treasury is the ultimate controlling party of NatWest Group plc. The UK government's shareholding is managed by UK Government Investments Limited, a company wholly owned by the UK Government. As a result, the UK government and UK Government controlled bodies are related parties of the Group.

At 31 December 2020, HM Treasury's holding in NatWest Group's ordinary shares was 61.9%.

RBS plc enters into transactions with many of these bodies. Transactions include the payment of: taxes principally UK corporation tax (Note 7) and value added tax; national insurance contributions; local authority rates; and regulatory fees and together with banking transactions such as loans and deposits undertaken in the normal course of banker-customer relationships.

Bank of England facilities

RBS plc may participate in a number of schemes operated by the Bank of England in the normal course of business. RBS plc is a UK authorised institution and is required to maintain non-interest bearing (cash ratio) deposits with the Bank of England amounting to 0.368% of their average eligible liabilities in excess of £600 million. RBS plc also has access to Bank of England reserve accounts: sterling current accounts that earn interest at the Bank of England Base Rate.

Other related parties

In its role as providers of finance, RBS plc provides development and other types of capital support to businesses. These investments are made in the normal course of business. In some instances, the investment may extend to ownership or control over 20% or more of the voting rights of the investee company. However, these investments are not considered to give rise to transactions of a materiality requiring disclosure under IAS 24.

The table below discloses transactions between RBS plc and fellow subsidiaries of NatWest Group.

	2020 £m	2019 £m
Interest receivable	**47**	78
Interest payable	**(75)**	(122)
Fees and commissions receivable	**—**	—
Fees and commissions payable	**(21)**	(19)
Other administrative expenses	**—**	—
	(49)	(63)

26 Ultimate holding company

RBS plc's ultimate holding company is NatWest Group plc which is incorporated in Great Britain and registered in Scotland, and its intermediate holding company is NatWest Holdings Ltd (NWH Ltd) which is incorporated in Great Britain and registered in England.

As at 31 December 2020, NatWest Group plc heads the largest group in which RBS plc is consolidated. Copies of the consolidated accounts may be obtained from The Secretary, NatWest Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

Following placing and open offers by NatWest Group plc in December 2008 and April 2009, the UK Government, through HM Treasury, currently holds 61.9% of the issued ordinary share capital of the ultimate holding company and is therefore RBS plc's ultimate controlling party.

27 Post balance sheet events

On 18 February 2021, RBS plc reached final agreement with the Official Receiver in relation to a portfolio of historical PPI claims. RBS plc carried adequate provision for this outcome and there is no further charge/release as a result.

28 Related undertakings

Legal entities and activities at 31 December 2020

In accordance with the Companies Act 2006, RBS plc's related undertakings and the accounting treatment for each are listed below. All undertakings are wholly-owned by RBS plc or subsidiaries of RBS plc and are consolidated in NatWest Group's accounts by reason of contractual control (Section 1162(2) CA 2006), unless otherwise indicated. RBS plc interest refers to ordinary shares of equal values and voting rights unless further analysis is provided in the notes. Activities are classified in accordance with Annex I to the Capital Requirements Directive ("CRD IV") and the definitions in Article 4 of the Capital Requirements Regulation.

The following table details active related undertakings incorporated in the UK which are 100% owned by RBS plc and fully consolidated for accounting purposes

Entity Name	Activity	Regulatory treatment	Notes
Adam & Company Investment Management Ltd	BF	FC	(1)
The One Account Ltd	BF	FC	(2)

The following table details related undertakings that are dormant

Entity Name	Accounting treatment	Regulatory treatment	Group %	Notes
Adam & Company (Nominees) Ltd	FC	FC	100	(3)

Key:
BF Banking and financial institution
FC Full consolidation

Notes	Registered addresses	Country of incorporation
(1)	6-8 George Street, Edinburgh, EH2 2PF, Scotland	UK
(2)	250 Bishopsgate, London, EC2M 4AA, England	UK
(3)	24/25 St Andrews Square, Edinburgh, Midlothian EH2 1AF, Scotland	UK